

Compendium

# United Kingdom Balance of Payments - The Pink Book: 2014

Inward and outward transactions, providing a net flow of transactions between the UK and the rest of the world and how that flow is funded.



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## Chapters in this compendium

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2. [Capital account, financial account and international investment position](#)
3. [Geographical Breakdown](#)

# Current Account

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# 1 . Correction

## Update 20 January 2015

Following the announcement on 24 November 2014 that an error had been identified in the geographic data for Trade in Goods, ONS has now corrected the data. Upon further investigation it was found that the error only impacted on tables 9.2, 9.3, 9.4 and 9.8 for the years 2009 to 2012. The corrected data makes the Pink Book 2014 dataset comparable with the [UK Trade October 2014](#) and [UK Economic Accounts Q3 2014](#) datasets.

ONS apologises for any inconvenience caused.

## 2 . Key points

- The United Kingdom Balance of Payments Pink Book 2014 for the first time reflects the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014. The [Balance of Payments Q2 2014 statistical bulletin](#) included an annex to explain the impact the changes have on annual data for the period 1997 to 2013
- ONS has produced [a brief explanatory video](#) to explain how the current account and financial account fit together
- The deficit on the current account balance widened in 2013 to £72.4 billion, the highest recorded in cash terms. It was equivalent to 4.2% of GDP, the highest since 1989 (4.7%)
- In 2013, the trade in goods deficit widened by £1.2 billion. This was mainly due to the deficit on finished manufactured goods increasing by £3.6 billion, which was offset by oil and semi-manufactured goods narrowing
- The surplus on trade in services widened to £78.1 billion in 2013 from £74.5 billion in 2012
- The primary income deficit widened to £13.1 billion in 2013, from £5.3 billion in 2012. This was due to credits decreasing more than debits
- In 2013, there was a deficit for secondary income of £27.2 billion. This was due to general government transfers increasing by £4.5 billion

## 3 . Introduction

The balance of payments is one of the UK's key economic statistical series. It measures the economic transactions between UK residents and the rest of the world. It also draws a series of balances between inward and outward transactions, provides a net flow of transactions between UK residents and the rest of the world and reports how that flow is funded. Economic transactions include:

- exports and imports of goods, such as oil, agricultural products, other raw materials, machinery and transport equipment, computers, white goods and clothing,
- exports and imports of services such as international transport, travel, financial and business services,
- income flows, such as dividends and interest earned by foreigners on investments in the UK and by UK residents investing abroad,
- financial flows, such as direct investment, investment in shares, debt securities, loans and deposits, and
- transfers, which are offsetting entries to any one-sided transactions listed above, such as foreign aid and funds brought by migrants to the UK.

Closely related to the balance of payments is the international investment position series of statistics. The international investment position measures the levels of financial investment with the rest of the world, inward and outward.

More detailed information on the Balance of Payments is available in the [guidance and methodology](#) area of the National Statistics website.

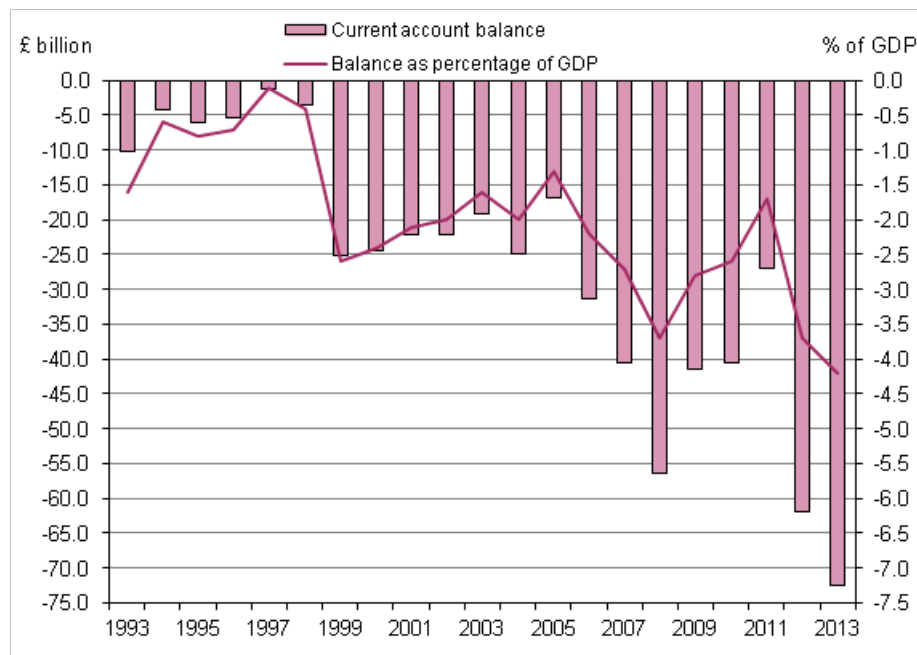
A printable version of the Pink Book 2014, Part 1: Current Account data is [available \(130.1 Kb Pdf\)](#).

## 4 . Chapter 1: Summary of balance of payments

### Current account

The UK has recorded a current account deficit in every year since 1984. From 1984, the current account deficit increased steadily to reach a high of £24.7 billion in 1989. This is equivalent to 4.7% of Gross Domestic Product (GDP). From 1990 until 1997, the current account deficit narrowed to a low of £1.3 billion in 1997, equivalent to 0.1% of GDP. Between 1998 and 2008, it widened sharply, peaking at £56.4 billion in 2008. The current account deficit narrowed over the following three years to reach £27.0 billion in 2011, before widening significantly in 2012 when it recorded a deficit of £61.9 billion. In 2013, the deficit reached a record £72.4 billion, the highest recorded in cash terms. It was equivalent to 4.2% of GDP, the highest since 1989 (4.7%).

**Figure 1.1: Current account balance and balance as percentage of GDP**



**Source: Office for National Statistics**

The last trade in goods surplus, in 1982, contributed to a current account surplus. Following 1982, the goods balance went into deficit and this increased to a peak of £25.2 billion in 1989. This contributed to the current account balance deteriorating to a deficit of £24.7 billion. From 1989 until the late 1990s, both the trade in goods and current account deficits broadly narrowed and subsequently widened. From 2001 to 2003, while the goods deficit continued to grow, the current account deficit narrowed due to increasing surpluses on both investment income and trade in services. From 2004, the current account deficit has fluctuated as the surplus on investment income has increased and decreased. This was most notable in 2012, when the investment income balance switched to a deficit for the first time since 1999, which led to the current account deficit widening significantly. In addition to the investment income switching from a surplus of £18.7 billion in 2011 to a £4.8 billion deficit in 2012, the trade in goods deficit widened by £12.5 billion. These were offset by the trade in services surplus increasing by £1.8 billion. In 2013, the current account balance widened further to a deficit of £72.4 billion. This was mainly due to the investment income deficit widening by £7.5 billion to £12.3 billion. Also, the deficit on secondary income widened by £5.0 billion to £27.2 billion and the trade in goods deficit widened by £1.2 billion to £110.2 billion. Partially offsetting these was an increase in the trade in services surplus of £3.6 billion to £78.1 billion.

## Trade in goods and services

The trade in goods account recorded net surpluses in 1980 to 1982, largely due to the growth in exports of North Sea oil. Since then, the trade in goods account has remained in deficit. The deficit grew significantly in the late 1980s to reach a peak of £25.2 billion in 1989, before narrowing in the early 1990s to levels of around £10 billion to £14 billion. In 1998, the deficit jumped by £9.5 billion to £22.2 billion and increased in every year since, except for 2009 and 2011. In 2013, the deficit reached £110.2 billion.

**Figure 1.2: Trade in goods and services balances**



Source: Office for National Statistics

The trade in services account has shown a surplus for every year since 1966 and has increased in every year apart from in 1988, 1998, 1999, 2000 & 2008. The surplus on services generally increased until 1987 where it reached £9.2 billion, before declining in 1988 to £7.5 billion. The services surplus then again increased steadily from 1989, reaching £17.5 billion in 1997. It then decreased over the next three years to reach £13.9 billion in 2000. Since 2000, the surplus has increased in each year, reaching £78.1 billion in 2013.

## Primary income

The primary income account (previously called 'income account') is comprised of compensation of employees, investment income and other primary income.

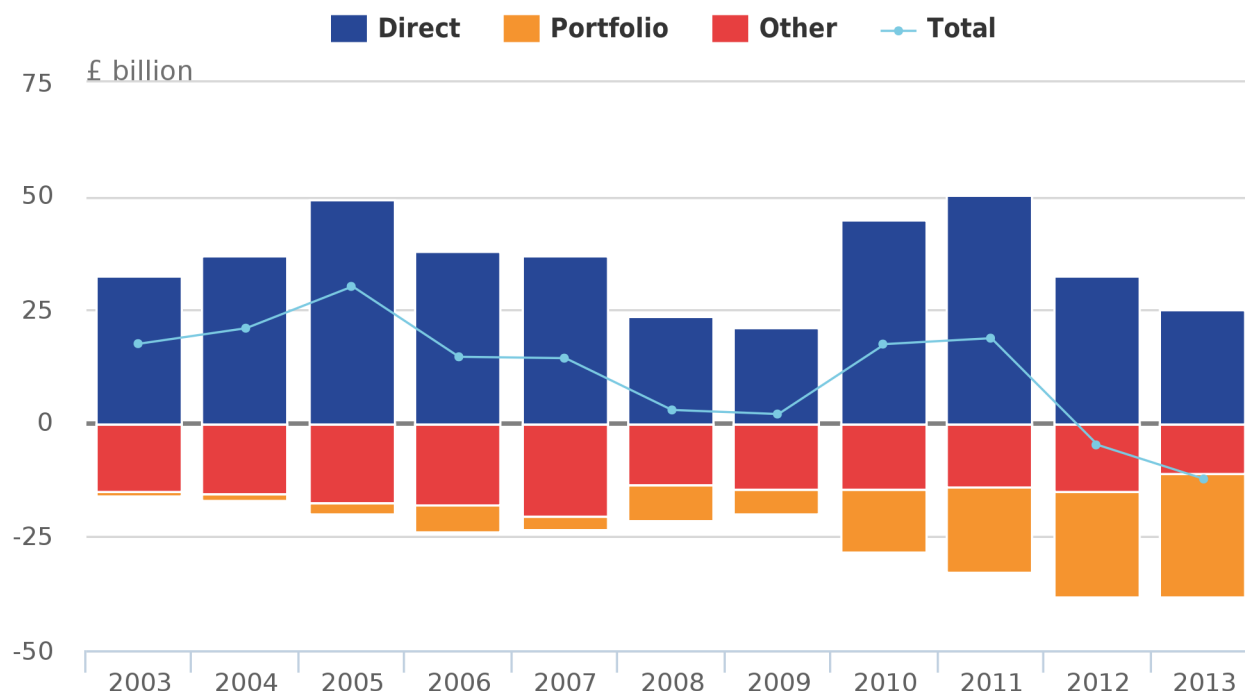
## Compensation of employees

Historically, the balance on compensation of employees has generally been in deficit apart from periods in the late 1990s, and early 2000s.

## Investment income

Figure 1.3: Investment income balances

Credits less debits



Source: Office for National Statistics

The investment income balance (the largest component of primary income) was in surplus until 1976, but then showed a deficit in most years until 1999 before returning to a surplus position in 2000. The surplus between 2000 and 2011 was due to the direct investment income surplus being partly offset by deficits on earnings from portfolio investment and other investment. The investment income surplus grew strongly in 2002, reaching £16.2 billion, and continued to increase over the next three years, reaching a record surplus of £30.2 billion in 2005. The surplus then fell back to £14.6 billion in 2006, before decreasing slightly further to £14.3 billion in 2007. As a result of the economic downturn the surplus decreased significantly to £2.9 billion in 2008 and to £2.0 billion in 2009, mainly due to the surplus on direct investment narrowing. In 2010, the investment income surplus increased to £17.4 billion as the direct investment surplus recovered. Having recorded a surplus of £18.7 billion in 2011, the investment income balance switched to a deficit of £4.8 billion in 2012. This was mainly due to a decline in the surplus on direct investment. The deficit widened in 2013 to £12.3 billion as the surplus on direct investment declined further.

## Other primary income

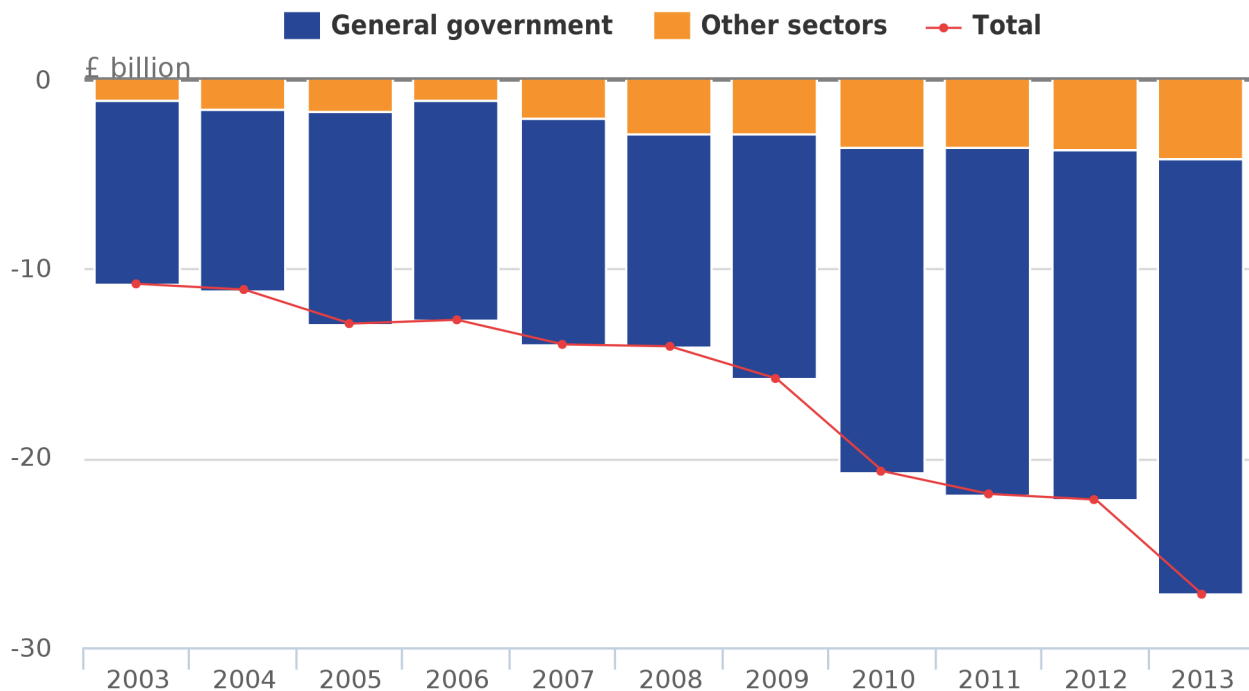
In 2013, other primary income recorded a deficit of £0.5 billion, compared with £0.3 billion in 2012. Prior to 2012, other primary income recorded a surplus, peaking at £1.3 billion in 2004.

## Secondary income

The secondary income account (previously called 'current transfers') has shown a deficit in every year since 1960. The deficit increased steadily to reach £4.8 billion in 1990. In 1991, the deficit reduced to £1.0 billion, reflecting £2.1 billion receipts from other countries towards the UK's cost of the first Gulf conflict. The deficit has since increased, reaching a record £27.2 billion in 2013. Separate data for general government and other sectors are available from 1986. It shows that both have been consistently in deficit since 1992. The volatility in this account is due to fluctuating net contributions to EU institutions. For a complete picture of the UK's official transactions with institutions of the EU, see [table 9.9 \(528 Kb Excel sheet\)](#).

**Figure 1.4: Secondary income account balances**

Credits less debits



Source: Office for National Statistics

## Investment flows, levels and income

One important set of relationships within the balance of payments is the link between:

- the financial account (investment flows),
- the international investment position (levels or balance sheets), and
- the income deriving from the balance sheets.

This is explained in more detail in the [introduction to the UK Balance of Payments](#). Although a reconciliation statement between opening and closing levels and flows is not officially compiled in the UK, [table 1.3 \(134 Kb Excel sheet\)](#) shows the rudiments of this relationship over the years for which consistent detailed data are available. Within the three main categories of investment (direct, portfolio and other), as well as reserve assets, the difference in the values of the balance sheet at the end of a year and the previous year is approximately equal to the value of the financial transactions in that year. The difference between the two amounts is explained by valuation, exchange rate and other effects such as company write-offs.

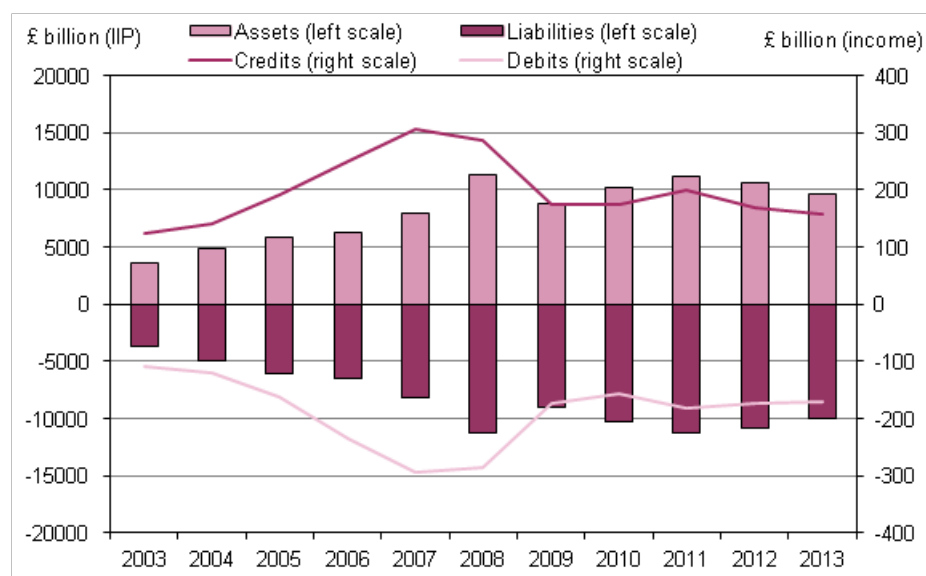


The value of both external assets and liabilities in the international investment position has been rising steadily since 1980. This reflects both the increased global investment and the increasing prices of external assets and liabilities. A major exception to this was 2009, when both assets and liabilities decreased significantly as an impact of the economic crisis. This was due to a combination of a sharp drop in financial derivatives assets and liabilities, disinvestments over the period and the appreciation of sterling, which has the effect of reducing UK assets and liabilities valued in foreign currency. The value of external assets recovered in 2010 and 2011, but did not reach the peak seen in 2008, while the recovery in external liabilities exceeded the level achieved in 2008. However, the level of both external assets and liabilities declined in 2012 and 2013 as the level of financial derivatives declined. Except for 1990, the UK's external assets exceeded external liabilities in every year until 1995. From 1995 to 2007, external liabilities exceeded external assets. In recent years, due to the financial crisis the net investment position has been volatile. UK external assets exceeded external liabilities in 2008, but since 2009 external liabilities have exceeded external assets.

At the end of 2013, external assets stood at £9,708.3 billion, while external liabilities stood at £9,974.8 billion. This resulted in a net liability position of £266.5 billion.

**Figure 1.5: International investment position and investment income**

#### Credits less debits



Source: Office for National Statistics

#### Implied 'rates of return'

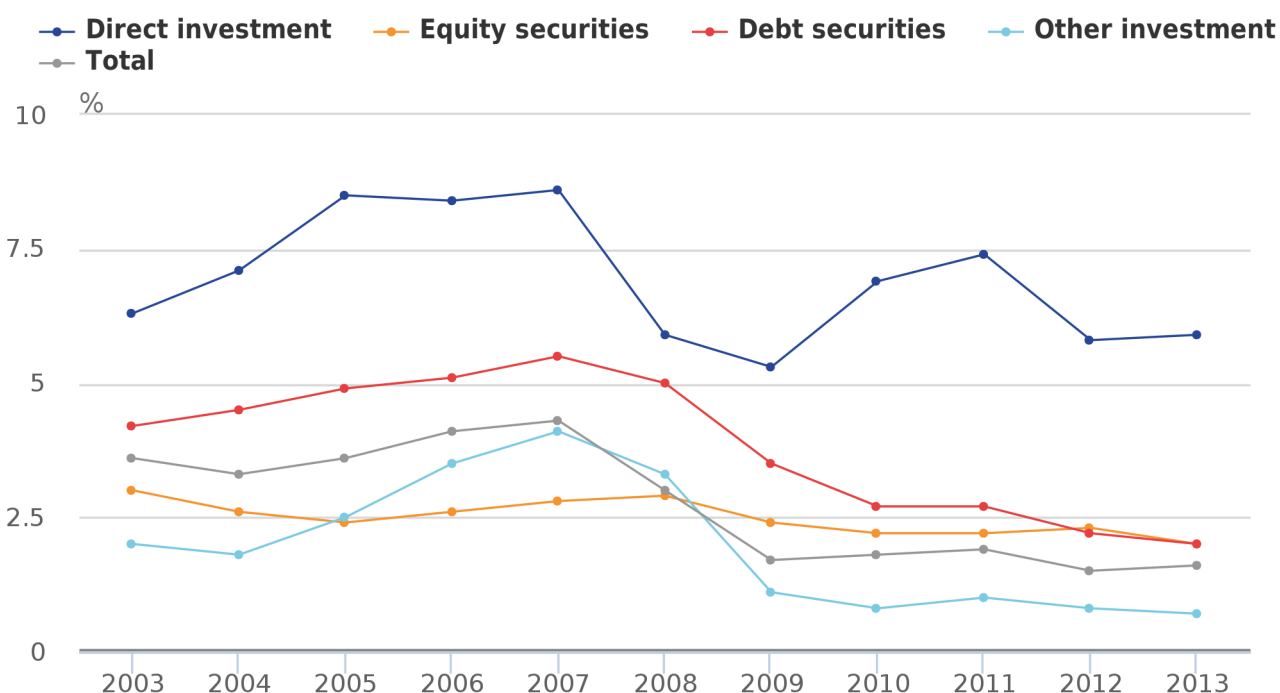
Another important relationship exists between investment income and the international investment position. This can be seen most easily by looking at the implied 'rates of return' for both assets and liabilities. In total, the implied rate of return on liabilities was higher than on assets from the late 1970s until the mid-1990s. Between 1997 and 2011, the return on assets was slightly higher than liabilities, but from 2012 the rate of return on liabilities crept ahead of assets. Although the rates of return for both assets and liabilities increased very slightly in 2013, they remain at historically low levels.

The rates of return for direct investment are usually a lot higher than for other forms of investment. Historically, the relatively higher return on direct investment is probably a consequence, in part, of comparatively lower valuations. This is because direct investment levels are generally reported at book value rather than at market value, as used for other categories of investment. Therefore, the book values of direct investments are likely to be lower than their market values. The higher rates of return on direct investment may also reflect the higher return required to make the longer term investment worthwhile. Apart from 2008, the rate of return on assets has been greater than for liabilities. The rate of return on assets increased from 6.2% in 2012 to 6.4% in 2013, while liabilities recorded an increase from 4.8% in 2012 to 4.8% in 2013.

Portfolio investment comprises of two components: debt securities (bonds and notes) and equity securities (shares). The rates of return on debt securities have generally been higher than on equity securities. With the exception of 2000, the rate of return on equity liabilities has been greater than that for assets in every year since 1987. The rate of return on debt security liabilities has exceeded that of assets in all years except 2002 to 2010. In 2013, the rate of return on equity assets decreased from 2.3% in 2012 to 2.0% in 2013, while the rate of return on liabilities increased from 3.2 % in 2012 to 3.5% in 2013.

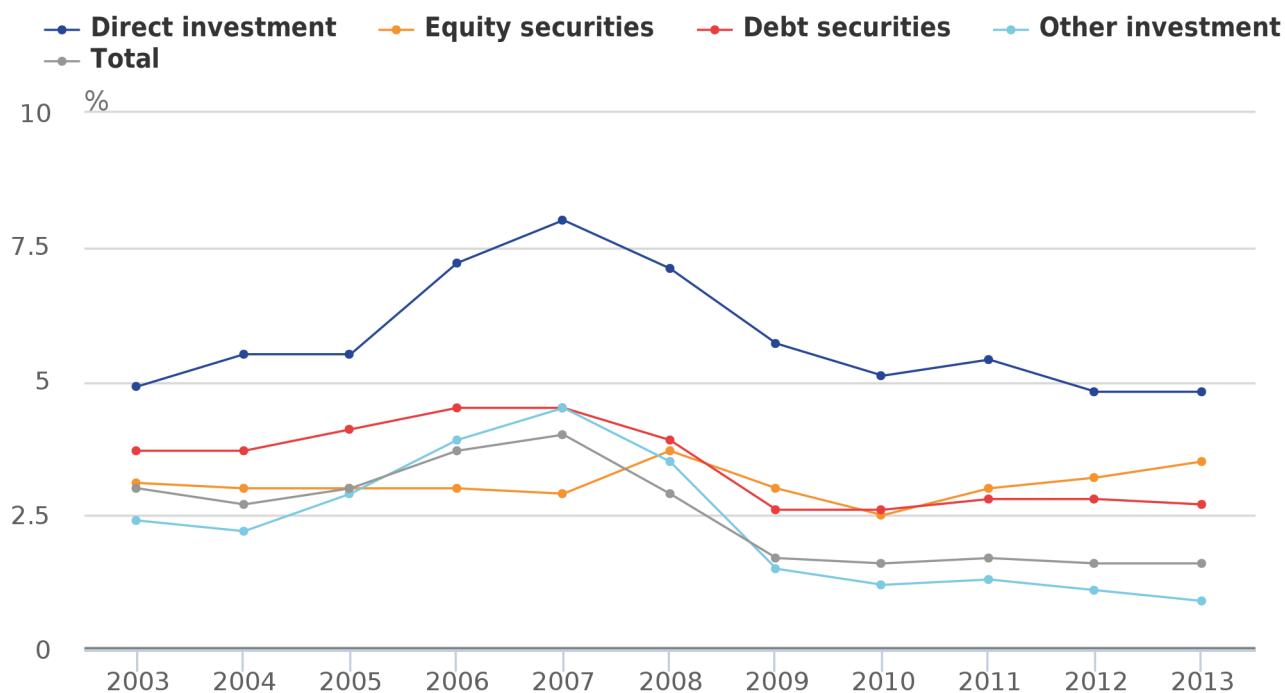
Rates of return on other investment were similar to returns on debt in the early 1990s, but between then and 2004 they were generally in decline. From 2004 until 2007 they began to increase again, but started to decline in 2008, dropping to 0.8% for assets and 1.1% for liabilities in 2010. Following a slight rise in 2011, both assets and liabilities have declined and recorded record low rates of return in 2013 of 0.7% and 0.9% respectively. Given that other investment constitutes such a large proportion of the value of the balance sheets, it is not surprising that the rates of return have reflected the movements in interest rates on loans and deposits, such as the base rate and the London Interbank Offered Rate (LIBOR).

**Figure 1.6: Implied rates of return on assets**



Source: Office for National Statistics

**Figure 1.7: Implied rates of return on liabilities**



Source: Office for National Statistics

The reference tables in relation to Chapter 1 are available to [download \(134 Kb Excel sheet\)](#).

## 5 . Chapter 2: Trade in goods

### Summary

Trade in goods shows the extent of import and export activity between the UK and the rest of the world. By definition, trade in goods covers:

- transactions in general merchandise,
- goods for processing,
- repairs on goods,
- goods procured in ports by carriers,
- non-monetary gold.

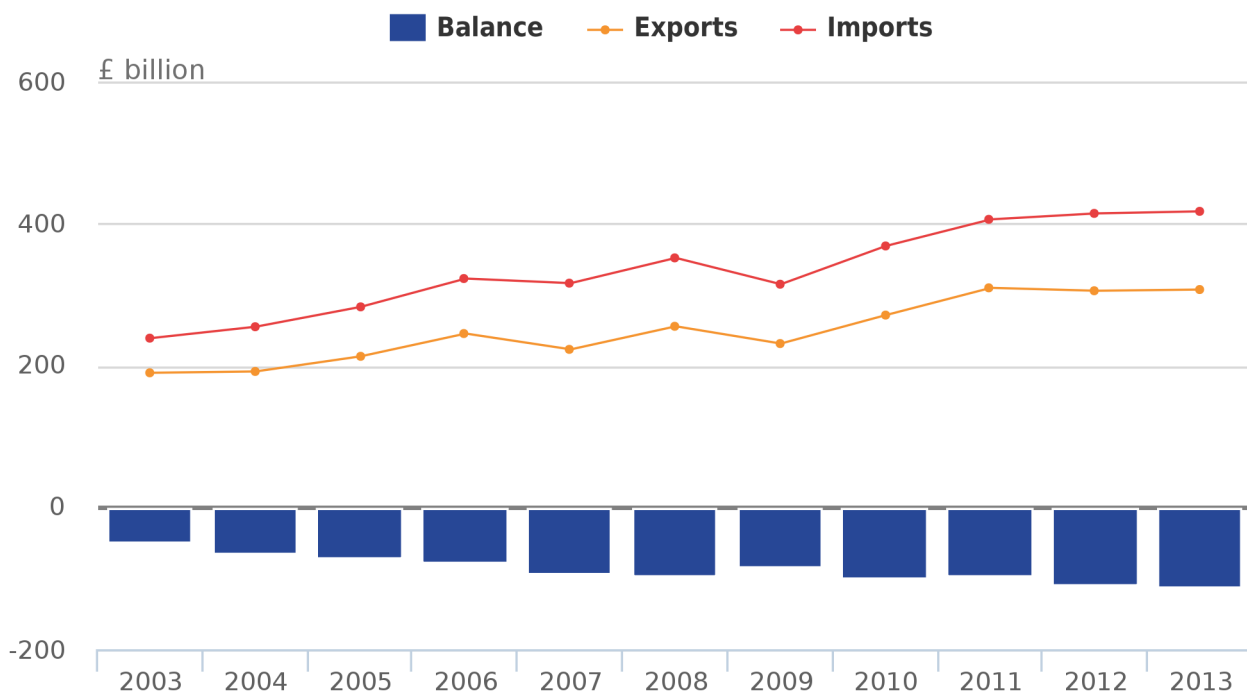
General merchandise (with some exceptions) refers to moveable goods where real or imputed changes of ownership happen.

- In 2013, the deficit on trade in goods widened by £1.2 billion to £110.2 billion. This was the largest annual deficit on record. Exports increased to £306.8 billion, which was up 0.5% from £305.1 billion in 2012. Imports increased to a record £417.0 billion in 2013, which was up 0.7% from £414.1 billion in 2012.
- Between 2009 and 2011, export and import levels each increased by roughly 30%. This reflected improved global economic conditions following the financial downturn in mid-2008. Exports reached a record high of £309.2 billion in 2011, with significant strength seen in all key commodities. Since peaking in 2011, growth has slowed considerably and the export level was comparatively flat at £306.8 billion into 2013. In contrast, the UK's import market has continued to grow, reaching successive record highs of £414.1 billion in 2012 and £417.0 billion in 2013. Imports from countries within the EU were particularly strong in 2013, increasing by £11.7 billion from 2012 to a record £221.4 billion.

## MTIC Fraud

When interpreting the trade figures, users should be aware that both exports and imports are affected by VAT missing trader intra-community (MTIC) fraud. This led to an increase in both imports and exports in 2006, and a subsequent fall in 2007, which was associated with the introduction of the UK's reverse charge derogation. This was an anti-fraud measure relating to mobile phones and microchips, which placed the responsibility with purchasers rather than suppliers to account for the VAT associated with these goods. (For more information on MTIC fraud, see the [Methodological notes](#) relating to chapter 2).

**Figure 2.1: Trade in goods**



Source: Office for National Statistics

## Volume changes

- Between 2012 and 2013, the export volume index fell 0.5%. However, despite this it remains 16.8% higher than in 2009. The import volume index showed continued recovery in 2013, increasing by 0.3% from 2012 and reaching its highest level on record. Since 2009, the volume of imports has grown by 17.5%.
- Over a longer perspective, export volumes remained fairly flat between 2001 and 2004 as world economic activity slowed. Discounting the effect of MTIC fraud in 2005 and 2006, both export and import volumes continued to rise before falling dramatically in 2009 as a result of the downturn in global trade. The volume of exports fell by a record 10.1% and the volume of imports fell by a record 10.8%.

**Figure 2.2: Export and import volume indices**

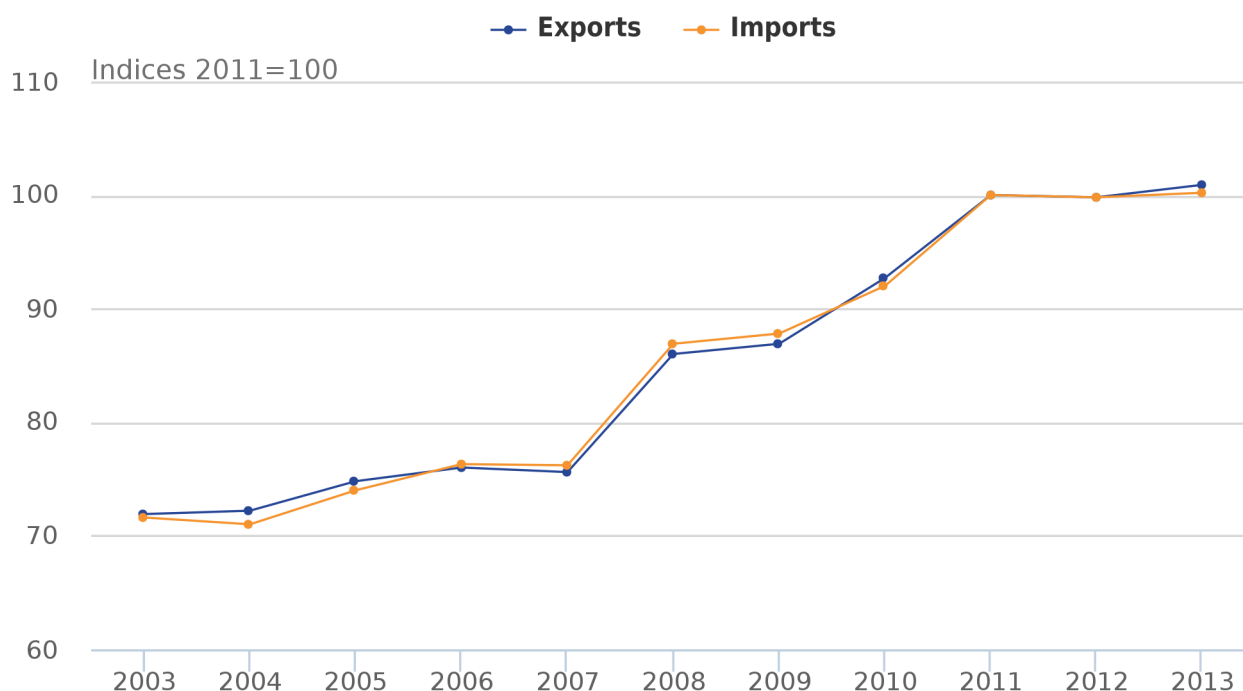


Source: Office for National Statistics

## Price changes

- Export prices rose by 4.9% between 2000 and 2007. Import prices increased by 2.4% over the same period. In 2008, export and import prices rose by 13.8% and 14.0% respectively. Some extent of this growth can be attributed to the depreciation of sterling, however, there was also a sharp increase in oil prices at this time. Between 2007 and 2008, oil export prices rose by 42.3% and oil import prices rose by 55.3%. These increases were the highest since 2000, when the export price of crude oil rose by roughly 60% and the import price by 75%.
- Although export and import price indices continued to grow in 2009, the rate slowed to 1.0% for both exports and imports. This was partially due to the downturn in global trade. Since then, export and import prices have risen, reaching record high levels in 2013.

**Figure 2.3: Export and import price indices**

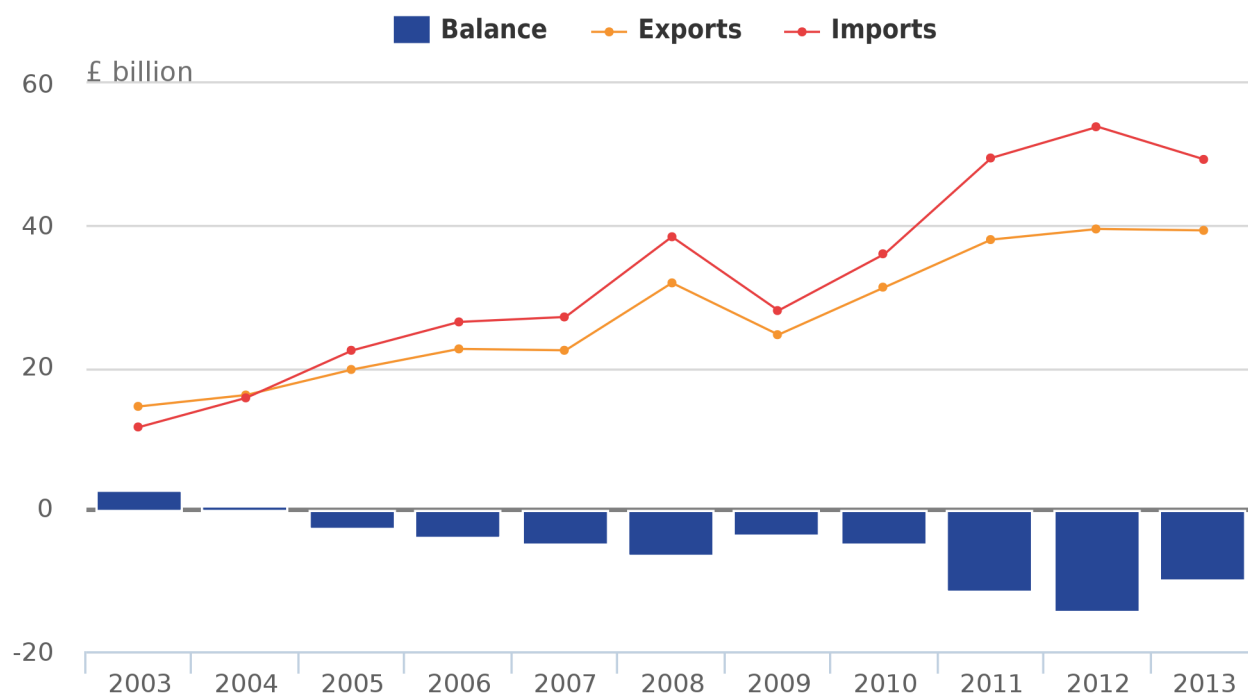


Source: Office for National Statistics

## Trade in oil

- Between 2012 and 2013, the deficit of trade in oil narrowed to £10.0 billion. Exports of oil fell by £0.2 billion in 2013. Imports of oil fell by £4.6 billion over the same period. As a result of imports falling more significantly than exports, the deficit of trade in oil narrowed for the first time since 2009 when oil trade was affected by the global financial crisis.
- Between 1980 and 2004, oil exports consistently exceeded imports. Changes to the price of crude oil gradually reduced the oil trade surplus between 2001 and 2004. Eventually the balance of trade in oil reached a deficit in 2005. Since then, the balance of oil has continued to be in deficit, reaching a record £14.4 billion in 2012.
- Crude oil production peaked in 2000 and, with the exception of 2007 when the very large Buzzard field began production, has been in decline since as reserves on the UK Continental Shelf have depleted. From 2002 onwards, the volume of crude oil exports fell consistently until 2012 when the level started to rise. The volume of crude oil imports has generally increased. Coupled with rising prices, this resulted in further falls in the value of the crude oil surplus. It fell to £1.2 billion in 2004, followed by the first deficit since 1979 of £0.3 billion in 2005. The deficit in crude oil fluctuated between £1.0 billion and £10.7 billion between 2006 and 2012, before narrowing to £5.9 billion in 2013.

**Figure 2.4: Trade in oil**



Source: Office for National Statistics

## Trade by commodity

- Over the past 10 years, finished manufactures have accounted for an average of around 50% of total exports and imports. This mainly reflects strength in the machinery and transport equipment industry. Semi manufactures also held a significant share of the total exports and imports, with an annual average of around 25% over the same period.
- Since 2009, total exports have risen by £76.1 billion, £40.2 billion was attributed to finished manufactures and a further £16.0 billion to fuels. Over the same period, imports rose by £102.7 billion, of which £44.4 billion was attributed to finished manufactures and £26.3 billion to fuels.
- Between 2012 and 2013, exports of finished manufactures rose by £7.1 billion. This increase was mainly due to exports of machinery and transport equipment. This is the same for imports of finished manufactures, which rose by £10.7 billion from 2012. Again, this rise is mainly due to machinery and transport equipment.
- By volume, over the past 10 years exports of all commodities have risen, with the exception of fuels which fell by 18.5% from 2003. Exports of manufactured goods rose by 21.7% during this period. This reflects particular strength in exports of machinery and transport equipment and chemicals. In terms of imports, all commodities saw positive growth from 2003. For example, the volume of manufactured goods rose by 28.4% and volume of fuel imports rose by 26.6%.
- By volume, in 2013, exports of fuels fell by 1.0% from 2012. Exports of manufactured goods were unchanged from 2012, where positive growth in finished manufactures was offset by weakness in semi manufactures. In the same period, imports of manufactured goods rose by 1.0% whilst imports of fuels fell by 4.8%. This is the first negative movement since 2009. Imports of basic materials also demonstrated notable growth, being up 18.9% from 2012.

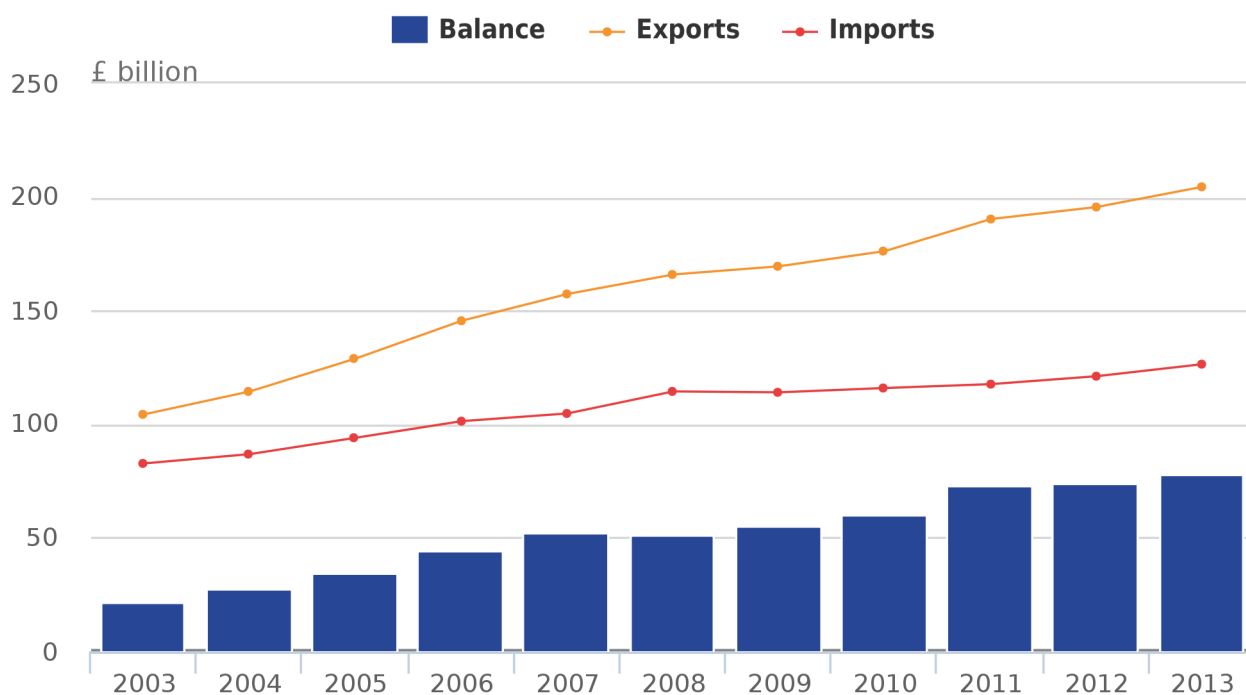
The reference tables in relation to Chapter 2 are available to [download \(117.5 Kb Excel sheet\)](#).

## 6 . Chapter 3: Trade in services

### Summary

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/out of the UK, are included under trade in goods.

**Figure 3.1: Trade in services**



Source: Office for National Statistics

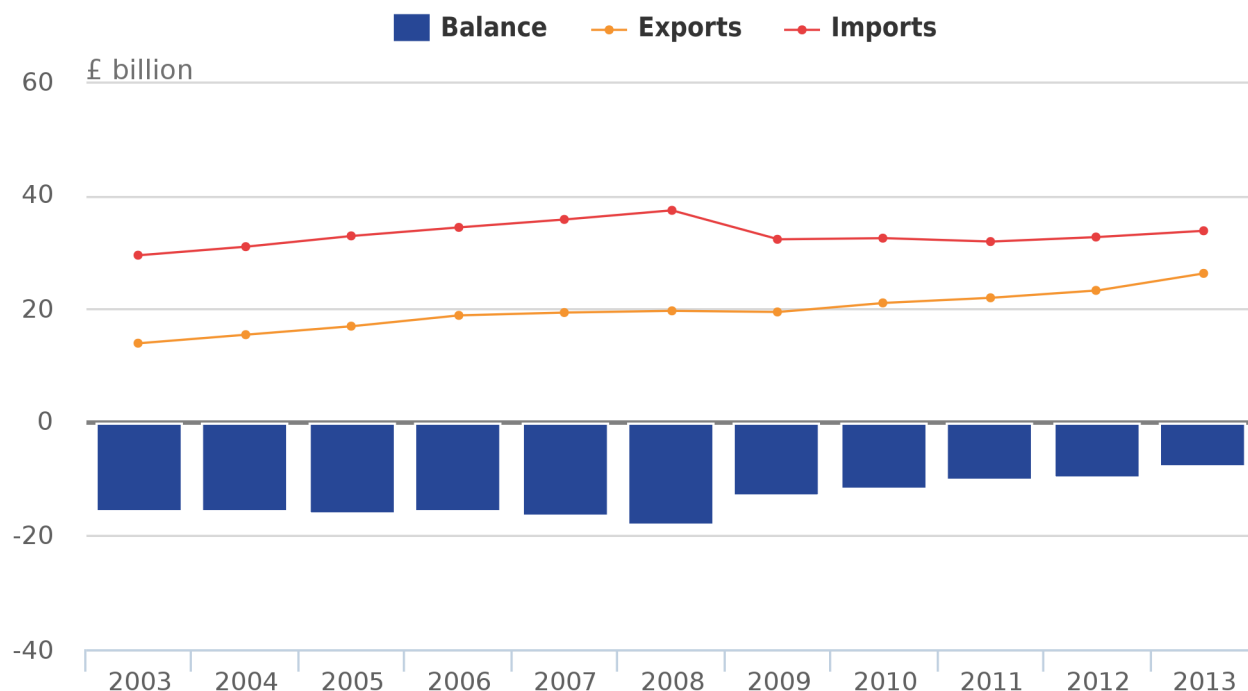
- In 2013, there was a surplus of £78.1 billion. This was an increase of £3.6 billion (4.8%) from £74.5 billion in 2012
- Between 2012 and 2013, exports of services increased by £8.9 billion (4.5%) and imports of services increased by £5.3 billion (4.4%)
- Of the 12 main product groupings, 10 showed surpluses and two (travel and government services) showed a deficit
- The increase in the overall trade in services balance was mainly due to increases in the surpluses in manufacturing on physical inputs owned by others, and financial services

### Travel

Travel covers business travel, including expenditure by seasonal and border workers, and personal travel, which includes health and education related travel.



**Figure 3.2: Trade in travel services**



**Source:** Office for National Statistics

- In 2013, travel expenditure by non-residents visiting the UK accounted for 12.8% of total exports of services
- In 2013, expenditure by UK residents travelling abroad accounted for 26.7% of total imports of services
- Exports increased by £3.1 billion, from £23.2 billion in 2012, to £26.2 billion in 2013. This was mainly due to other personal travel, other business travel and education related travel
- Imports increased by £1.2 billion, from £32.6 billion in 2012, to £33.7 billion in 2013. This was mainly due to the increase in other personal travel

**Figure 3.3: Trade in financial services**



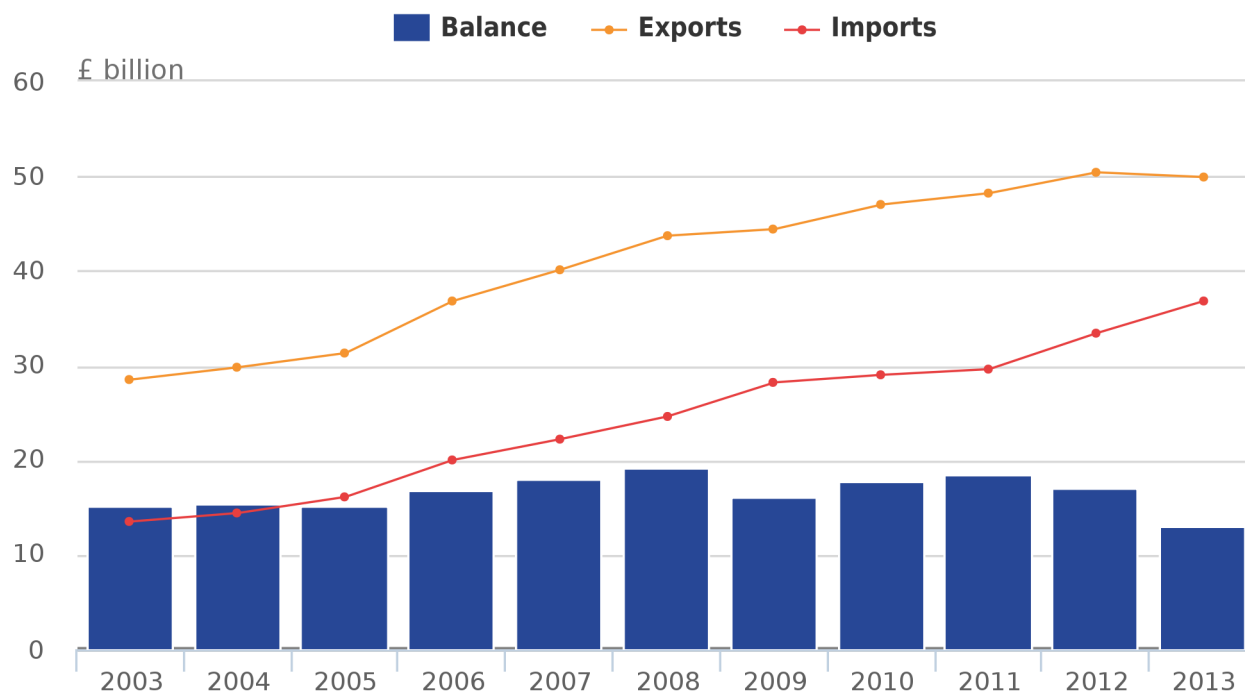
Source: Office for National Statistics

- In 2013, financial services accounted for 22.9% of total exports, compared with 6.8% of total imports of services in 2013
- Exports increased by £1.6 billion from £45.1 billion in 2012 to £46.7 billion in 2013. This was mainly due to increases in other financial institutions and financial intermediation services indirectly measured on loans and other financial institutions. This was partially offset by falls in commissions and fees from monetary financial institutions
- Imports decreased by £0.5 billion, from £9.1 billion in 2012 to £8.6 billion in 2013. The decrease in imports was due to other financial institutions, which was partially offset by an increase of £0.3 billion in monetary financial institutions
- Overall financial services accounted for 48.8% of the total trade in services balance

## Other business services

Other business services cover a broad range of services including: trade-related services such as operational leasing, and consultancy services such as advertising, engineering and legal services.

**Figure 3.4: Trade in other business services**



Source: Office for National Statistics

- In 2013, other business services accounted for 24.4% of total exports and 29.1% of total imports of services
- Exports decreased by £0.5 billion, from £50.4 billion in 2012 to £49.9 billion in 2013. This was mainly due to decreases in business management and management consulting services and other business services
- Imports of other business services increased by £3.5 billion from £33.4 billion in 2012 to £36.8 billion in 2013, this was mainly due to other business services, in particular services between affiliated enterprises.

The reference tables in relation to Chapter 3 are available to [download \(213.5 Kb Excel sheet\)](#).

## 7 . Chapter 4: Income

### Summary

The **primary income** account (previously called 'income account') is made up 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.

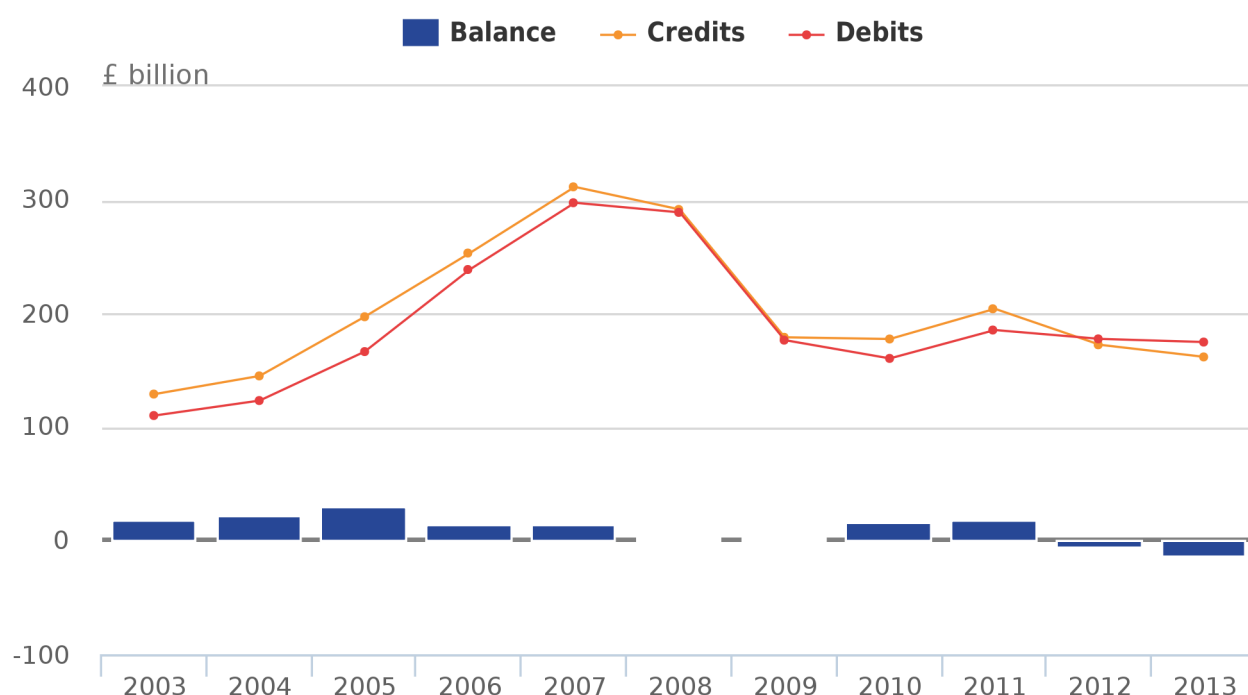
**Investment income** covers earnings (for example, profits, dividends and interest payments and receipts) coming from foreign investment in financial assets and liabilities. Credits are the earnings of UK residents from their investments abroad and other foreign assets. Debits are the earnings of foreign 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 taxes and subsidies, and rent on production and 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 called 'current transfers'). The recording of rent was previously classified to other investment income.

## Primary income

Total primary income credits continued to decrease in 2013, recording £161.8 billion compared with £172.5 billion in 2012. This reflected a decrease in receipts for each main component. Total primary income debits also fell in 2013, from £177.7 billion in 2012 to £174.9 billion in 2013. This was due to a decrease in payments in investment income, partially offset by small rises in payments in compensation of employees and other primary income. As credits decreased more than debits, the deficit on primary income widened to £13.1 billion in 2013, compared with a deficit of £5.3 billion in 2012.

**Figure 4.1: Primary income**



Source: Office for National Statistics

## Compensation of employees

The balance on compensation of employees has been in deficit since 2004, with the deficit at its widest in 2006. The deficit narrowed in the following years, particularly after the financial crisis. In 2013, the deficit widened slightly to £0.3 billion, compared with £0.1 billion in 2012. This was due to debits increasing and credits decreasing over the year.

## Investment income

The balance on investment income was in surplus every year since 2000. However, in 2012, the balance on investment income switched to a deficit of £4.8 billion, compared with a surplus of £18.7 billion in 2011. In 2013, the deficit widened to £12.3 billion which was mainly due to a narrowing in the surplus on direct investment and a widening in the portfolio investment deficit. Partially offsetting these was a narrowing in the other investment deficit.

From 2003 to 2007, investment income credits and debits increased significantly. Investment income credits peaked in 2007 with record receipts of £307.7 billion. This reflected stronger profits on direct investment and a higher rate of return on both portfolio and other investment, together with significant levels of investment over the period. In 2007, investment income debits also peaked with record payments of £293.4 billion. This reflected a higher rate of return on both direct and other investment.

In 2008, 2009 and 2010, investment income credits and debits both fell. In 2008, this was mostly due to lower earnings on direct and other investment. In 2009 and 2010, the fall was mainly due to lower earnings on other investment as internationally interest rates continued to fall.

Both investment income credits and debits recovered in 2011, but were still roughly a third lower than the 2007 peak. Investment income credits fell from £199.9 billion in 2011 to £168.7 billion in 2012. Meanwhile investment income debits fell from £181.2 billion in 2011 to £173.5 billion in 2012. In 2013, both investment income credits and debits continued to fall, with credits recording receipts of £158.2 billion and debits recording payments of £170.5 billion.

Earnings on direct investment abroad were the largest component of investment income credits between 2002 and 2005. They accounted for over 40% of total earnings in each year over the period, compared with 31% in 1998. This reflects the boom in UK merger and acquisition activity in the late 1990s and early 2000s, and subsequent growth in earnings from abroad. Between 2006 and 2008, other investment income (mostly earnings from loans and deposits) was the largest component of investment income credits. This accounts for 45% of total earnings in 2008. Due to the sharp fall in earnings on other investment as interest rates fell, earnings on foreign direct investment have once again become the largest component of investment income. They now account for more than half of the earnings of investment income between 2010 and 2013. Earnings on portfolio investment abroad have broadly risen in line with total investment income. Between 1993 and 2008, the proportional share was consistently around 25% of total earnings from abroad. In 2009, the portfolio investment proportion of investment income peaked at 32%, before falling back to 30% in 2013.

Growth in foreign earnings on investment in the UK from 2005 to 2007 was mainly due to other investment, although both direct and portfolio investment also grew strongly over this period. Despite increased investment in the UK, foreign earnings decreased in 2008. In 2009, the fall in foreign earnings on investment in the UK reflected a sharp reduction in foreign earnings on other investment. This was mainly due to low interest rates in the UK combined with a reduced stock of other investment liabilities. From 1980 to 2008, other investment income was the largest component of income on investment in the UK. However, from 2009, portfolio investment income became the largest component, following a large fall in income on other investment.

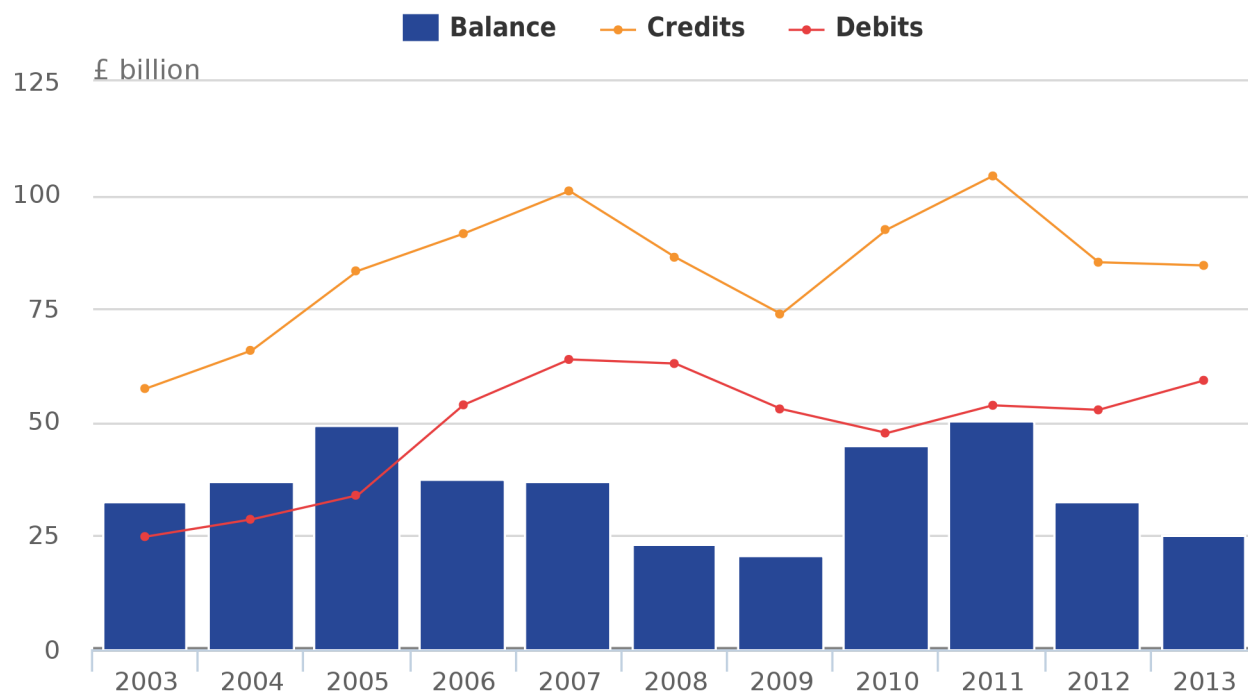
By component, direct investment has recorded a surplus in every year since 1997. In portfolio investment, from 1993 to 2005 there was generally an income surplus on debt securities. But, in most years this was outweighed by the income deficit on equity securities. In 2006, income on debt securities switched to a deficit, following a slight narrowing in the deficit in 2009, the deficit on debt securities has widened substantially in the years to 2013. Other investment has recorded a net deficit in every year since 1986.

## **By sector**

### **Direct investment**

Direct investment income credits have exceeded debits in every year since 1997. In 2013, the net earnings surplus on direct investment decreased to £25.3 billion, from £32.5 billion in 2012. Earnings on direct investment abroad decreased by 1% in 2013, to £84.5 billion. This was mainly due to the foreign earnings of UK private non-financial corporations decreasing from net earnings of £66.6 billion in 2012 to £61.2 billion in 2013. Partially offsetting this were insurance companies who switched from losses of £0.1 billion in 2012 to profits of £3.6 billion in 2013, and monetary financial institutions who recorded an increase in profits from £5.0 billion in 2012 to £6.2 billion in 2013.

**Figure 4.2: Direct investment income**



Source: Office for National Statistics

Foreign earnings on direct investment in the UK increased from £52.7 billion in 2012 to £59.2 billion in 2013. This increase resulted from higher profits reported by foreign-owned UK other financial intermediaries, which increased by £4.8 billion to £8.5 billion in 2013. In addition, both foreign-owned UK insurance companies and foreign-owned UK private non-financial corporations recorded an increase in profits of £0.8 billion to £2.0 billion and £37.6 billion in 2013 respectively.

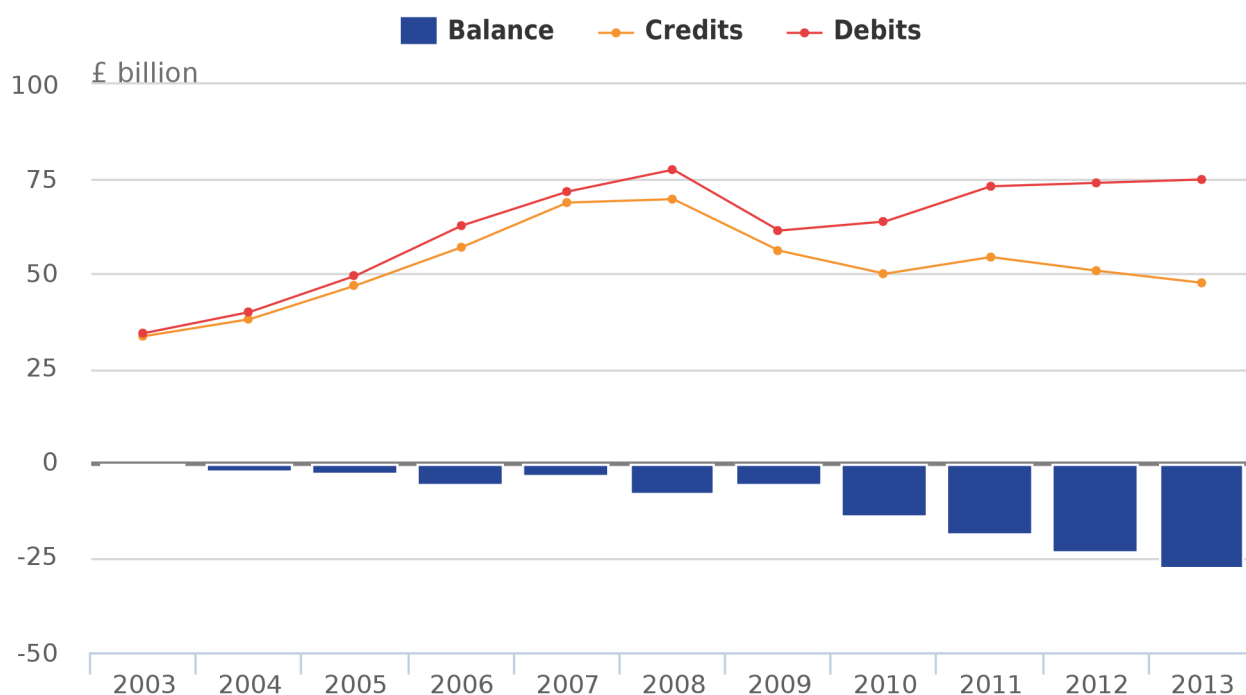
## Portfolio investment

The UK has recorded a deficit on portfolio investment in all but two years since records began in 1984. In all years since 1987 the UK has paid out more dividends on UK equity securities owned by non-residents than have been received on foreign equity securities owned by UK residents.

In contrast, the UK recorded a surplus on debt securities between 1997 and 2005 but, with the exception of 2009, has recorded an increasing deficit on debt securities each year from 2006. This was due to the surplus on earnings from long-term debt securities decreasing, so that it no longer offset the deficit on short-term debt securities. In 2010, net earnings on long-term debt securities switched from surplus to deficit for the first time since 1990, resulting in a deficit of £9.6 billion on total debt securities. The deficit increased to a record £17.0 billion in 2012, before narrowing slightly to £15.5 billion in 2013. UK monetary financial institutions doubled their net earnings on portfolio investment between 2001 and 2007, moving from a surplus of £9.7 billion in 2001 to a record surplus of £18.9 billion in 2007. This surplus has gradually declined in subsequent years, standing at £1.7 billion in 2013.

UK monetary financial institutions traditionally tended to hold debt securities rather than equity securities. But, from 2002 to 2007 they steadily increased their levels of investment in foreign equity securities, resulting in a similar rise in dividend receipts. However, they disinvested heavily in 2008, resulting in a fall in dividend receipts from £4.5 billion in 2007 to £3.5 billion in 2008. Their dividend receipts continued to decrease in the next three years, falling to £2.5 billion in 2011. In 2012, they returned to investing in equity securities which resulted in dividend receipts increasing to £3.2 billion. Despite increasing their investment in equity securities in 2013 the amount of dividends received fell to £2.3 billion. UK monetary financial institutions' interest receipts on foreign debt securities rose to a record £35.0 billion in 2007, due to an increase in the investment stock combined with higher interest rates. Earnings on debt securities by UK monetary financial institutions fell in subsequent years, recording earnings of £11.3 billion in 2013. This is almost a third the size of those in 2007. This was due to disinvestment in debt securities and low interests rates.

**Figure 4.3: Portfolio investment income**



Source: Office for National Statistics

For debits, foreign earnings from UK equity have more than doubled since 2003, rising from £15.0 billion to £33.0 billion in 2013. The increase in earnings on equity securities reflects increased investment and an increase in the implied rate of return. This has consistently been higher than the implied rate of return for UK earnings on foreign equity securities over the same period. Foreign earnings on UK debt securities increased from £19.3 billion in 2003 to £51.1 billion in 2008. Despite increasing their investment in UK debt securities in 2009, foreign earnings on UK debt securities fell to £39.6 billion. Due to more stable interest rates and continued investment in UK debt securities, foreign earnings increased in the years 2010 to 2012. In 2013, foreign earnings on debt securities decreased to £41.9 billion from £46.6 billion in 2012. This was because non-residents disinvested from both short-term and long-term debt securities.

## Other investment

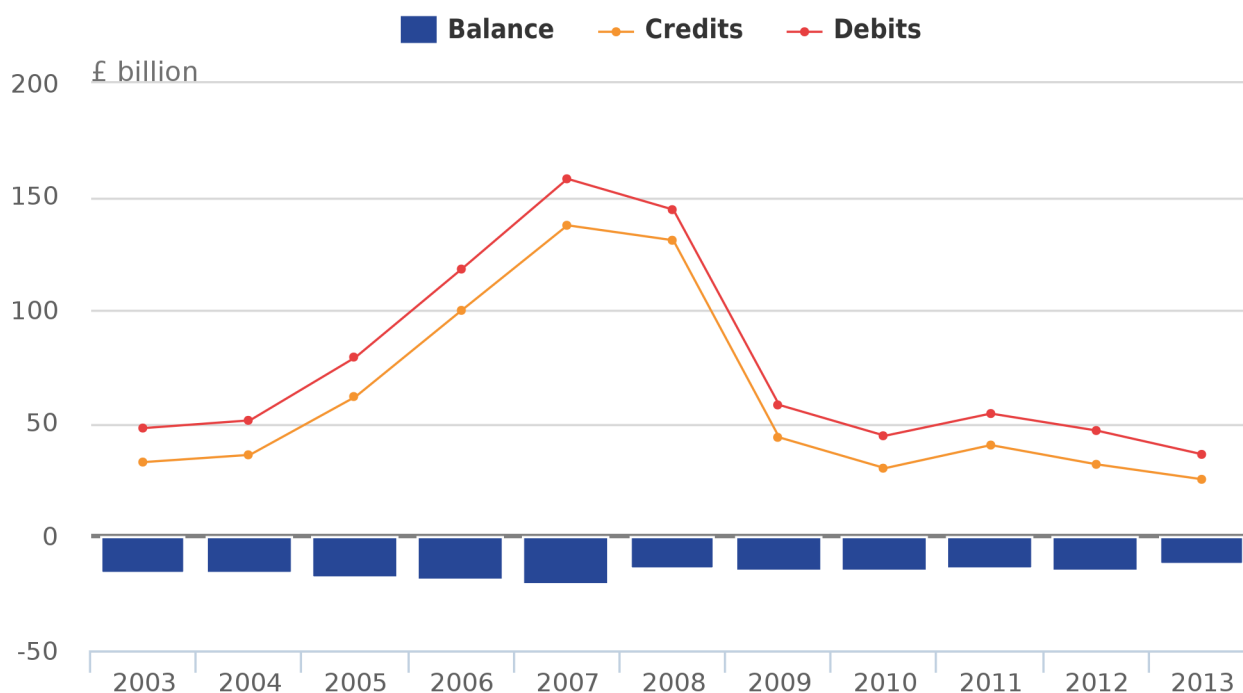
Movements in the other investment balance are mainly due to interest rate changes, which impact on interest paid and received on loans and deposits. As the UK has an excess of other investment liabilities over assets, there is generally a deficit on other investment income, with rising interest rates leading to a rising deficit and falling interest rates to a falling deficit.

Rising global interest rates from 2005 through to 2007 led to the other investment deficit increasing from £17.4 billion to £20.4 billion over that period. In 2008, the deficit narrowed to £13.5 billion as global interest rates fell and remained at around this level until 2012. In 2013, the deficit narrowed to £11.0 billion as payments decreased more than receipts. The narrowing of the deficit in 2013 reflected a reduction in the deficits for:

- other financial corporations from £10.6 billion in 2012 to £8.3 billion in 2013, and
- monetary financial institutions from £4.2 billion in 2012 to £3.2 billion in 2013.

Earnings on deposits abroad by UK monetary financial institutions accounted for almost 68% of total other investment credits in 2013. The vast majority of these earnings are made from foreign currency, reflecting the international nature of banking in the UK. Many of the banks trading with the rest of the world are actually branches or subsidiaries of foreign banks.

**Figure 4.4: Other investment income**



Source: Office for National Statistics

## Sectoral breakdown of investment income

UK monetary financial institutions earned 24% of total UK investment income credits and paid out 24% of debits in 2013. This was down from 27% of credits and 29% of debits in 2012. In every year from 2000 to 2006, monetary financial institutions' net receipts of investment income showed a surplus, but in every following year a deficit was shown. In 2013, the deficit narrowed to £3.5 billion from £5.5 billion in 2012.

Central government recorded a net annual deficit of around £3 billion to £6 billion from 1992 to 2006. More recently this deficit has risen, reaching a peak of £15.3 billion in 2011, but decreased to a deficit of £14.8 billion in 2013. The deficit continues to be mainly attributable to debits on gilts.



Other sectors, predominantly private non-financial corporations and non-monetary financial institutions, have recorded a net surplus in every year since 1987. This is largely due to strong net earnings on direct investment by UK private non-financial corporations. The other sectors surplus peaked at £40.1 billion in 2011 before falling in 2012 and 2013 to £14.6 billion and £5.6 billion respectively. This was because net earnings on direct investment weakened.

## Other primary income

The deficit on other primary income widened to £0.5 billion in 2013 from £0.3 billion in 2012. Between 1997 and 2011, other primary income recorded a surplus in the range of £0.1 billion to £1.3 billion. The deterioration in the other primary income balance has been due to credits declining from £3.2 billion in 2011 to £2.5 billion in 2013. Debits have remained around £2.9 billion over the same period.

The reference tables in relation to Chapter 4 are available to [download \(206 Kb Excel sheet\)](#).

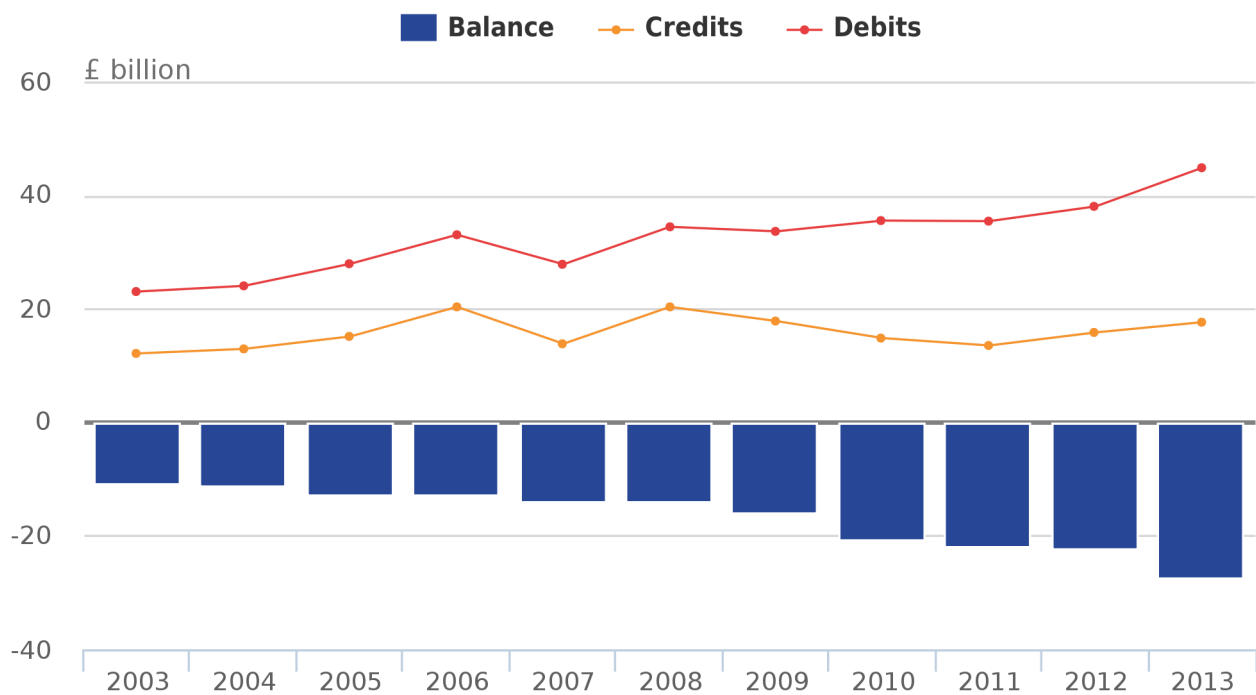
## 8 . Chapter 5: Secondary income

### Summary

The secondary income account (previously called 'current transfers') represents the provision (or receipt) of an economic value by one party without directly receiving (or providing) a counterpart item of economic value. In other words, this is a transaction representing 'something for nothing'. Transfers can be money, goods or services given without expecting payment. In 2013, there was a deficit for secondary income of £27.2 billion. This was the highest on record. Since 2006, the deficit has increased in each year.

- In 2013, the deficit on general government transfers increased by £4.5 billion to £23.1 billion. This was the highest on record. This was mainly due to the deficit on other secondary income increasing from £16.7 billion in 2012 to £21.1 billion in 2013
- The deficit for other sectors was £4.1 billion in 2013, a £0.4 billion increase from 2012

**Figure 5.1: Secondary income**



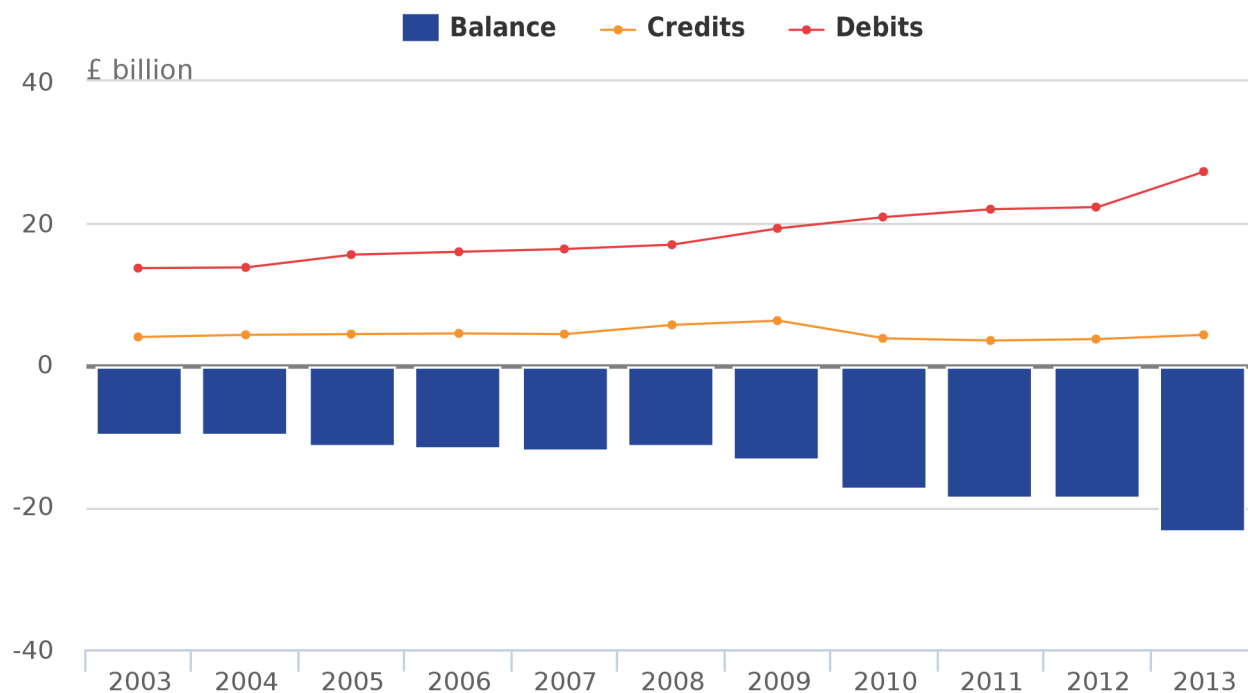
Source: Office for National Statistics

## General government transfers

General government transfers include taxes and social contributions received from non-resident workers and businesses, secondary income with international organisations (for example, EU Institutions), bilateral aid, social security payments abroad, military grants and miscellaneous transfers.

- In 2013, there was an increase in credits of £0.6 billion, from £3.7 billion in 2012 to £4.3 billion in 2013
- In 2013, debits increased by £5.1 billion, from £22.3 billion in 2012 to £27.4 billion in 2013

**Figure 5.2: Transfers by general government**



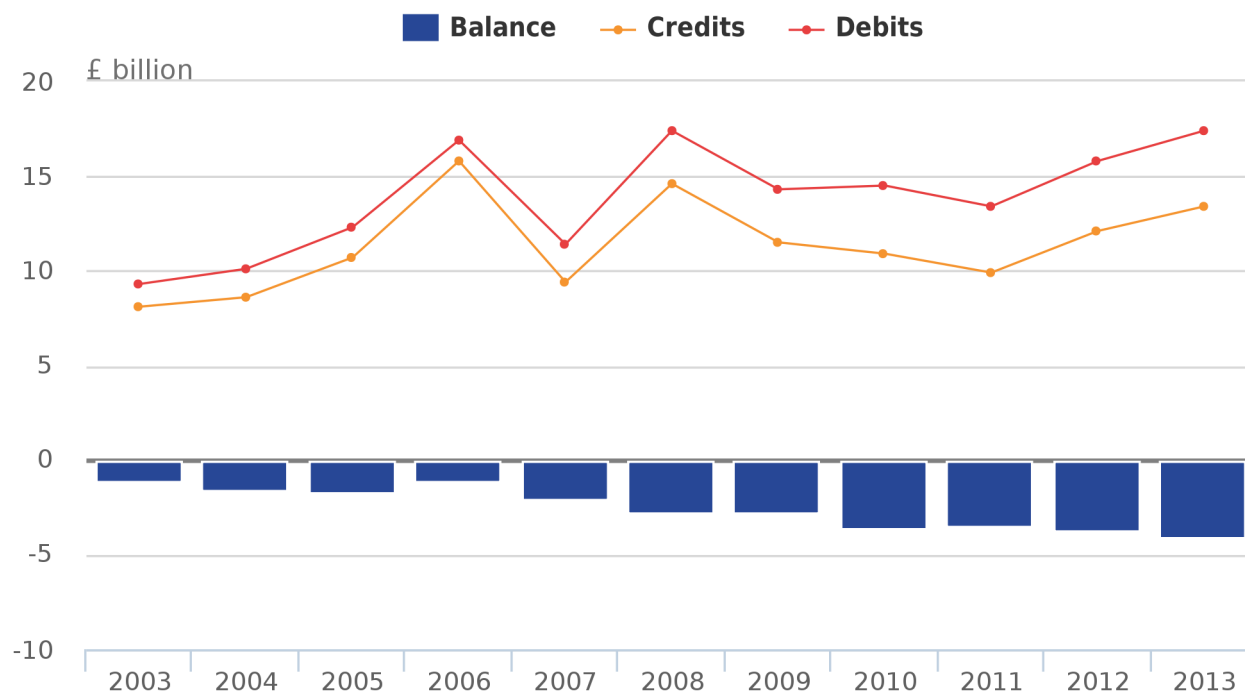
Source: Office for National Statistics

## Other sector transfers

Non-government transfers include those EU transfers where the UK Government simply acts as the agent for the final beneficiary (for example, social receipts). Other sectors' transfers also include taxes on income and wealth that are paid by UK workers and outward direct investors to foreign governments, insurance premiums and claims, and other transfers (for example, workers' remittances and other private transfers such as gifts).

- In 2013, credits increased by £1.2 billion from £12.1 billion in 2012 to £13.4 billion in 2013
- In 2013, debits increased by £1.7 billion from £15.8 billion in 2012 to £17.4 billion in 2013

**Figure 5.3: Transfers by other sectors**



Source: Office for National Statistics

The reference tables in relation to Chapter 5 are available to [download \(61.5 Kb Excel sheet\)](#).

## 9. List of contributors and contacts

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## 10. Background notes

### 1. What's new

The United Kingdom Balance of Payments Pink Book 2014 is the first time that ONS presents the annual Balance of Payments and International Investment Position publication using the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014.

Due to the scale of changes to the methods and definitions with the introduction of BPM6, table 1.1R is not included in Pink Book 2014 as the latest estimates are not directly comparable with previously published data. However, [the Balance of Payments Q2 2014 statistical bulletin](#) included an Annex to explain the impact the changes have on annual data for the period 1997 to 2013.

## 2. Reliability of estimates

All the value estimates are calculated as accurately as possible; however they cannot always be regarded as being absolutely precise to the last digit shown. Similarly, the index numbers are not necessarily absolutely precise to the last digit shown. Some figures are provisional and may be revised later; this applies particularly to many of the detailed figures for the latest years. For example, calendar year data for the International Trade in Services Survey and Foreign Direct Investment Survey are not available until after Pink Book publication. Therefore, the latest Trade in Services and Direct Investment data published in the Pink Book are provisional estimates and subject to annual benchmarking after publication.

The latest data when available for the [International Trade in Services Survey](#) can be found at its landing page.

The latest data when available for the [Foreign Direct Investment Survey](#) can be found at its landing page.

## 3. Rounding

As figures have been rounded to the nearest final digit, there may be slight discrepancies between the sums of the constituent items and the totals as shown.

## 4. Revisions since ONS Pink Book 2013

The data in the Pink Book are subject to revisions following the [ONS National Accounts Revisions Policy](#).

With the implementation of new international standards the current account balance is revised from 1955 onwards.

**Trade in goods** - The revisions to trade in goods from 1955 reflect the inclusion of illegal activities relating to drug smuggling. Revisions from 1997 onwards reflect revised data from Her Majesty's Revenue and Customs and other data suppliers and revised estimates of trading associated with VAT MTIC fraud. The revisions are consistent with the 2014 Blue Book.

**Trade in services** - Revisions from 1997 onwards result from a general reassessment of data following the annual supply use balancing process, the incorporation of updated source data from the Bank of England, Chamber of Shipping and Department for Transport. Revisions from 2012 additionally reflect the use of final results from ONS's International Trade in Services Survey for 2012.

**Primary income** - Revisions from 1999 reflect changes to the methodology for the reporting of Monetary Financial Institution earnings from foreign direct investment. Revisions from 2011 reflect the use of annual inquiry results from the ONS direct investment surveys.

**Secondary income** - Revisions to current transfers are attributed to the reclassification of some transactions to primary income, revised source data for transfers involving the UK government and the use of the latest data from various ONS surveys.

**International investment position** - The large revisions to the International Investment Position for the period 2013 are a result of new data being available for direct investment rather than as a result of implementing the new international standards. These new data are sourced from the improved ONS quarterly FDI survey. The methodology within this quarterly survey has now been aligned with the ONS' annual FDI survey. In addition, the sample size of the quarterly survey has been increased to provide better coverage and higher quality estimates. The increased sample size of the ONS' quarterly FDI survey now allows the opening and closing balances on the different forms of investment as well as the flows of investment to be utilised. This provides a more coherent picture of investment positions of individual businesses and is consistent with the approach used by the ONS' annual FDI survey. Previously, due to the smaller sample size and different methodologies, the ONS' quarterly FDI survey derived the closing balance by carrying forward the closing balance from the last ONS annual FDI survey and applied the flows of investment to calculate the closing balance. This was then carried over to the next quarters opening balance where the flows for the next quarter were then applied to calculate the next quarter's closing balance. The improved ONS quarterly FDI survey will continue to be benchmarked to the ONS annual FDI survey when this is available to do so.

## 5. Symbols

The following symbols are used throughout:

.. = not available

- = nil or less than a million

## 6. Understanding the data

At the time of publishing the Pink Book 2014 on 31 October 2014, not all of the following documents were updated with BPM6 definitions. ONS apologises and aims to complete updating them before the end of November 2014.

A [brief introduction to the United Kingdom balance of payments](#) provides an overview of the concepts and coverage of the UK Balance of Payments.

A [glossary](#) of terms used in the UK balance of payments is available on the National Statistics website.

More detailed [methodological notes for the UK balance of payments](#) are also available on the website.

The following [webpage](#) contains articles of interest which relate to UK balance of payments statistics.

## 7. References

The internationally agreed framework for the presentation of the Balance of Payments and the National Accounts are described in the following publications:

Balance of Payments Manual (6th edition), International Monetary Fund (ISBN 978-1-58906-812-4), <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>

Balance of Payments and International Investment Position Compilation Guide, International Monetary Fund (ISBN 978-1-48431-275-9), <https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>

European System of Accounts (ESA 2010), Eurostat. [http://epp.eurostat.ec.europa.eu/portal/page/portal/esa\\_2010/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction)

System of National Accounts (2008), (ISBN 978-92-1-161522-7). <http://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

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

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

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Compendium

# Capital account, financial account and international investment position

Inward and outward transactions, providing a net flow of transactions between the UK and the rest of the world and how that flow is funded.



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Release date:  
31 October 2014

Next release:  
30 October 2015

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# 1 . Correction

Following the announcement on 24 November 2014 that an error had been identified in the geographic data for Trade in Goods, ONS has now corrected the data. Upon further investigation it was found that the error only impacted on tables 9.2, 9.3, 9.4 and 9.8 for the years 2009 to 2012. The corrected data makes the Pink Book 2014 dataset comparable with the [UK Trade October 2014](#) and [UK Economic Accounts Q3 2014](#) datasets.

ONS apologises for any inconvenience caused.

## 2 . Key points

- The United Kingdom Balance of Payments Pink Book 2014 for the first time reflects the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014. The [Balance of Payments Q2 2014 statistical bulletin](#) included an annex to explain the impact the changes have on annual data for the period 1997 to 2013
- ONS has produced a [brief explanatory video](#) to explain how the current account and financial account fit together
- The capital account surplus decreased from £0.8 billion in 2012 to £0.5 billion in 2013
- In 2013, the financial account recorded a net inflow of £62.6 billion compared with a net inflow of £49.1 billion in 2012
- At the end of 2013, a net liability position (that is, liabilities exceeded assets) of £266.5 billion was recorded, compared with a net liability position of £247.0 billion at the end of 2012

## 3 . Introduction

The balance of payments is one of the UK's key economic statistical series. It measures the economic transactions between UK residents and the rest of the world. It also draws a series of balances between inward and outward transactions, provides a net flow of transactions between UK residents and the rest of the world and reports how that flow is funded. Economic transactions include:

- exports and imports of goods, such as oil, agricultural products, other raw materials, machinery and transport equipment, computers, white goods and clothing,
- exports and imports of services such as international transport, travel, financial and business services,
- income flows, such as dividends and interest earned by foreigners on investments in the UK and by UK residents investing abroad,
- financial flows, such as direct investment, investment in shares, debt securities, loans and deposits, and
- transfers, which are offsetting entries to any one-sided transactions listed above, such as foreign aid and funds brought by migrants to the UK.

Closely related to the balance of payments is the international investment position series of statistics. The international investment position measures the levels of financial investment with the rest of the world, inward and outward.



More detailed information on the Balance of Payments is available in the [guidance and methodology](#) area of the National Statistics website.

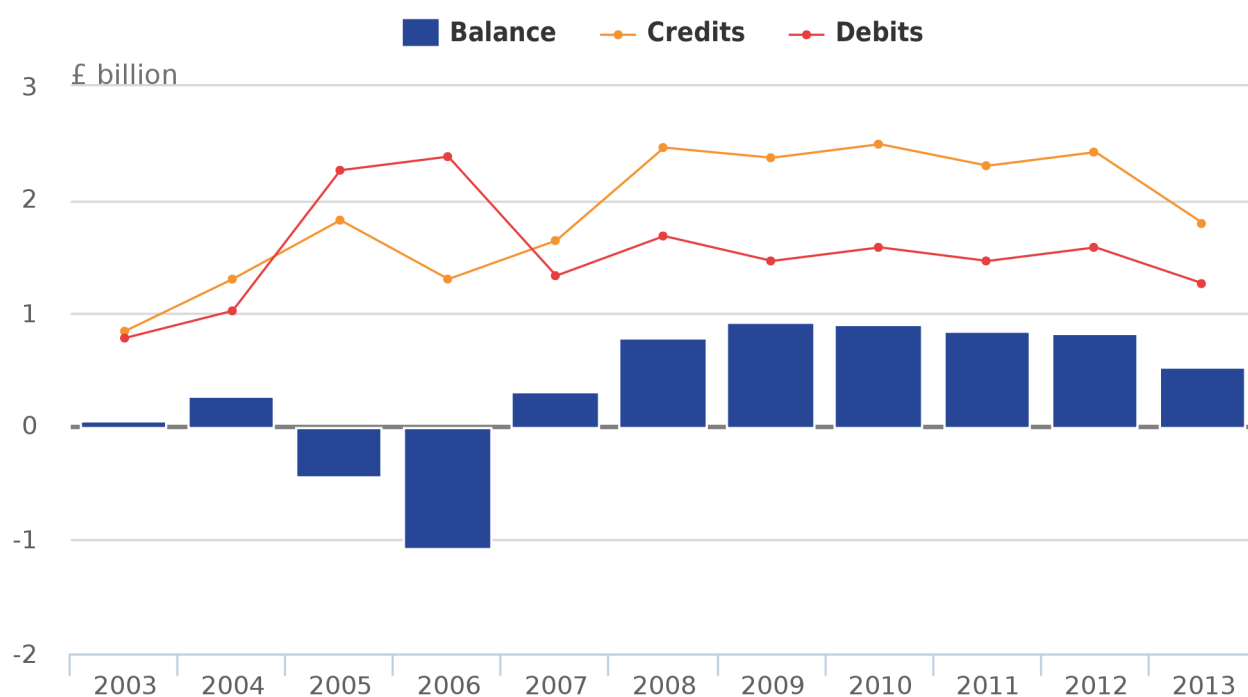
A printable version of the Pink Book 2014, Part 2: Capital Account, Financial Account and International Investment Position data is [available \(101.1 Kb Pdf\)](#).

## 4 . Chapter 6: Capital account

### Summary

The capital account includes capital transfers and the net acquisition or disposal of non-produced, non-financial assets. In 2013, the capital account surplus was £0.5 billion. This was down £0.3 billion from £0.8 billion in 2012.

**Figure 6.1: Capital account**



The reference tables in relation to Chapter 6 are available to [download \(71 Kb Excel sheet\)](#).

## 5 . Chapter 7: Financial account

### Summary

The financial account covers transactions which 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.

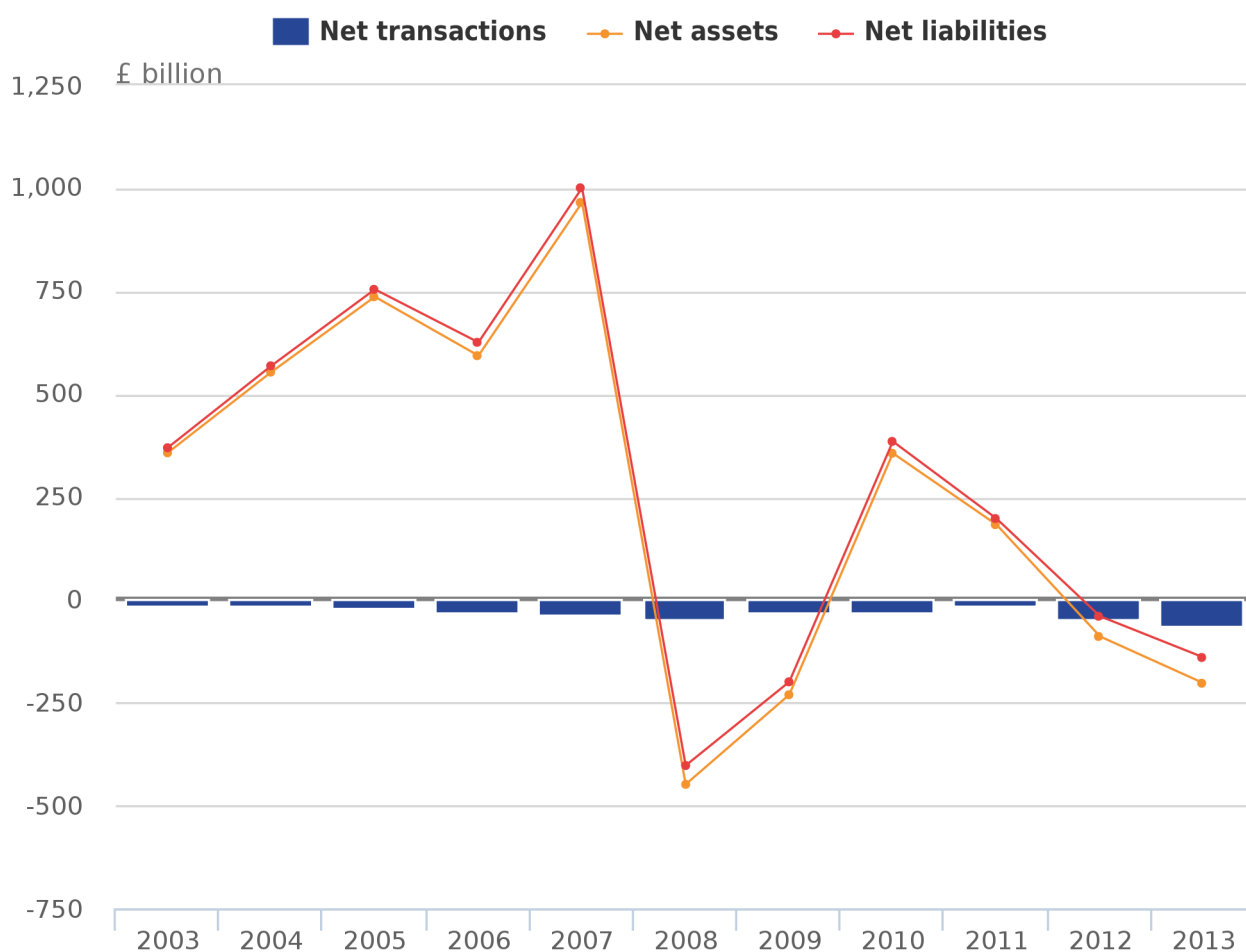
The presentation of the financial account has changed under BPM6 to the net acquisitions of financial assets by the UK less the net incurrence of liabilities by the UK. This is a reversal of its presentation under BPM5, where the financial account balance was calculated as the net incurrence of liabilities by the UK less the net acquisition of financial assets by the UK.

In 2013, UK investment abroad and foreign investment in the UK recorded net disinvestment. UK net disinvestment abroad in 2013 was mainly due to net disinvestment of other investment and direct investment, partially offset by net investment in portfolio investment abroad. Foreign disinvestment in the UK was due to other investment in the UK recording net disinvestment, partially offset by net investment in portfolio investment and direct investment.

Investment abroad and into the UK both increased dramatically from the mid-1990s, reflecting the increased globalisation of the world economy. Between 2000 and 2007, other investment dominated cross-border investment, primarily banking activity. In 2008, other investment both abroad and in the UK, recorded net disinvestment as the global financial crisis deepened, leading to a reduction in loans internationally and net withdrawals of cross-border deposits. In 2009, this pattern of disinvestment continued, albeit by reduced amounts. In 2010, UK investment abroad and foreign investment in the UK switched back to net investment, which continued into 2011. In 2012, UK investment abroad switched to net disinvestment due once again to other investment. Foreign investment in the UK also switched to net disinvestment, due to net disinvestment in portfolio investment and other investment. These were partially offset by net investment in direct investment.

In every year since 1998, the UK has borrowed from abroad to finance its continuing current account deficit. This has resulted in inward investment (UK liabilities) exceeding outward investment (UK assets).

**Figure 7.1: Financial account**



Source: Office for National Statistics

The financial account in 2013, recorded a net inflow of £62.6 billion compared with a net inflow of £49.1 billion in 2012. The net inflow was a result of disinvestment abroad being higher than disinvestment in the UK. Disinvestment abroad increased by £113.6 billion in 2013 from net disinvestment of £89.4 billion in 2012 to net disinvestment of £203.0 billion in 2013. In 2013, the increase in net disinvestment abroad (inflow) was mainly due to decreased net investment in portfolio investment and direct investment switching from net investment to net disinvestment. These were partially offset by a switch to net investment in financial derivatives and employee stock options and lower net disinvestment in other investment. Net disinvestment in the UK increased to £140.4 billion in 2013 from net disinvestment of £40.3 billion in 2012. The net disinvestment in the UK (outflow) was mainly due to increased net disinvestment in other investment and lower net investment in direct investment in the UK. These were partially offset by a switch to net investment in portfolio investment in the UK.

## Direct investment

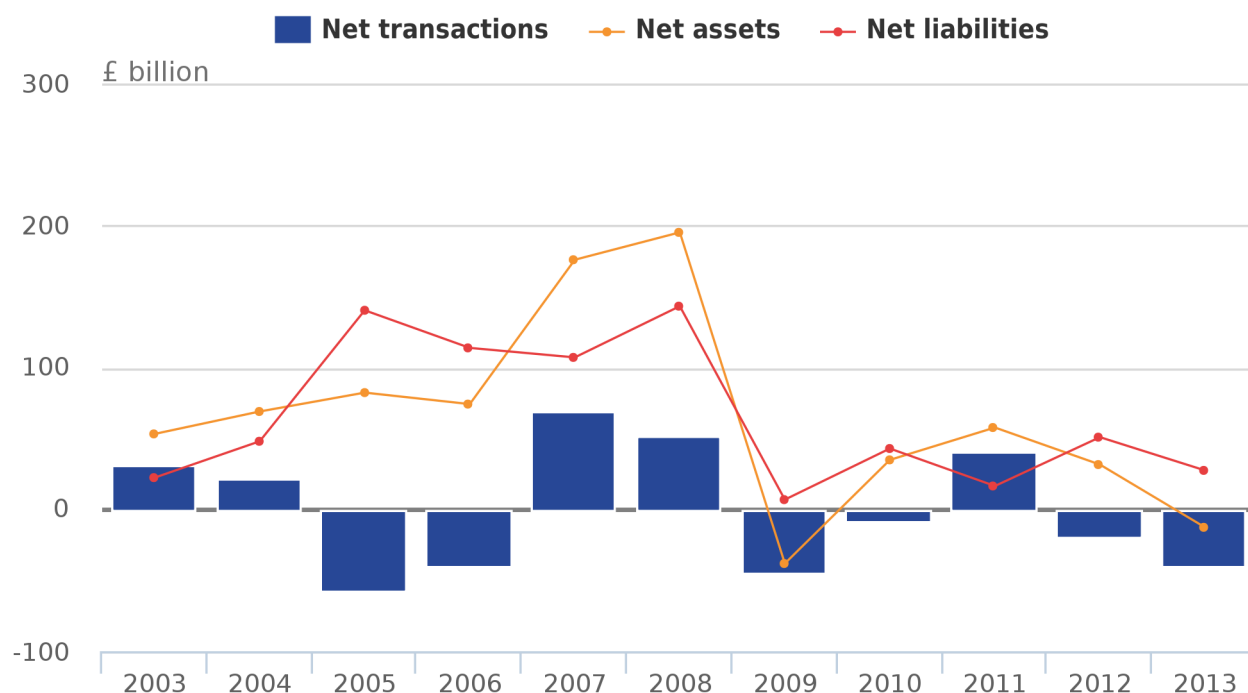
In 2013, there was a net inflow of direct investment to the UK of £40.1 billion: that is, direct investment into the UK exceeded UK direct investment abroad. Direct investment abroad (outward) switched to net disinvestment (inflow) of £12.7 billion in 2013, from net investment (outflow) of £31.5 billion in 2012. This was due to a switch from investment in 2012 to disinvestment in 2013 of equity capital and debt instruments. In addition, the investment on reinvested earnings fell from £16.4 billion to £8.4 billion in 2013. Direct investment in the UK (inward) decreased to £27.4 billion in 2013 from £50.8 billion in 2012, this was mainly due to debt instruments switching to net disinvestment of £5.6 billion in 2013 from net investment of £21.1 billion in 2012.

From 1997 to 2004, direct investment showed net outflows from the UK. In 2005 direct investment switched to net inflow. Since then, the net direction of direct investment has switched several times.

Direct investment abroad initially peaked at £186.7 billion in 2000, reflecting booming merger and acquisition activity. The largest outward acquisitions were the investment in Mannesmann AG by Vodafone Airtouch for a reported £100 billion and the purchase of Atlantic Richfield Company by BP Amoco Plc for a reported £18 billion. Outward direct investment then declined to £54.0 billion in 2001 before recovering to a record level in 2008 of £195.1 billion. As a result of the global economic downturn, direct investment abroad decreased, switching to disinvestment of £38.2 billion in 2009. This was due to disinvestment in debt instruments and equity capital. Additionally, there was lower investment in reinvested earnings. Direct investment then returned to net investment of £34.8 billion in 2010. In 2011, outward direct investment increased to £57.6 billion, this was due to net acquisition of equity capital increasing by £12.5 billion to £35.1 billion, disinvestment of debt instruments decreasing by £8.2 billion to £7.0 billion, together with reinvested earnings increasing by £2.0 billion to £29.6 billion. In 2012, outward direct investment fell to £31.5 billion due to a reduction in investment in equity capital falling from £35.1 billion to £3.5 billion and a decrease in reinvested earnings from £29.6 billion to £16.4 billion. This was partially offset by a switch from net disinvestment in debt instruments of £7.0 billion in 2011 to net investment of £11.6 billion in 2012.

Inward direct investment showed a pattern similar to outward investment with direct investment in the UK initially peaking in 2000, with investment of £109.4 billion, followed by lower levels of investment due to the slowdown in global merger and acquisition activity. Inward direct investment fell to £59.6 billion in 2002 and £22.3 billion in 2003, after which there was a considerable increase in the amount of inward acquisitions, including the purchase of Abbey National by Banco Santander in 2004, the Shell restructuring in 2005, and the purchase of Alliance Boots Plc by AB Acquisitions Ltd in 2007. Investment in the UK fell to £6.8 billion in 2009, a considerable drop from the previous year. Investment then fluctuated between 2010 and 2012, increasing and decreasing to reach £27.4 billion in 2013.

**Figure 7.2: Direct investment**



Source: Office for National Statistics

## Portfolio investment

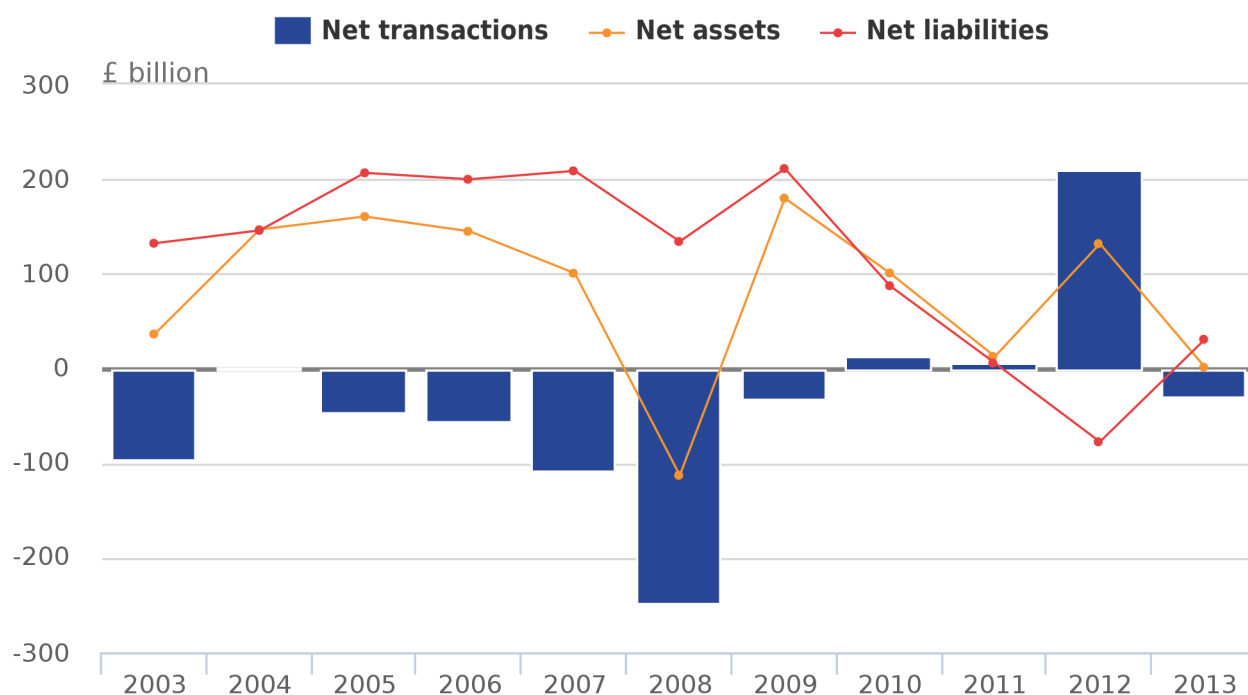
In 2013, there was a net inflow of portfolio investment to the UK: that is, portfolio investment into the UK exceeded UK portfolio investment abroad. Portfolio investment abroad (outward) decreased to investment of £1.2 billion in 2013, from net investment of £131.8 billion in 2012. This was due to equity securities switching from net investment to net disinvestment and decreased investment in debt securities. Portfolio investment in the UK (inward) switched to net investment of £30.7 billion in 2013, from net disinvestment of £77.6 billion in 2012, this was due to both equity securities and debt securities switching from net disinvestment to net investment.

From 1989 to 1998, portfolio investment recorded a net outward position in every year except for 1994. However, since 1999 the pattern has been for more frequent positions of net inward than net outward portfolio investment. The reasons for these recent periods of net inward investment are varied. In 1999 and 2000 high investment in UK equity resulted from substantial UK direct investment acquisitions in foreign telecom and pharmaceutical companies, which were funded by the issue of UK shares to foreign shareholders; this is recorded as portfolio investment in the UK. In 2006 and 2007, due to the UK's relatively high interest rate, the attractiveness of UK debt securities to foreign investors led to net inward portfolio investment in the UK. In 2008, even though interest rates had dropped considerably in the UK there was still demand for less risky long-term debt securities, as the global financial crisis continued. Also, foreign investors returned to buying UK equities which offered better value for money as sterling depreciated.

Portfolio investment abroad showed net investment in every year from 1995 to 2007, peaking at £160.5 billion in 2005. In 2008 however, portfolio investment abroad showed net disinvestment of £113.0 billion as the global financial crisis deepened. The disinvestment was almost equally shared between equities and debt securities. Recent history shows that net disposals of foreign equity securities occurred in years coinciding with financial shocks: the UK's exit from the Exchange Rate Mechanism in 1992, the South-East Asia crisis in 1997, and the collapse in equity markets in 2002. The net disinvestment in equity securities and in debt securities in 2008 were both the highest on record. However, this was followed by record net investment abroad of £179.8 billion in 2009, reflecting record net investment in debt securities of £159.5 billion. Portfolio investment abroad then decreased over the next two years, before increasing in 2012 to £131.8 billion, this was due to a switch from net disinvestment of £18.4 billion to net investment of £48.7 billion in equity securities, and an increase in investment in debt securities from £30.9 billion to £83.1 billion.

Portfolio investment in the UK showed net investment in every year from when records began in 1987 until 2012, when it switched to show net disinvestment of £77.6 billion. In the late 1980s and early 1990s, the majority of inward investment was in bonds and notes. This switched to UK-issued equity in the late 1990s which was the counterpart to the outward direct investment occurring then. From 2002 to 2010 there was strong net investment in UK debt securities. Initially, the attractiveness of UK debt to foreign investors may have reflected higher interest rates in the UK compared with other major economies, and a switch from dollar to sterling-issued debt due to the fall in the value of the dollar between 2001 and 2007. Portfolio investment in the UK was £211.1 billion in 2009, the highest since records began in 1987. In 2008 the exchange rates with the dollar, euro, and yen declined rapidly, as did interest rates in the UK, yet portfolio investment in the UK remained buoyant. In 2012, portfolio investment in the UK recorded a switch to net disinvestment of £77.6 billion, compared with net investment of £5.6 billion in 2011, this was mainly due to investment in debt securities switching from net investment of £8.8 billion to net disinvestment of £72.2 billion.

**Figure 7.3: Portfolio investment**



Source: Office for National Statistics

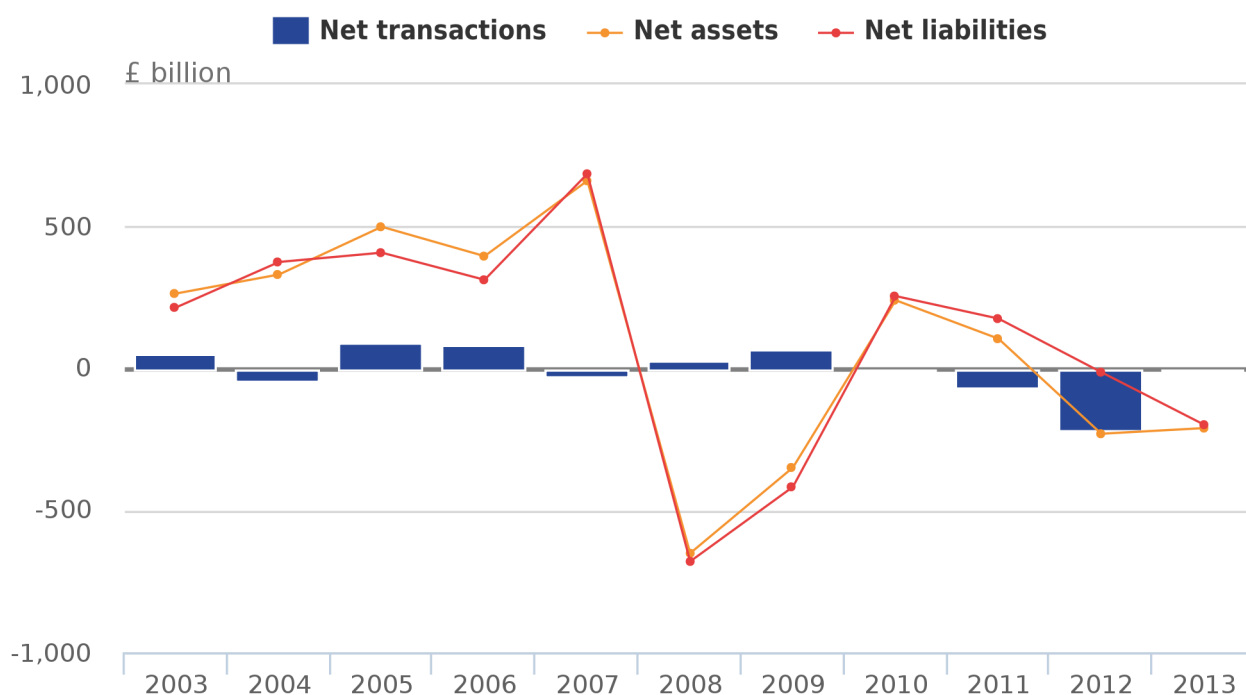
## Other investment

In 2013, there was a net inflow of other investment to the UK. Net disinvestment of other investment abroad (outward) decreased to £210.5 billion in 2013, from net disinvestment of £230.4 billion in 2012. This was mainly due to a net repayment of short-term loans. Other investment in the UK (inward) decreased, recording net disinvestment of £198.5 billion in 2013 from net disinvestment of £13.5 billion in 2012, mainly due to a large decrease of total deposits with monetary financial institutions.

Other investment is the largest and most volatile form of investment. The amounts recorded in the gross flows of loans and deposits are as much a consequence of how the transaction is carried out between resident and non-resident banks, as overall market conditions. However, in 2008 and 2009 the considerable deterioration of other investment, both abroad and in the UK, was a response to the global financial crisis which led to a loss of confidence, deposits being repatriated, and credit markets tightening. In 2010 and 2011, other investment showed a return to net investment both in the UK and abroad, though at a lower level than before the global financial crisis began. However, in 2012 both, other investment abroad and other investment in the UK switched to net disinvestment of £230.4 billion and £13.5 billion respectively.

Between 1995 and 2007 other investment showed net investment both abroad and in the UK. Loans and deposits by UK monetary financial institutions constitute the major component of other investment abroad. Loans and deposits by UK monetary financial institutions are carried out predominantly in foreign currency so will be partly influenced by relative exchange rates and interest rates as well as the global financial conditions generally. In 2008, other investment abroad showed record net disinvestment of £651.3 billion, the first net disinvestment since 1991, as credit availability contracted in the financial crisis. Similarly, net investment in the UK showed record net disinvestment of £680.2 billion. In 2009, disinvestment abroad and in the UK continued, and decreased to £349.3 billion and £417.4 billion respectively. In 2010, other investment abroad and other investment in the UK both switched back to net investment of £239.8 billion and £254.6 billion respectively, with the former due to UK residents making net deposits with banks abroad, having made net withdrawals of such deposits in the previous two years. This net other investment abroad continued in 2011, but fell to £104.4 billion, while net other investment in the UK also continued, falling to £175.2 billion. In 2012, both other investment abroad and investment in the UK again switched to net disinvestment.

**Figure 7.4: Other investment**



Source: Office for National Statistics

## Sectoral breakdown of the financial account

In 2013, UK monetary financial institutions reported net inflows of £45.1 billion, a switch from net outflow of £5.8 billion in 2012. The net inflow was a result of disinvestment by UK monetary financial institutions abroad increasing more than disinvestment in UK monetary financial institutions from abroad.

Central government showed net inflows of £30.1 billion in 2013, following net inflows of £13.6 billion in 2012; in both years this was due mainly to net inward portfolio investment, mainly investment in UK government gilts.

Other UK sectors showed a switch to net outflows of £12.8 billion in 2013, following net inflows of £39.7 billion in 2012, this was due to investment abroad increasing by more than investment in the UK.

The reference tables in relation to Chapter 7 are available to [download \(217 Kb Excel sheet\)](#).

## 6 . Chapter 8: International investment position

## Summary

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 year. The International Investment Position is the balance sheet of the stock of these external assets and liabilities.

In 2013, UK assets decreased due to a large reduction in financial derivatives and a decrease in both direct investment abroad and other investment. This was partially offset by an increase in portfolio investment abroad. UK liabilities also decreased due to a large reduction in financial derivatives and a smaller reduction of other investment in the UK.

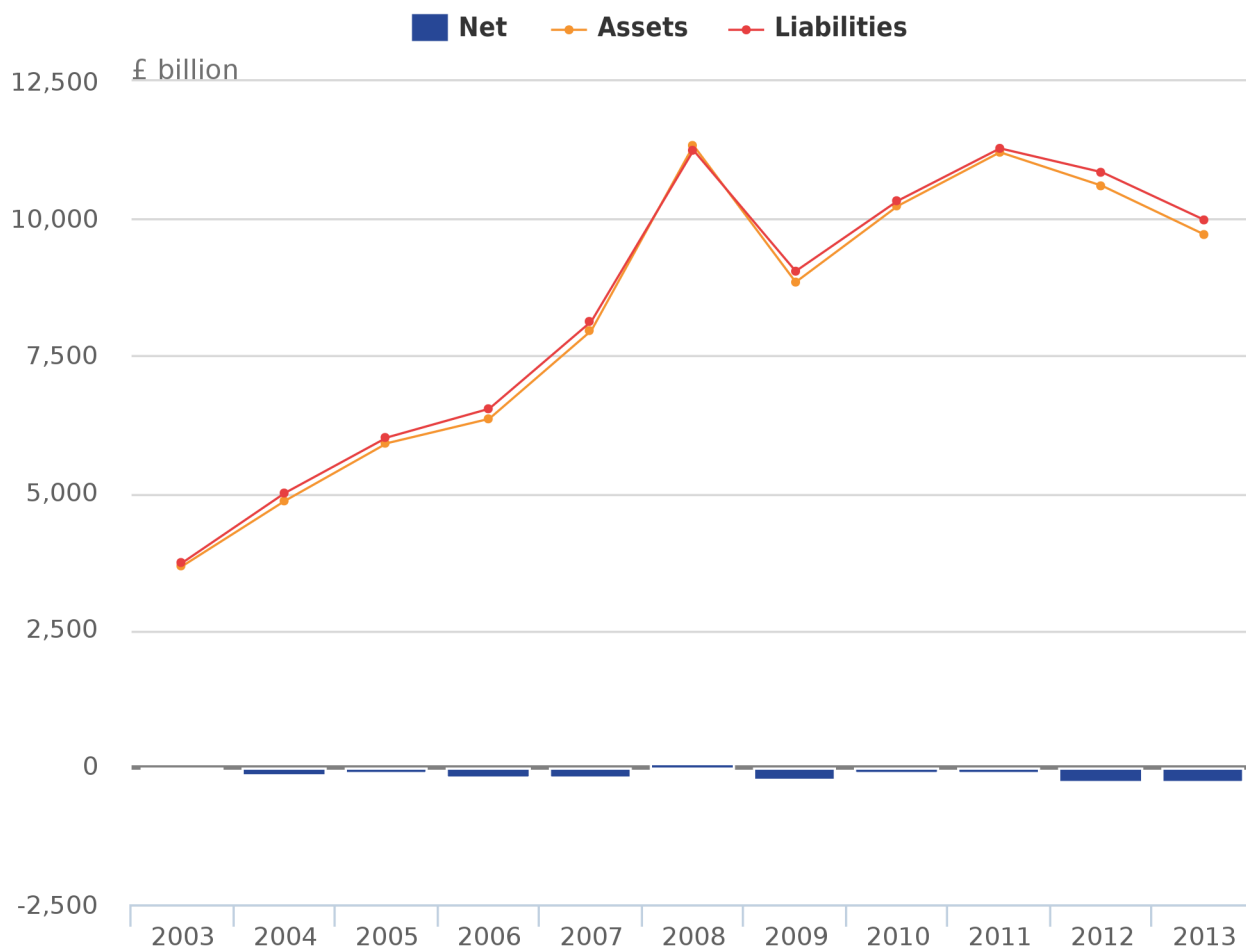
Since records began in 1966 through to 1994, UK assets exceeded UK liabilities (known as a UK net asset position) in all but one year. Since 1995, the UK has recorded a net liability position in all but two years. In 2008 the UK recorded a net asset position of £88.9 billion, partially due to exchange rate effects. The fall in the value of sterling against other major currencies increased the equivalent pound sterling value of those UK assets and liabilities that are denominated in foreign currencies. Since a higher proportion of UK assets than UK liabilities are denominated in foreign currencies, the total value of UK assets held increased by more than the total value of UK liabilities. Then, in 2009, the UK recorded a net liability position of £198.9 billion, partially as a result of sterling rallying against the major currencies. In 2010, the net liability position narrowed to £94.0 billion, and narrowed slightly further to a net liability position of £71.6 billion at the end of 2011. The UK net liability position widened sharply at the end of 2012 to £247.0, before widening slightly further to record a net liability position of £266.5 billion at the end of 2013.

The value of UK assets and liabilities grew rapidly between 1996 and 2001, broadly doubling over this period. This period corresponded with a surge in cross-border investment, much of it associated with merger and acquisition activity. In 2002 the level of assets and liabilities fell slightly as, although there was continued inward and outward investment, these flows were more than offset by revaluation changes resulting from falls in the value of global equity markets. From 2003, the level of both UK external assets and liabilities increased strongly again, due to the combination of:

- a rise in cross-border investment,
- movements in equity prices, and
- exchange rate effects.

By 2008 external assets and liabilities were treble the levels seen in 2003. In 2009 both assets and liabilities decreased. This was due to a combination of a sharp drop in financial derivatives assets and liabilities, disinvestments over the period, and the appreciation of sterling, which has the effect of reducing UK assets and liabilities valued in foreign currency. In 2010 and 2011, both assets and liabilities rose, largely due to increases in financial derivatives assets and liabilities. In 2010, these were mainly due to the incorporation for the first time of data for the financial derivatives assets and liabilities of UK securities dealers. In 2012, both assets and liabilities fell due to a reduction in financial derivative assets and other investment abroad.

**Figure 8.1: International investment position**



**Source: Office for National Statistics**

Just under half of all UK assets and UK liabilities at the end of 2013 were attributed to UK monetary financial institutions. UK monetary financial institutions' liabilities have consistently exceeded their assets since records began in 1987. Their net liability position reached a record £274.6 billion at the end of 2007, but dropped to reach £114.5 billion at the end of 2013.

Central government liabilities exceeded their assets in every year from 1992, due to non-residents' holdings of British government stocks. Central government liability holdings increased steadily between 2002 and 2012. There was a slight reduction at the end of 2013, resulting in central government having a net liability position of £351.5 billion.

Other sectors' (private sector excluding monetary financial institutions) assets have historically exceeded liabilities, although from 1998 to 2001, they recorded a net liability position. In 2013 the net asset position of other sectors was £203.1 billion, down from £271.1 billion in 2012.

UK assets include reserve assets held by central government. Reserves are mainly held in the form of foreign exchange – in particular bonds and notes. Reserve assets in 2013 accounted for less than 1% of total UK assets, down from 8% in 1977.



## UK assets

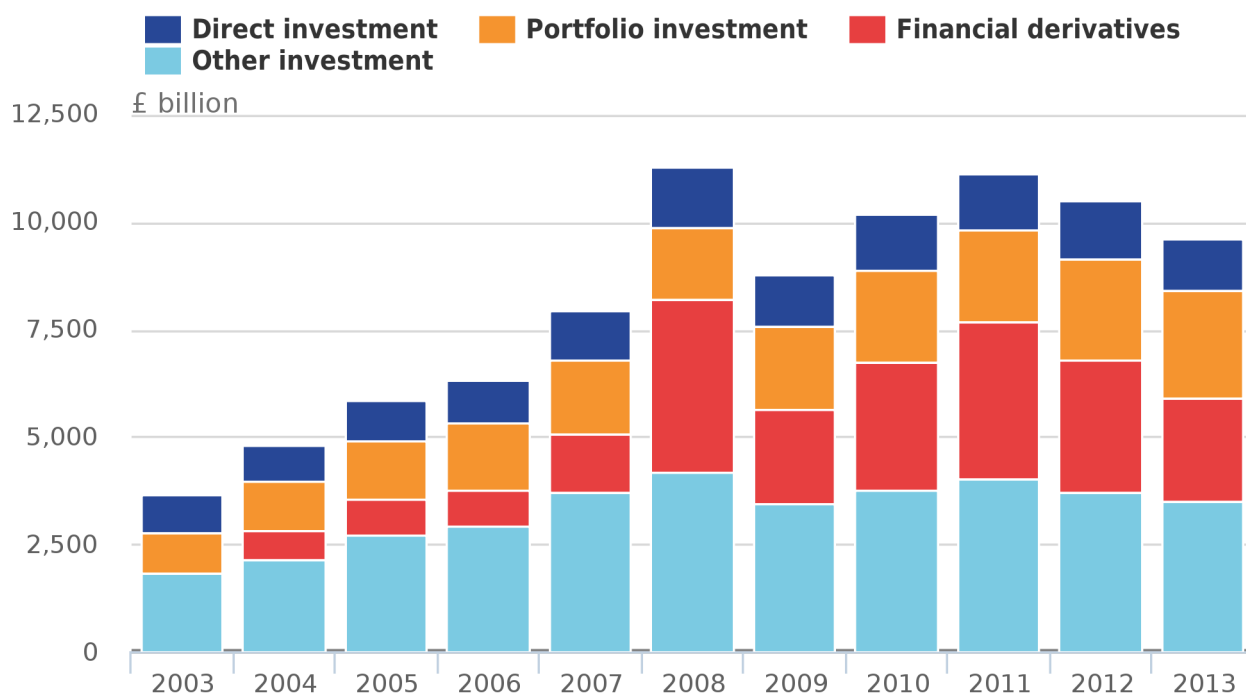
Financial derivatives of UK banks are included in the main aggregates of the international investment position from 2004, at which time they accounted for 15% of total assets. The financial derivatives of UK securities dealers are included from 2010, at which time they accounted for 7% of total assets. Total financial derivatives accounted for 29% of total assets in 2012, before decreasing to 25% of total assets at the end of 2013.

As a proportion of total UK assets, direct investment abroad accounted for around 24% of the total UK assets from 2000 to 2003. This reflected the high level of merger and acquisition activity by UK companies in those years. This proportion has since declined to 13% in 2013, partly as a result of the inclusion of financial derivatives into the international investment position.

From the early 1990s to the early 2000s, portfolio investment assets were around a third of total UK assets. Since then, portfolio investment assets have declined as a proportion of total assets, reaching a record low in 2008 of 15%. This fall in proportion partially reflects the inclusion of financial derivatives, but also reflects the disinvestments by UK monetary financial institutions and falls in world stock market prices. In 2009 the proportion of portfolio investment assets increased sharply to 22%. This is because disinvestment switched to investment and world stock markets rebounded from the losses in the previous year. In 2010 and 2011, this dropped slightly to 21% and 19% respectively, before rising to reach 26% at the end of 2013.

From high proportions of total investment in the early 1980s (around 75%), the proportion of other investment assets declined to 44% of total assets in 1999, before rallying to 50% in 2003. With the inclusion of financial derivatives the proportion dropped to 44% in 2004, before increasing to 46% in 2005. It then fell to 37% in 2008, due to a sharp increase in financial derivatives liabilities and stood at 36% at the end of 2013.

**Figure 8.2: UK assets**



Source: Office for National Statistics

## UK liabilities

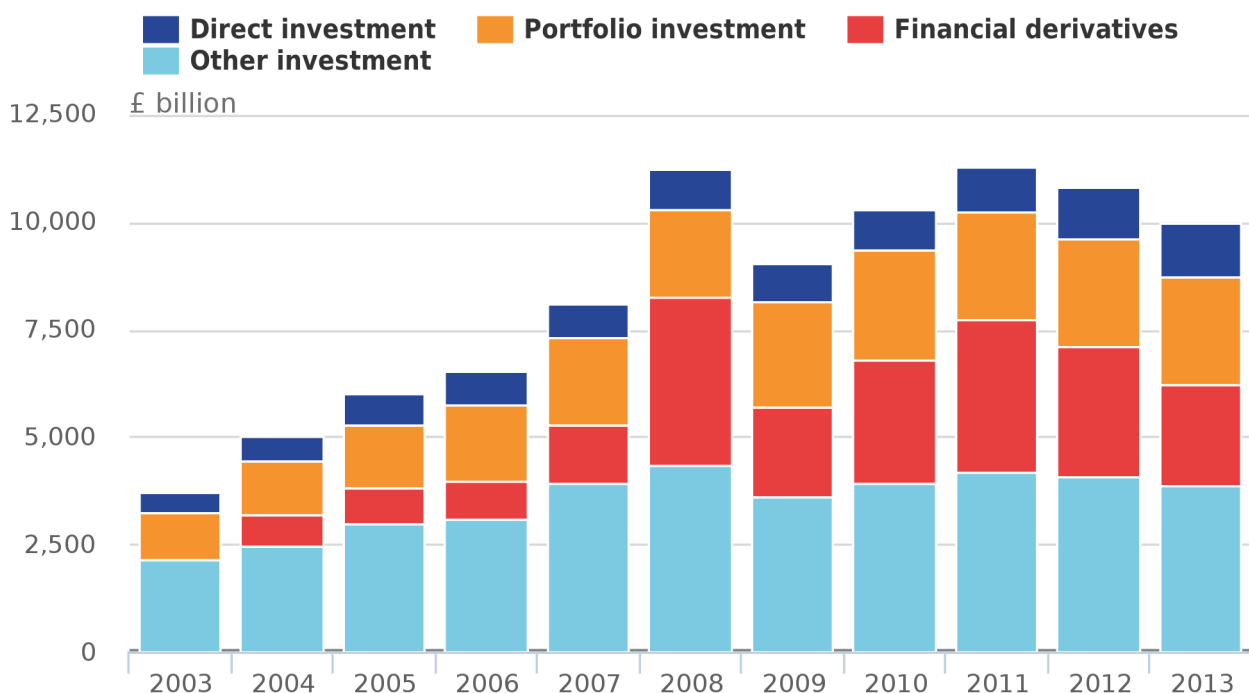
As a proportion of UK total liabilities, direct investment in the UK accounted for 11% in 1997, rising slowly to reach 15% in 2002. More recently the share has declined, mainly due to the inclusion of financial derivatives, reaching a low of 9% in 2008. It then increased to reach 13% at the end of 2013, mainly reflecting a large decrease in financial derivatives between 2012 and 2013.

Portfolio investment increased from 20% in 1987 to 35% in 1999, before falling back to 28% in 2002. This was largely due to falls in the UK stock markets in 2001 and 2002, and the impact on the value of equity liabilities. Portfolio investment decreased to 25% of total liabilities in 2004 with the inclusion of financial derivatives. The percentage of portfolio investment fell to a record low of 18% in 2008, partly due to the inclusion of financial derivatives and the effects of the global financial crisis leading to falls in stock market prices. In 2009 the proportion of portfolio investment increased to 27% as stock markets recovered. However, in 2011 and 2012 it dropped again to 22% and 23% respectively. The decrease in 2011 was mainly due to falls in the UK stock markets. At the end of 2013, the proportion of portfolio investment once again increased to 25%, mainly reflecting a large decrease in financial derivatives during 2013.

Similarly to the asset position, the share of the value of other investment liabilities in the UK fell from 66% in 1994 to 52% in 1999. From 1999 to 2002 the proportion of other investment increased, accounting for 57% of the total value of UK liabilities in 2002. With the inclusion of financial derivatives, the proportion dropped to 50% in 2004. It then fell from 48% in 2007 to 39% in 2008, due to a sharp increase in financial derivatives liabilities. By the end of 2013 the proportion stood at 39%.

Financial derivatives liabilities accounted for 14% of total liabilities when first introduced into the international investment position in 2004. The proportion of financial derivatives liabilities peaked at 35% in 2008 before dropping back to 23% in 2009. Upon the inclusion of data for the financial liabilities of UK securities dealers, financial derivatives liabilities as a proportion of total UK liabilities once again increased to 28% in 2010. They then increased further to 32% in 2011. In 2012 this fell back to 28% and fell further to 24% at the end of 2013.

**Figure 8.3: UK liabilities**



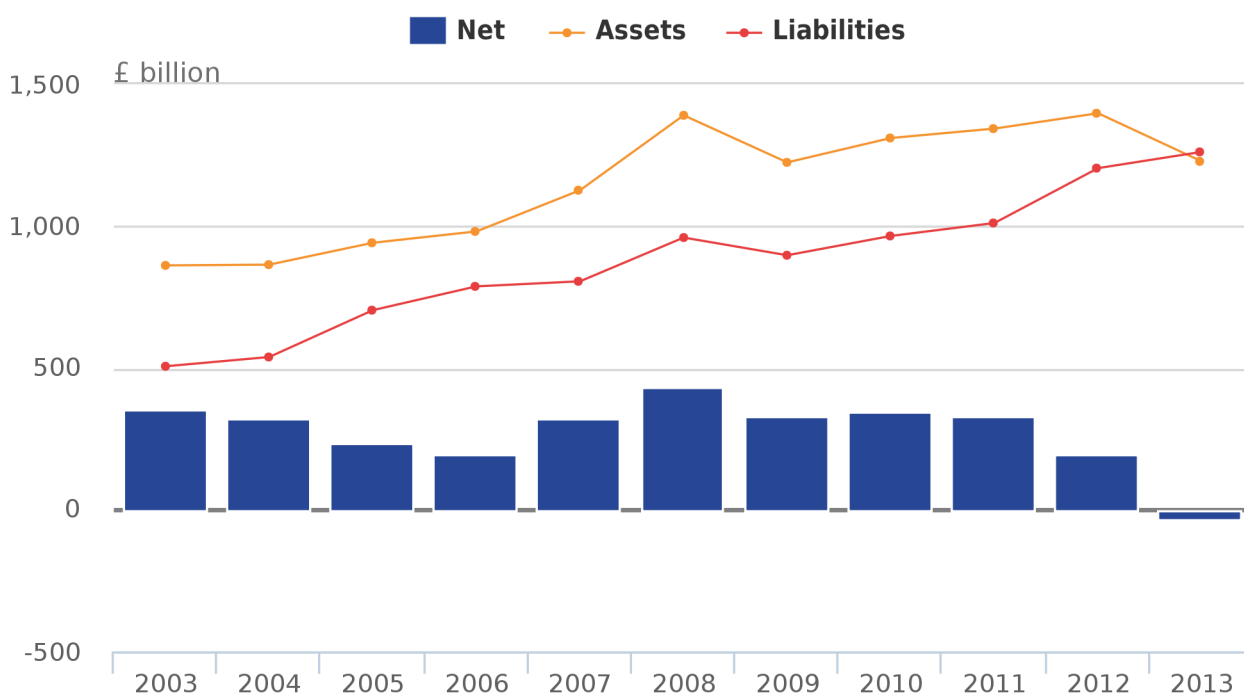
Source: Office for National Statistics

## Direct investment

Direct investment assets almost doubled between 2000 and 2008, reaching a level of £1,390.8 billion. During the financial crisis, direct investment assets decreased to £1,224.6 billion in 2009. As confidence returned, direct investment increased leading to a record high of £1,398.0 billion assets in 2012, before decreasing at the end of 2013 to reach £1,228.2 billion. Investments by UK private non-financial corporations (PNFCs) accounted for 70% of UK direct investment assets at the end of 2013. Other financial intermediaries accounted for 12% and monetary financial institutions accounted for 6%. The value of PNFCs' assets more than doubled between 1997 and 2000, reflecting the substantial foreign acquisitions by UK oil and telecom companies. The value of PNFCs' assets reached £1,134.0 billion in 2008 before falling to £941.0 billion in 2009. They then increased over the next three years to reach £1,060.9 billion in 2012, before decreasing again to reach £862.6 billion at the end of 2013.

Direct investment liabilities have more than doubled over the last decade, to reach a record high of £1,261.7 billion in 2013. Investments in UK private non-financial corporations (PNFCs) accounted for 77% of UK direct investment liabilities at the end of 2013. Other financial intermediaries accounted for 11% and monetary financial institutions accounted for 6%. Inward direct investment grew sharply in the late 1990s, with the total value of UK liabilities more than doubling between 1997 and 2001, and almost doubling again by 2010. Within this, the PNFCs' share of the total foreign direct investments liabilities was 77% in both 1997 and 2013, fluctuating between 77% and 86% during the years in between. Direct investment in UK monetary financial institutions, as a proportion of total investment liabilities, peaked in 1997 at 9% of total inward direct investment. In 2013, direct investment in UK monetary financial institutions was 6% of total direct investment liabilities.

**Figure 8.4: Direct investment**



Source: Office for National Statistics

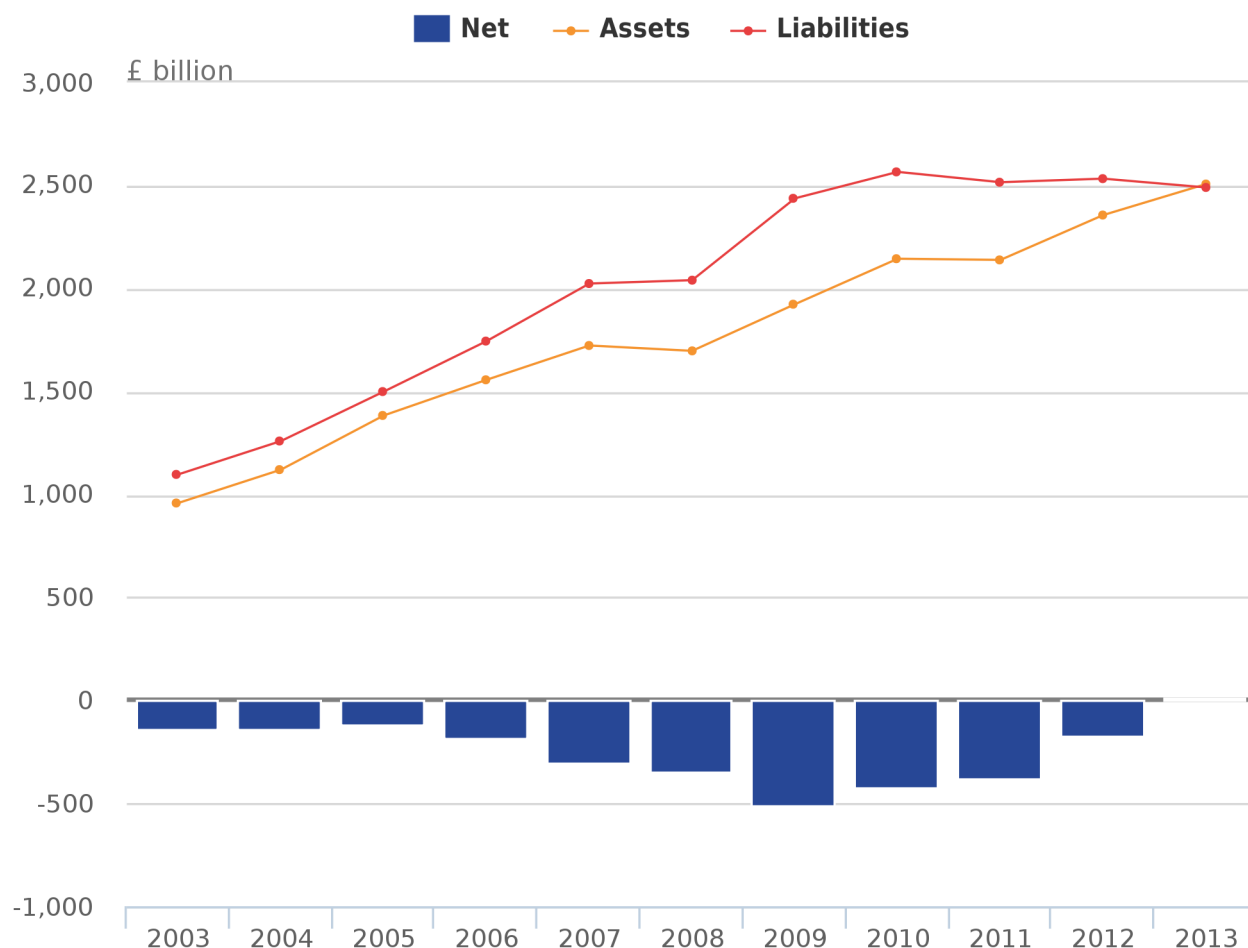
## Portfolio investment

Between 2003 and 2013, UK portfolio investment abroad increased from £958.0 billion to £2,506.8 billion. Portfolio investment in the UK during the same period increased from £1,096.8 billion to £2,490.3 billion. The pattern of growth in equities has been more erratic than the growth in debt for both portfolio investment abroad and in the UK. This is because the value of equity securities assets held abroad is heavily influenced by changes in global equity prices and the value of UK equity securities liabilities is heavily influenced by movements in UK stock markets.

Between 2001 and 2002, the value of portfolio investment equity securities assets abroad fell by almost a quarter to £304.5 billion. This mirrored the fall in world equity prices over the same period. There was a similar percentage fall in value between 2007 and 2008, to £562.9 billion. This was the result of a fall in world equity prices and disinvestment by UK monetary financial institutions and pension funds. The value of portfolio investment equity securities assets then increased over the next two years, as the stock market rebounded. The disinvestment switched back to investment, to reach a level of £750.0 billion in 2010, just above that recorded in 2007. However, this was followed by falls in world equity prices and disinvestment, leading to a drop in the UK assets level to £678.3 billion in 2011, followed by an increase to £904.4 billion at the end of 2013. The value of foreign debt securities held by UK investors increased steadily from £548.4 billion in 2003 to £1,344.6 billion at the end of 2013. UK monetary financial institutions held 43% of total UK portfolio investment securities assets in 2007 before the financial crisis began to take hold. At the end of 2013 they owned just 22%, while other financial intermediaries increased their share from 16% to 36% between 2007 and 2013.

The value of UK debt securities held by foreign investors increased in every year from 1986 to 2011, but fell in 2012 and fell further at the end of 2013 to reach £1,485.4 billion. Falls in UK stock markets in 2001, 2002 and 2011 caused the total value of UK portfolio investment liabilities to fall in those years. However, the drop in the value of UK equity liabilities in 2008, due to falling share prices, was outweighed by net portfolio investment in UK debt securities in that year.

**Figure 8.5: Portfolio investment**



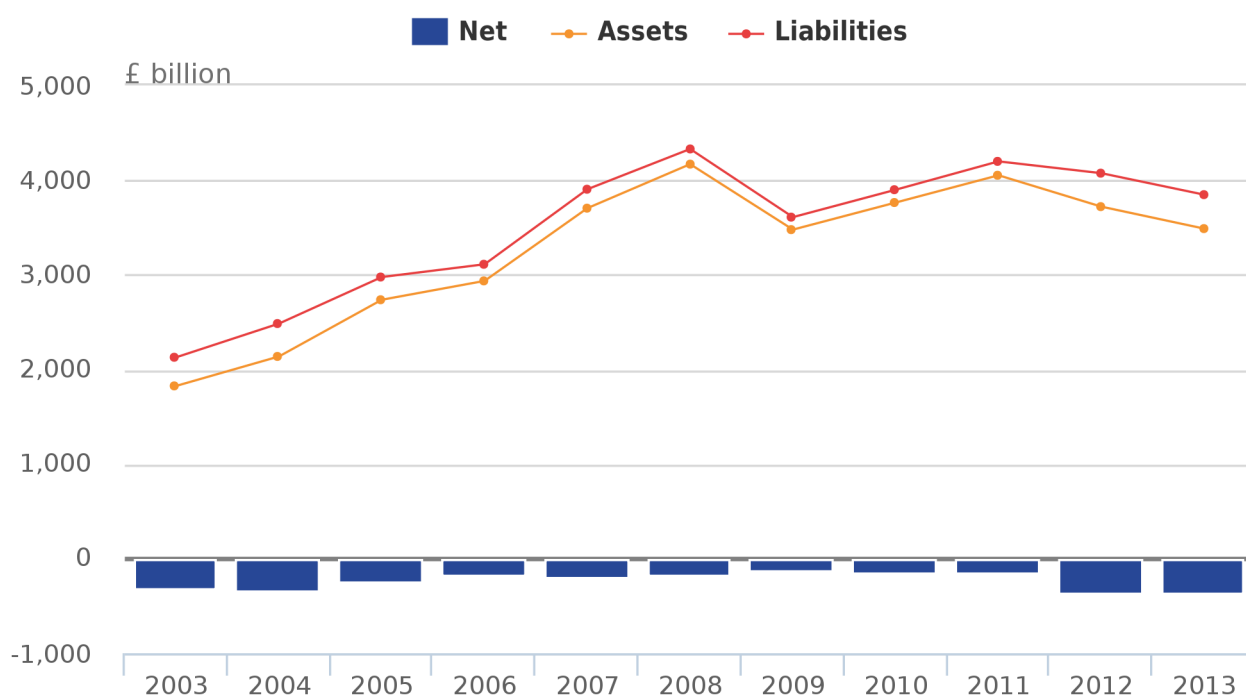
Source: Office for National Statistics

## Other investment

The stock of UK other investment abroad at the end of 2013 was £3,487.4 billion. UK monetary financial institutions accounted for 71% of total other investment abroad in 2013. This proportion has declined from around 90% of total other investment in the late 1980s. The bulk of UK monetary financial institutions deposits abroad were in foreign currencies, only 8% being held in sterling at the end of 2013.

The stock of other investment in the UK at the end of 2013 was £3,846.1 billion. Deposits abroad held with UK monetary financial institutions represent the largest item in other investment liabilities. These deposits have declined from over 90% in the late 1980s to 70% at the end of 2013. Of the £2,689.0 billion total deposits with UK monetary financial institutions in 2013, 16% were held in sterling. The fall in the proportionate value of deposits with monetary financial institutions is partially the result of the increase in short-term loans to other financial corporations and other non-financial sectors. This increased from £48.5 billion in 1990 to £1088.0 billion at the end of 2013.

Figure 8.6: Other investment



Source: Office for National Statistics

## Financial derivatives

Financial derivatives of UK banks were included in the main aggregates of the international investment position from 2004. Financial derivatives of UK securities dealers were included from 2010. The stock of financial derivative assets increased sharply from £1,378.2 billion in 2007 to £4,040.2 billion in 2008, before falling back to £2,176.4 billion in 2009. It then increased to reach £3,617.8 billion in 2011, but decreased to £3,060.1 billion in 2012 and decreased further to reach £2,424.4 billion at the end of 2013. Financial derivative liabilities have shown a similar path to that of assets, increasing from £1,392.2 billion in 2007 to £3,915.3 billion in 2008, before falling back to £2,096.8 billion in 2009. It then increased to reach £3,554.9 billion in 2011, but decreased to £3,032.2 billion in 2012 and decreased further to reach £2,376.7 billion at the end of 2013.

The reference tables in relation to Chapter 8 are available to [download \(242 Kb Excel sheet\)](#).

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## 8. Background notes

### 1. What's new

The United Kingdom Balance of Payments Pink Book 2014 is the first time that ONS presents the annual Balance of Payments and International Investment Position publication using the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014.

Due to the scale of changes to the methods and definitions with the introduction of BPM6, table 1.1R is not included in Pink Book 2014 as the latest estimates are not directly comparable with previously published data. However, [the Balance of Payments Q2 2014 statistical bulletin](#) included an Annex to explain the impact the changes have on annual data for the period 1997 to 2013.

### 2. Reliability of estimates

All the value estimates are calculated as accurately as possible; however they cannot always be regarded as being absolutely precise to the last digit shown. Similarly, the index numbers are not necessarily absolutely precise to the last digit shown. Some figures are provisional and may be revised later; this applies particularly to many of the detailed figures for the latest years. For example, calendar year data for the International Trade in Services Survey and Foreign Direct Investment Survey are not available until after Pink Book publication. Therefore, the latest Trade in Services and Direct Investment data published in the Pink Book are provisional estimates and subject to annual benchmarking after publication.

The latest data when available for the [International Trade in Services Survey](#) can be found at its landing page.

The latest data when available for the [Foreign Direct Investment Survey](#) can be found at its landing page.

### 3. Rounding

As figures have been rounded to the nearest final digit, there may be slight discrepancies between the sums of the constituent items and the totals as shown.

#### 4. Revisions since ONS Pink Book 2013

The data in the Pink Book are subject to revisions following the [ONS National Accounts Revisions Policy](#).

With the implementation of new international standards the current account balance is revised from 1955 onwards.

**Trade in goods** - The revisions to trade in goods from 1955 reflect the inclusion of illegal activities relating to drug smuggling. Revisions from 1997 onwards reflect revised data from Her Majesty's Revenue and Customs and other data suppliers and revised estimates of trading associated with VAT MTIC fraud. The revisions are consistent with the 2014 Blue Book.

**Trade in services** - Revisions from 1997 onwards result from a general reassessment of data following the annual supply use balancing process, the incorporation of updated source data from the Bank of England, Chamber of Shipping and Department for Transport. Revisions from 2012 additionally reflect the use of final results from ONS's International Trade in Services Survey for 2012.

**Primary income** - Revisions from 1999 reflect changes to the methodology for the reporting of Monetary Financial Institution earnings from foreign direct investment. Revisions from 2011 reflect the use of annual inquiry results from the ONS direct investment surveys.

**Secondary income** - Revisions to current transfers are attributed to the reclassification of some transactions to primary income, revised source data for transfers involving the UK government and the use of the latest data from various ONS surveys.

**International investment position** - The large revisions to the International Investment Position for the period 2013 are a result of new data being available for direct investment rather than as a result of implementing the new international standards. These new data are sourced from the improved ONS quarterly FDI survey. The methodology within this quarterly survey has now been aligned with the ONS' annual FDI survey. In addition, the sample size of the quarterly survey has been increased to provide better coverage and higher quality estimates. The increased sample size of the ONS' quarterly FDI survey now allows the opening and closing balances on the different forms of investment as well as the flows of investment to be utilised. This provides a more coherent picture of investment positions of individual businesses and is consistent with the approach used by the ONS' annual FDI survey. Previously, due to the smaller sample size and different methodologies, the ONS' quarterly FDI survey derived the closing balance by carrying forward the closing balance from the last ONS annual FDI survey and applied the flows of investment to calculate the closing balance. This was then carried over to the next quarters opening balance where the flows for the next quarter were then applied to calculate the next quarter's closing balance. The improved ONS quarterly FDI survey will continue to be benchmarked to the ONS annual FDI survey when this is available to do so.

#### 5. Symbols

The following symbols are used throughout:

.. = not available - = nil or less than a million

#### 6. Understanding the data

At the time of publishing the Pink Book 2014 on 31 October 2014, not all of the following documents were updated with BPM6 definitions. ONS apologises and aims to complete updating them before the end of November 2014.

A [brief introduction to the United Kingdom balance of payments](#) provides an overview of the concepts and coverage of the UK Balance of Payments.

A [glossary](#) of terms used in the UK balance of payments is available on the National Statistics website.

More detailed [methodological notes for the UK balance of payments](#) are also available on the website.

The following [webpage](#) contains articles of interest which relate to UK balance of payments statistics.

## 7. References

The internationally agreed framework for the presentation of the Balance of Payments and the National Accounts are described in the following publications:

Balance of Payments Manual (6th edition), International Monetary Fund (ISBN 978-1-58906-812-4), <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>

Balance of Payments and International Investment Position Compilation Guide, International Monetary Fund (ISBN 978-1-48431-275-9), <https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>

European System of Accounts (ESA 2010), Eurostat. [http://epp.eurostat.ec.europa.eu/portal/page/portal/esa\\_2010/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction)

System of National Accounts (2008), (ISBN 978-92-1-161522-7). <http://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

8. Details of the policy governing the release of new data are available by visiting [www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html](http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html) or from the Media Relations Office email: [media.relations@ons.gsi.gov.uk](mailto: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; and
- 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.

Compendium

# Geographical Breakdown

Inward and outward transactions, providing a net flow of transactions between the UK and the rest of the world and how that flow is funded.



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30 October 2015

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# 1 . Correction

## Update 20 January 2015

Following the announcement on 24 November 2014 that an error had been identified in the geographic data for Trade in Goods, ONS has now corrected the data. Upon further investigation it was found that the error only impacted on tables 9.2, 9.3, 9.4 and 9.8 for the years 2009 to 2012. The corrected data makes the Pink Book 2014 dataset comparable with the [UK Trade October 2014](#) and [UK Economic Accounts Q3 2014](#) datasets.

ONS apologises for any inconvenience caused.

## 2 . Key points

- The United Kingdom Balance of Payments Pink Book 2014 for the first time reflects the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014. The [Balance of Payments Q2 2014 statistical bulletin](#) included an annex to explain the impact the changes have on annual data for the period 1997 to 2013.
- ONS has produced a [brief explanatory video](#) to explain how the current account and financial account fit together.
- The UK current account has recorded surpluses with the Americas and Australasia & Oceania in all years from 1999.
- At the end of 2012, the UK's IIP showed a net liability position of £247.0 billion, with reported assets totalling £10,595.8 billion and reported liabilities totalling £10,842.8 billion.

## 3 . Introduction

The balance of payments is one of the UK's key economic statistical series. It measures the economic transactions between UK residents and the rest of the world. It also draws a series of balances between inward and outward transactions, provides a net flow of transactions between UK residents and the rest of the world and reports how that flow is funded. Economic transactions include:

- exports and imports of goods, such as oil, agricultural products, other raw materials, machinery and transport equipment, computers, white goods and clothing,
- exports and imports of services such as international transport, travel, financial and business services,
- income flows, such as dividends and interest earned by foreigners on investments in the UK and by UK residents investing abroad,
- financial flows, such as direct investment, investment in shares, debt securities, loans and deposits, and
- transfers, which are offsetting entries to any one-sided transactions listed above, such as foreign aid and funds brought by migrants to the UK.

Closely related to the balance of payments is the international investment position series of statistics. The international investment position measures the levels of financial investment with the rest of the world, inward and outward.

More detailed information on the Balance of Payments is available in the [guidance and methodology](#) area of the National Statistics website.

A printable version of the Pink Book 2014, Part 3: Geographical Breakdown data is [available \(277.9 Kb Pdf\)](#) .

## 4 . Chapter 9: Geographical breakdown of the current account

### Summary

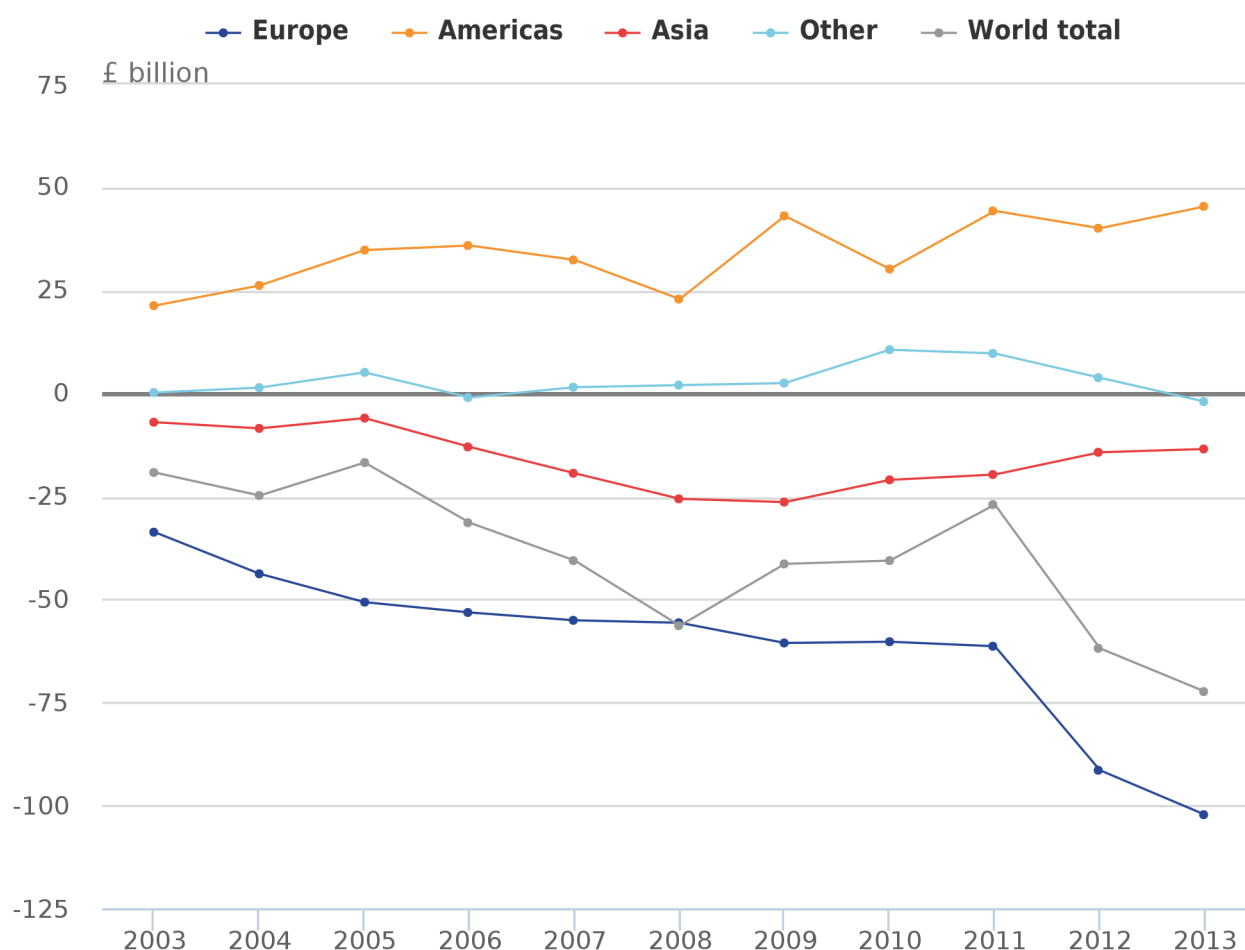
The tables in this chapter show a geographical breakdown of the current account. The data covers 67 individual countries as well as international organisations. These estimates are generally less firmly based than the world totals, and data for earlier years are less reliable than recent figures. In some cases estimates are unavailable for the first few years.

Changes to the pattern of trading associated with Missing Trader Intra-Community (MTIC) fraud can make it difficult to analyse trade by country. This is because changes in the impact of activity associated with this fraud (which includes carousel fraud) affect both imports and exports. Originally, most carousel chains only involved European Union (EU) member states. From 2004 in particular, some carousel chains included non-EU countries, for example Switzerland. However, the MTIC trade adjustments are added to the EU import estimates, as it is this part of the chain that is not generally recorded. There is more information in the [methodological notes](#) relating to chapter 2.

Data are presented as if the EU expanded to 28 countries on 1 January 1999.

## Current account by region

Figure 9.1: Current account



Source: Office for National Statistics

Current account surpluses were recorded with the Americas and Australasia & Oceania in all years from 1999.

The current account surplus with the Americas increased from £40.1 billion in 2012 to £45.4 billion in 2013. This increase was mainly due to surplus in goods and services increasing by £6.6 billion.

This was partly offset by a widening of £0.8 billion in the deficit on secondary income and also a widening of £0.5 billion in the deficit on primary income.

For Australasia and Oceania the current account surplus of £6.8 billion recorded in 2012 rose slightly to £7.6 billion in 2013. This was due to an increase in the primary income surplus of £1.8 billion.

In contrast, the UK has consistently recorded a current account deficit with Europe, rising to a record £102.3 billion in 2013. The large rise of £10.8 billion in the deficit for Europe has been due to an increase in the trade in goods and services deficit of £10.5 billion.

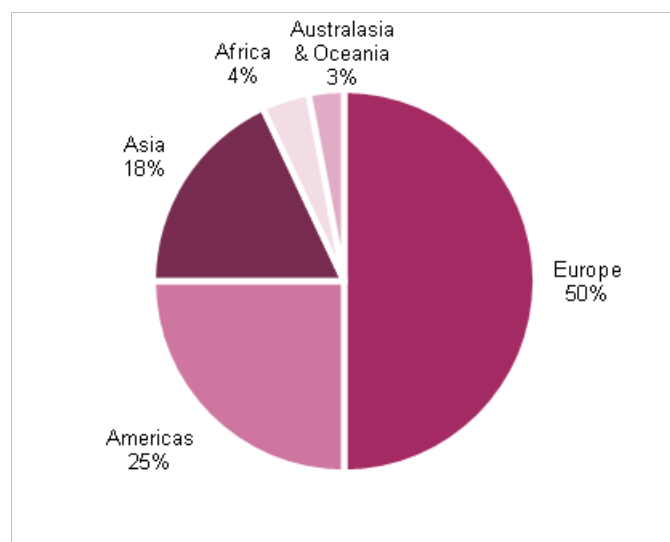
The current account with Asia has been in deficit since 1999. This deficit has decreased to £13.5 billion in 2013, from £14.3 billion in 2012.

The current account deficit with Africa was at a record high in 2013 at £6.5 billion. This deficit follows a surplus of £0.4 billion in 2012. The large 2013 deficit was due to a record trade in goods deficit of £8.2 billion in 2013, when exports were much lower than imports (£11.0 billion and £19.2 billion respectively). The current account with Africa was in surplus in 1999, with the first deficit of £1.4 billion being recorded in 2000. With the exception of small surpluses in 2005, 2010 and 2011 the current account with Africa has been in deficit.

In 2013, Europe accounted for 51% of the current account credit transactions and 60% of the current account debit transactions. Within Europe, the EU 28 member countries (EU28) accounted for 84% of current account credits and 84% of debits. Within Europe and by component:

- trade in goods accounted for 50% of the value of current account credits and 57% of the value of current account debits,
- trade in services accounted for 27% of credits and 17% of debits,
- primary income accounted for 21% of credits and 21% of debits, and
- secondary income accounted for 2% of credits and 5% of debits.

**Figure 9.2: Proportion of total 2013 credits**



**Source: Office for National Statistics**

The Americas accounted for 25% of total credits and 16% of total debits in 2013. The goods and services transactions together accounted for 67% of credits and 53% of debits. The United States of America (USA) was the most significant country, representing 78% of the total current account credits and 77% of the debits.

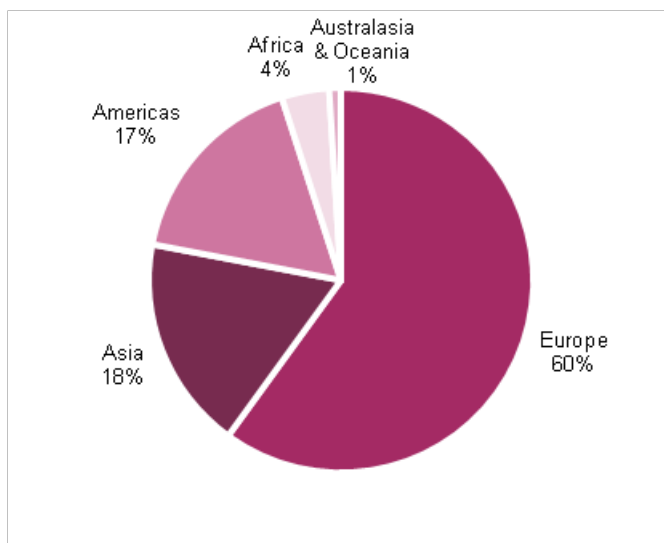
Asia accounted for 18% of UK current account credits and 18% of debits in 2013: The UK's current account credits in Asia in 2013 were:

- China - 16%,
- Hong Kong - 11%,
- India - 8%,
- Japan - 13%, and
- Residual Gulf Arabian countries - 13%.

The UK's current account debits in Asia in 2013 were:

- China - 27%,
- Hong Kong - 9%,
- India - 8%,
- Japan - 15%, and
- Residual Gulf Arabian countries - 8%.

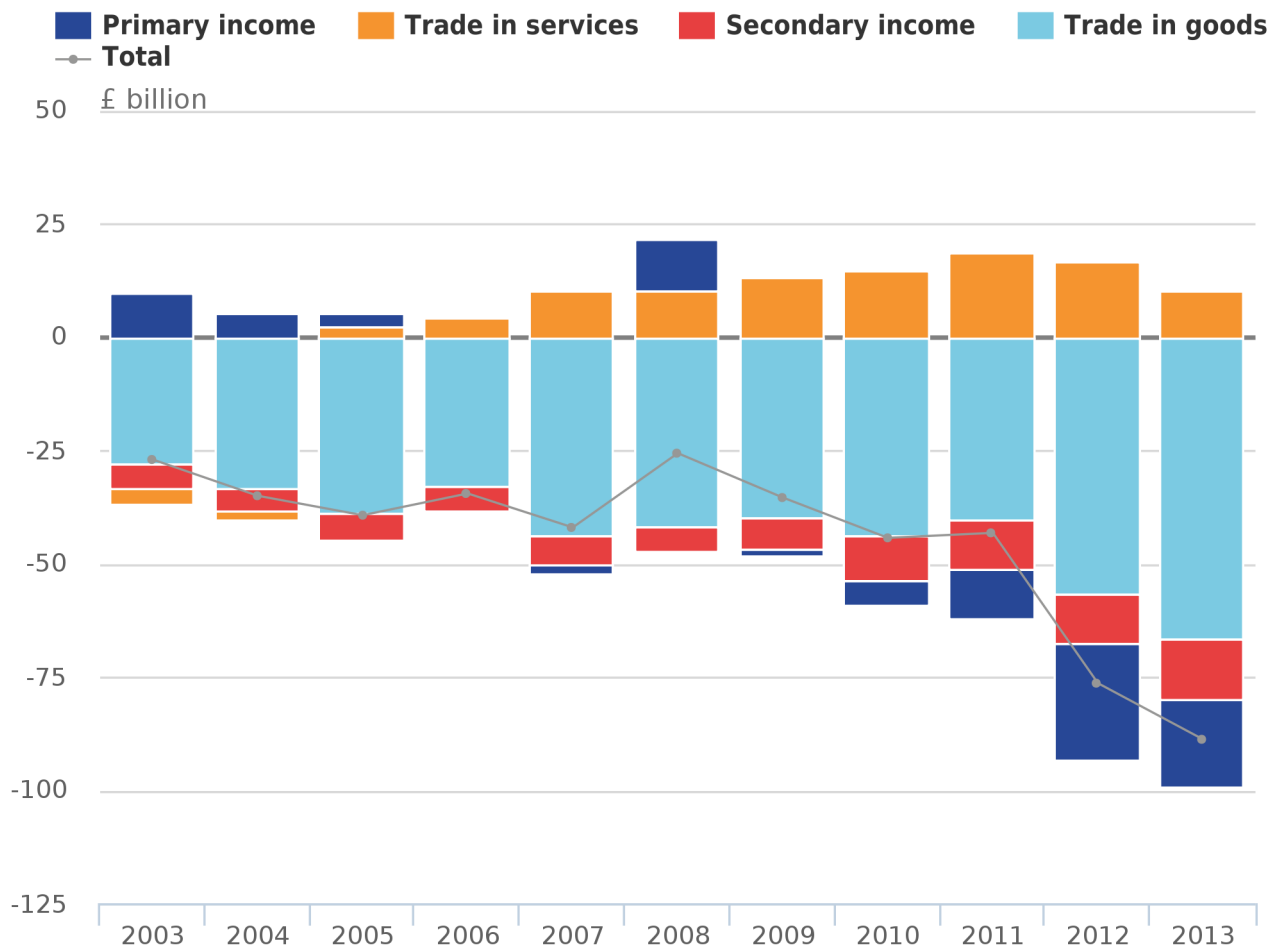
**Figure 9.3: Proportion of total 2013 debits**



**Source: Office for National Statistics**

## Current account with EU28, USA and Japan

Figure 9.4: Current account balances with the EU28



Source: Office for National Statistics

A current account deficit has been recorded with the EU28 in all years since 1999.

Trade in services has been in surplus since 2005, growing strongly to record a net surplus of £18.7 billion in 2011. However, decreases can be seen in 2012 and 2013 with surpluses of £17.0 billion and £10.3 billion respectively. In 2013, this is due to a decrease in exports of £4.4 billion alongside an increase in imports of £2.2 billion.

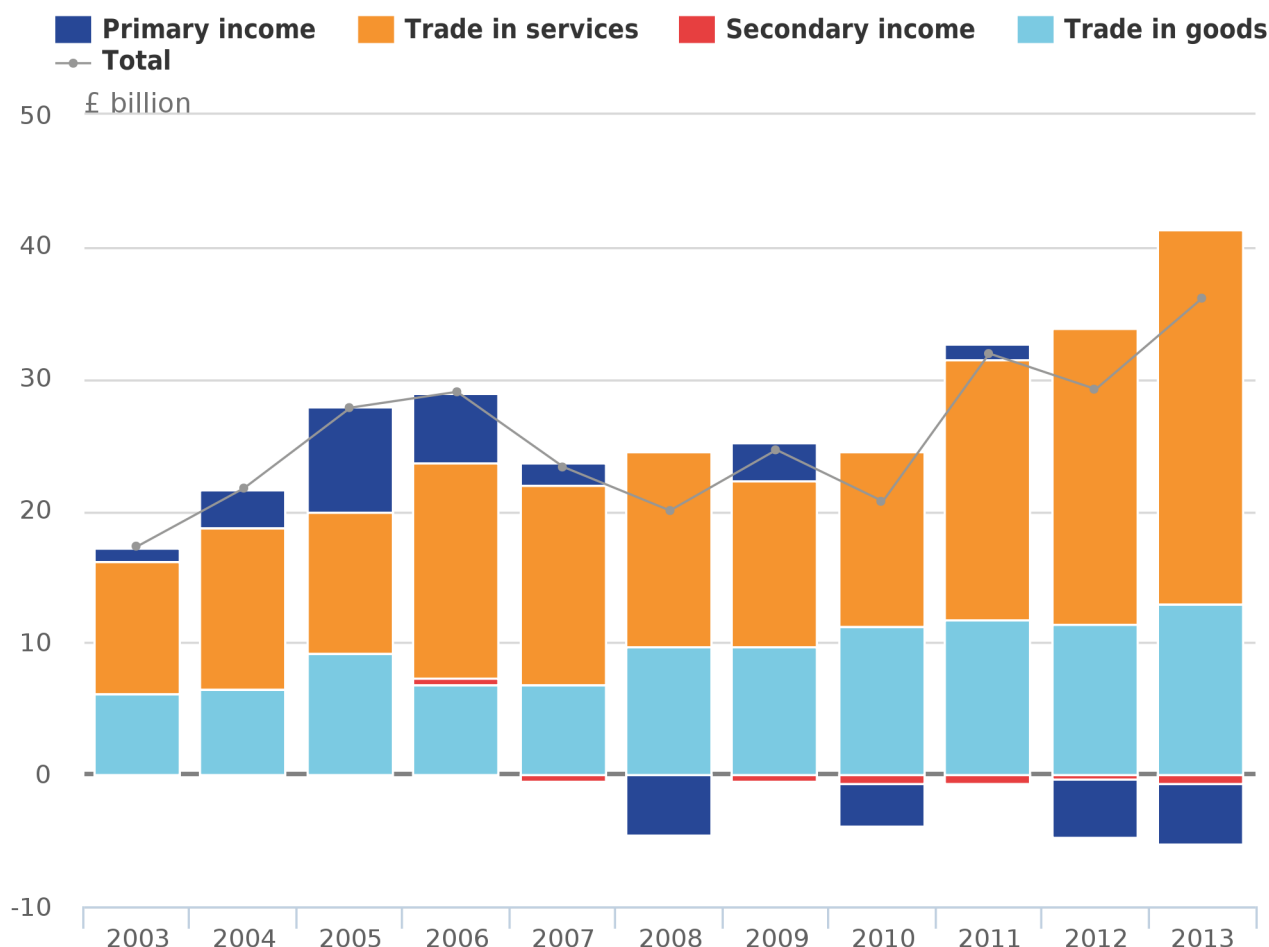
Trade in goods has been in deficit with the EU28 since 1999, and has generally been rising. There is a record trade in goods deficit in 2013 of £66.4 billion, up by £10.0 billion as a result of imports increasing by £11.7 billion from 2012.

The combined trade in goods and services deficit with the EU28 increased to £56.2 billion in 2013. This is largely due to increased deficits with Belgium, France, Germany and Spain. However, the Netherlands switched from a small surplus in 2012 to a deficit of £5.8 billion in 2013.

Primary income has been in deficit since 2006, with the exception of a surplus of £11.3 billion in 2008. 2013 saw a fall in the deficit to £19.3 billion from the record of £26.0 billion in 2012. This fall in the deficit is as a result of an increase in credits of £9.2 billion, offset by an increase in debits of £2.5 billion. The credit increase is largely due to the upwards movement in the Netherlands of £8.0 billion.

Secondary income has been in deficit since 1999. There was a record high in 2013 of £13.3 billion, increasing from £10.9 billion in 2012. The widening in the deficit is a result of debits increasing by £3.0 billion, with £2.2 billion being attributable to EU Institutions. The main components of secondary income are payments to, and receipts from, EU institutions. [Table 9.9 \(528 Kb Excel sheet\)](#) provides a complete picture of UK official transactions with institutions of the EU.

**Figure 9.5: Current account balances with the USA**



Source: Office for National Statistics

The USA is consistently the single largest counterpart country within the UK's balance of payments, representing 19% of current account credits and 13% of debits in 2013. There has been a current account surplus with the USA in all years for which data are available.

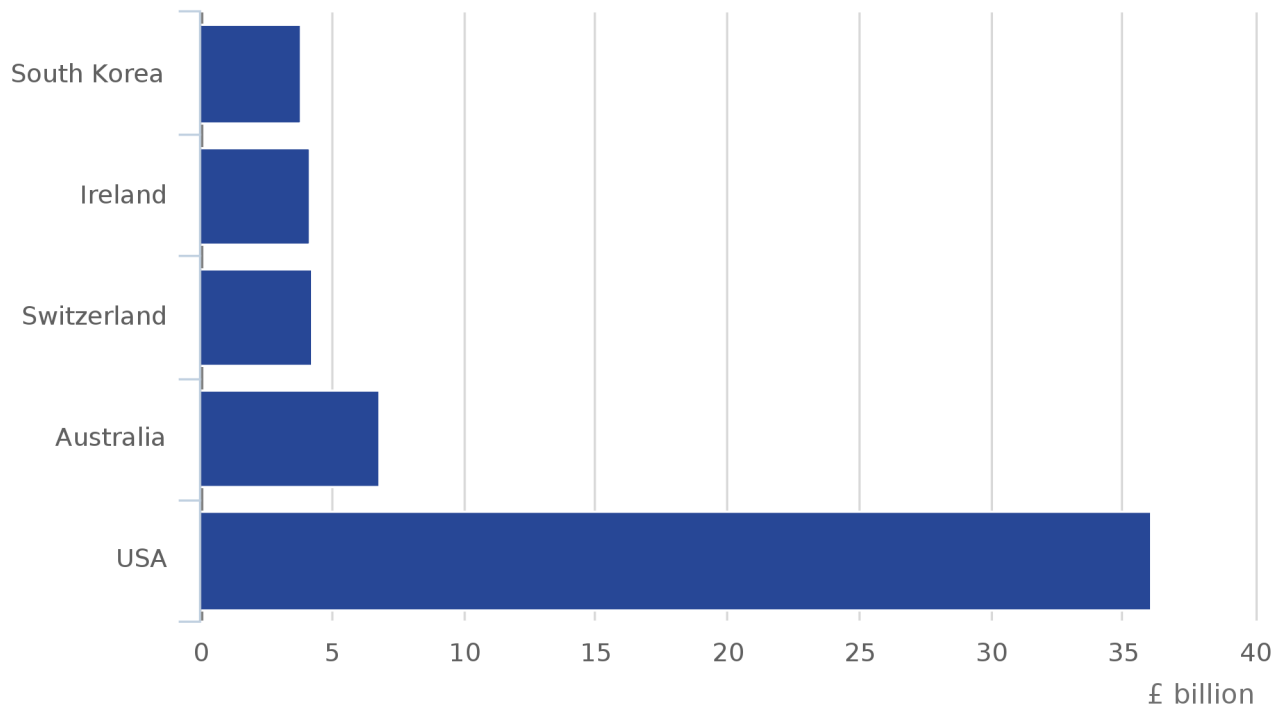
Generally the surplus with the USA has increased over time to reach the record surplus of £36.1 billion in 2013.

The UK has recorded a current account deficit with Japan in every year for which data are available, peaking at £8.0 billion in 2011. In 2012, there was a slight narrowing in the deficit of £0.2 billion, and in 2013 the deficit narrowed further to £5.0 billion. The decrease in the deficit is a result of the trade in goods deficit decreasing by £0.8 billion, and the trade in services surplus increasing by £1.6 billion.

Similarly, the UK has always recorded a current account deficit with China. This rose to a record £21.3 billion in 2010, before a slight narrowing of the deficit in 2011 to £20.3 billion. The deficit continued to fall in 2012 and 2013, decreasing to £19.0 billion and £17.4 billion respectively. This deficit is almost exclusively due to the trade in goods deficit of £20.7 billion, offset slightly by surpluses on trade in services of £2.9 billion, and primary income of £0.7 billion.



**Figure 9.6: Current account: largest five surpluses with individual countries in 2013**

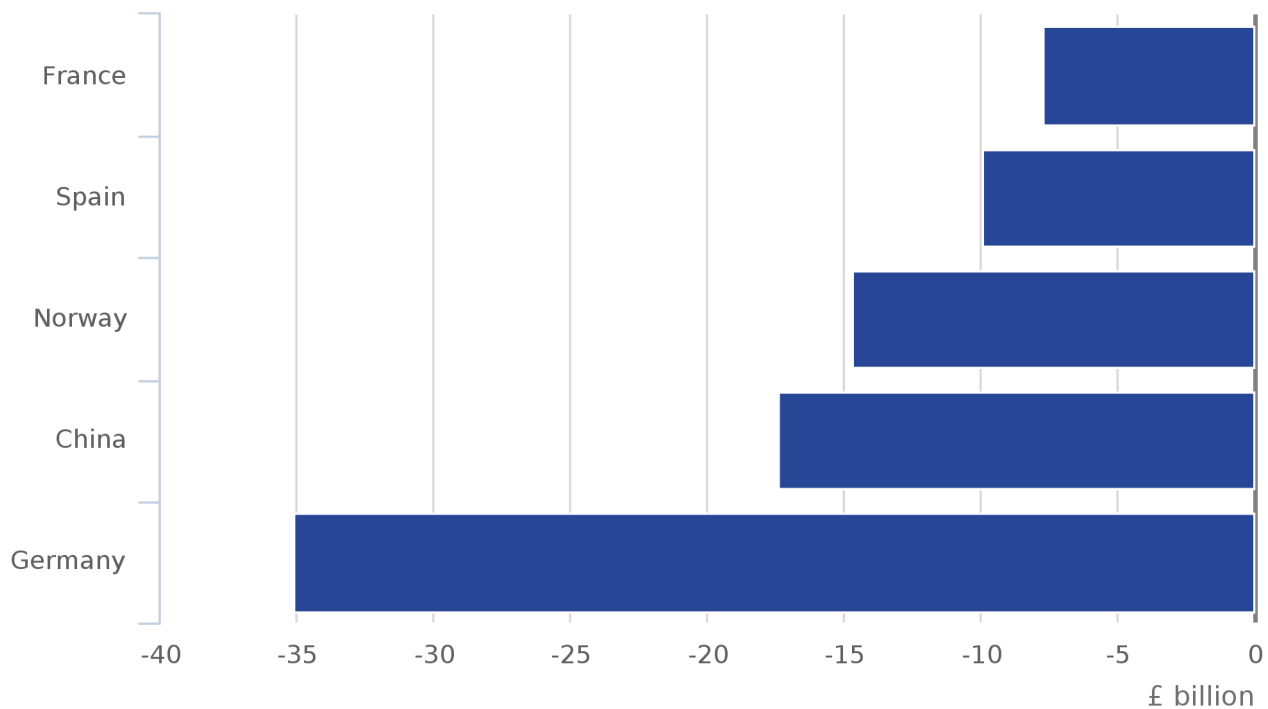


**Source: Office for National Statistics**

When ranking individual countries by the size of the current account balance in 2013, the largest surpluses were recorded with:

- USA (£36.1 billion) due to a surplus on trade in goods and services,
- Australia (£6.8 billion) due to surpluses on trade in goods and services and primary income,
- Switzerland (£4.3 billion) due to surpluses in trade in services and primary income,
- Ireland (£4.1 billion) due to a surplus on trade in goods and services, and
- South Korea (£3.9 billion) due to surpluses on trade in goods and services and primary income.

**Figure 9.7: Current account: largest five deficits with individual countries in 2013**

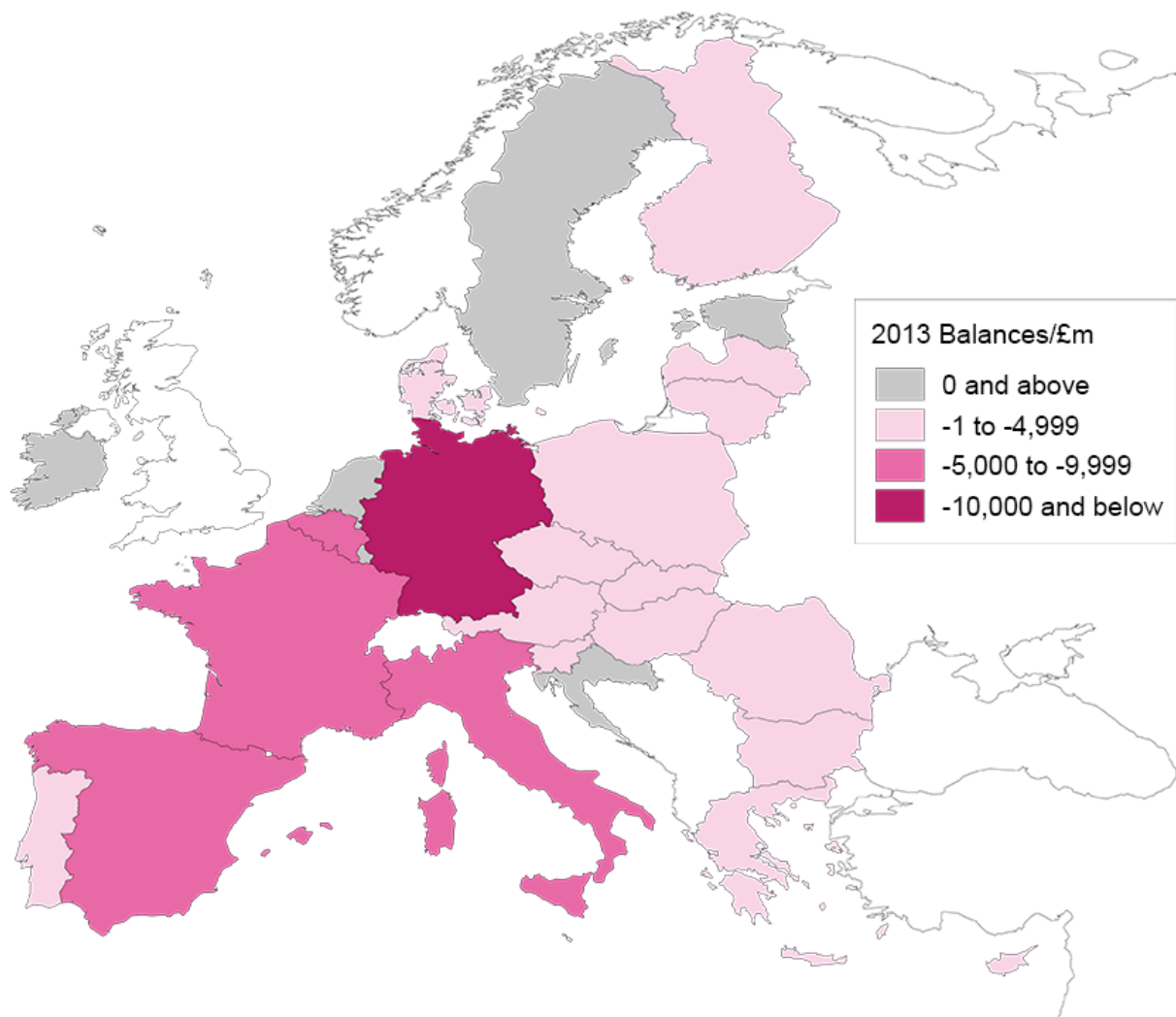


**Source: Office for National Statistics**

When ranking individual countries by the largest current account balance in 2013, deficits were recorded with:

- Germany (£35.1 billion) due to the deficits on trade in goods, primary income and secondary income,
- China (£17.4 billion) due to the deficits on trade in goods and secondary income,
- Norway (£14.7 billion) due to deficits on trade in goods, primary income and secondary income,
- Spain (£9.9 billion) due to the deficits on trade in goods and services, primary income and secondary income, and
- France (£7.7 billion) due to the deficits on trade in goods and services, primary income and secondary income.

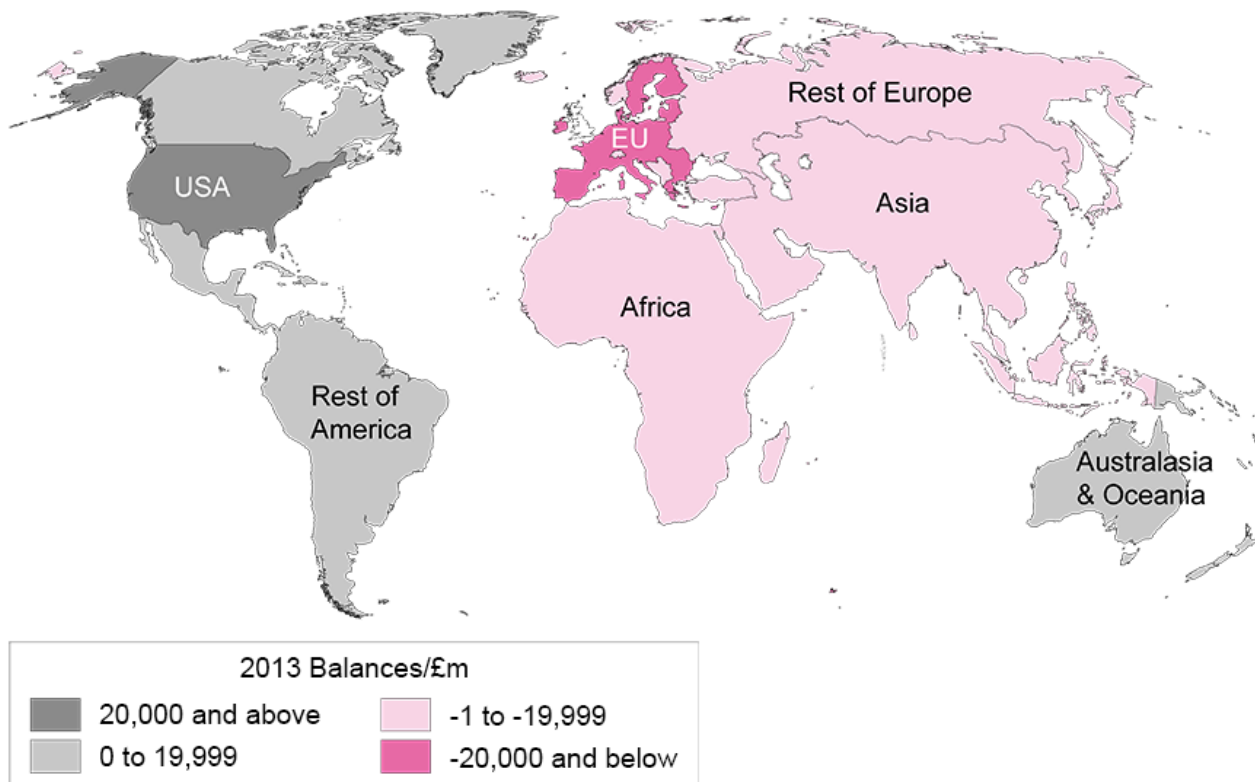
## 2013 Current account balances with the EU28



Source: UNEP (2014): UNEP Environmental Data Explorer.  
United Nations Environment Programme. <http://geodata.grid.unep.ch>.  
Contains National Statistics data © Crown copyright and database right 2014

Source: UNEP (2014): UNEP Environmental Data Explorer

## 2013 Current account balances by region



Source: UNEP (2014): UNEP Environmental Data Explorer.  
United Nations Environment Programme. <http://geodata.grid.unep.ch>.  
Contains National Statistics data © Crown copyright and database right 2014

Source: UNEP (2014): UNEP Environmental Data Explorer

## UK official transactions with institutions of the European Union (EU)

In 2013, the UK made a net contribution to the EU of £11.3 billion. This was an increase of £2.7 billion from the net contribution of £8.5 billion paid in 2012. The increase was mainly due to the £3.0 billion increase in the UK's total Gross National Income (GNI) contribution. The GNI contribution is calculated based on the UK's estimate of economic activity within a budget year relative to other EU countries and can increase and decrease from one year to the next.

The UK, like other countries, receives a rebate on its contributions to the EU, and similarly to its GNI contribution, it can increase and decrease from one year to the next. In 2013, the rebate paid to the UK increased by £0.6 billion to £3.7 billion, from £3.1 billion in 2012.

The reference tables in relation to Chapter 9 are available to [download \(528 Kb Excel sheet\)](#).

## 5 . Chapter 10: Geographical breakdown of the UK international investment position

## Summary

The latest available geographical breakdown of the UK's international investment position (IIP) is for the end of 2012. The geographical breakdown of IIP lags behind the current account, as much of the data comes from annual surveys which are not available until 12 months after the reference year.

Direct investment geographical breakdown levels are derived from annual surveys to outward and inward direct investors in the UK. Portfolio investment consists of equity and debt securities holdings, in the form of bonds and notes, and money market instruments.

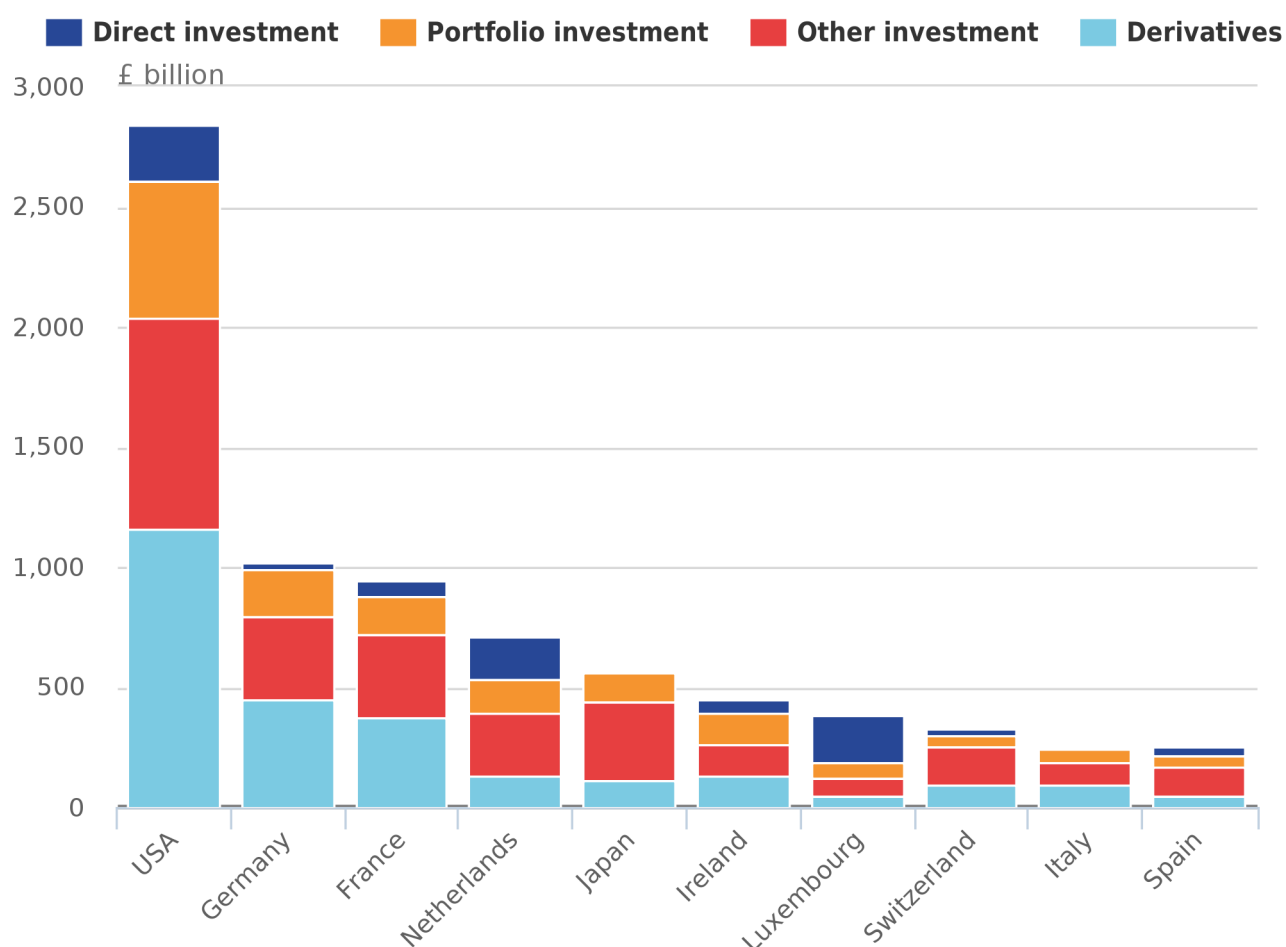
Geographical breakdowns of UK banks' deposits abroad and loans made abroad are derived from banking data supplied by the Bank of England. This information is also used to apportion securities dealers' deposits abroad. Country breakdowns of UK private sector (excluding banks and securities dealers) deposits with banks abroad are derived from the banking statistics of countries in the Bank for International Settlements (BIS) reporting area. Geographical breakdowns of foreign deposits with UK banks are derived from banking data, with foreign loans made to securities dealers apportioned in the same way. Country breakdowns of UK private sector (excluding banks and securities dealers) loans from abroad are derived from the banking statistics of countries in the BIS reporting area.

## Geographical international investment position

At the end of 2012, the UK's IIP showed a net liability position of £247.0 billion, with reported assets totalling £10,595.8 billion and reported liabilities totalling £10,842.8 billion. These are equal to 640% and 655% respectively of GDP (GDP at current market prices, as published in the National Accounts Blue Book 2014). In 2012, the UK retained its net asset position with Asia, and Australasia and Oceania, but continued to have a net liability position with Europe, the Americas and Africa.

## Geographical breakdown of assets

Figure 10.1: 10 largest counterparts to assets of the UK, 2012



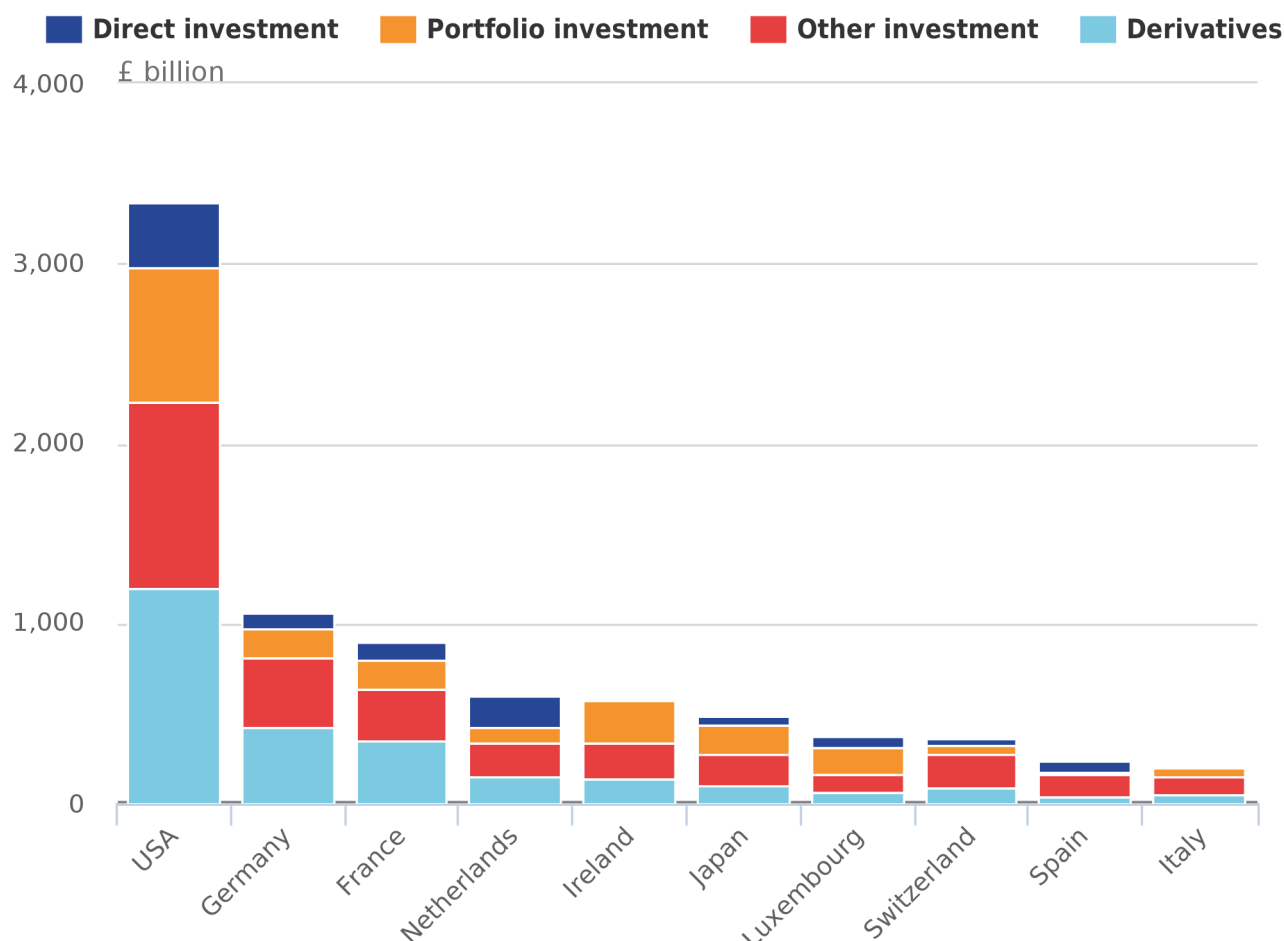
Source: Office for National Statistics

Of the assets held by UK residents at the end of 2012, there were £5,362.6 billion (51%) issued in Europe. In total, £4,655.6 billion (44%) were held in the EU28. Germany became the most popular European destination for UK investors at £1,015.8 billion, or 10%. France and the Netherlands accounted for £939.7 billion (9%) and £706.7 billion (7%) of UK assets respectively at the end of 2012.

Investments in the Americas amounted to £3,531.3 billion, which represented 33% of UK investment holdings abroad. Most of the investments in the Americas were held in the USA, which at £2,842.7 billion was a decrease of £502.8 billion on the previous year. UK residents held 27% of their total investment in the USA, nearly 3 times the size for the next largest country, Germany.

An additional £1,180.8 billion (11%) of UK assets were investments held in Asia. Japan, the UK's main investment partner in this region, at £569.5 billion, represented 5% of total UK assets. Investments in Australasia and Oceania, Africa, and International Organisations accounted for only £371.6 billion (4%) of total assets.

**Figure 10.2: 10 largest counterparts to liabilities of the UK**



Source: Office for National Statistics

Investments in the UK from Europe amounted to £5,660.3 billion (52%) of total investments. The EU28 accounted for £4,702.2 billion (43%) of total investment.

Investment in the UK from the Americas was £3,775.2 billion (35%) of total UK liabilities at the end of 2012, while the USA alone accounted for £3,340.9 billion (31%) of total investment into the UK. Investments in the UK from Asia totalled £1,029.4 billion (9%) of UK liabilities. UK liabilities with Australasia and Oceania, Africa, and International Organisations amounted to £377.9 billion (3%) of total investments in the UK.

## Geographical breakdown of direct investment

UK direct investment abroad at £1,398.0 billion contributed 13% to the total stock of UK assets at the end of 2012. Of these investments, 47% were in holdings issued by countries in the EU28 at £661.3 billion and 17% in the USA at £239.6 billion. The country in the EU accounting for the highest level of UK assets was Luxembourg, with total investments in that country amounting to £193.6 billion (14%) of UK direct investment abroad. After growing to £188.7 billion in 2011, holdings within the Netherlands decreased slightly to £170.0 billion in 2012, which was 12% of the total.

Direct investment in the UK equalled 11% of the total level of UK liabilities in 2012 at £1,204.4 billion. The EU28 accounted for £593.1 billion, 49% of direct investment into the UK and the USA accounted for a further £356.5 billion, 30%. The country in the EU28 with the most significant direct investment into the UK was the Netherlands, with total investments of £177.3 billion, 15% of direct investment. This was followed by France at £103.1 billion, 9%, and Germany at £84.7 billion or 7% of the worth of UK liabilities.

## Geographical breakdown of portfolio investment

UK portfolio investment assets at the end of 2012 stood at £2,356.3 billion (22%) of total UK assets, increasing from £2,138.5 billion at the end of 2011.

The largest issuer of holdings was the USA, contributing 24% of total investments at £562.9 billion. Residents of the EU28 were the issuers of £963.1 billion (41%) of UK portfolio investment holdings at the end of 2012. Issues by Germany were £200.0 billion (8%), issues by France at £155.6 billion were 7%.

There were six countries which each reached more than £100 billion:

- USA at £562.9 billion,
- Germany at £200.0 billion,
- France at £155.6 billion,
- The Netherlands at £146.1 billion,
- Ireland at £132.5 billion,
- Japan at £122.0 billion.

Combined, these countries represent 56% of total portfolio investment assets.

Portfolio investment liabilities are derived from the Co-ordinated Portfolio Investment Survey (CPIS) returns of other countries reporting assets held in the UK, and were £2,533.1 billion at the end of 2012. The country holding most portfolio investments in the UK was the USA, at £749.3 billion (30%) of the total liabilities. Ireland also reported high levels of investment in the UK, at £237.5 billion (9%) of the total liabilities.

## Geographical breakdown of other investment

The UK's other investment assets totalled £3,719.6 billion at the end of 2012, which was 35% of total UK assets. £1,579.7 billion was invested in the EU28 countries, 42% of the total other investment assets. Of the EU28 countries, Germany accounted for £344.4 billion (9%) and France accounted for £342.0 billion (9%). The UK's assets in the USA amounted to £883.3 billion (24%) of total other investment assets. At the end of 2012, a large proportion of UK assets were also held in Japan, at £328.7 billion (9%) of the world total.

Other investment liabilities totalled £4,073.1 billion at the end of 2012, which was 38% of total UK liabilities. The USA at £1,037.5 billion accounted for 25% of total other investment liabilities. Liabilities with the EU28 accounted for £1,605.5 billion (39%) of the total. Germany at £392.3 billion accounted for 10% of other investment liabilities in the UK and France at £287.1 billion (7%).

## Geographical breakdown of financial derivatives

The UK's financial derivatives assets totalled £3,060.1 billion at the end of 2012. This was 29% of the total UK assets, decreasing from £3,617.8 billion at the end of 2011. Total Europe accounted for £1,562.0 billion (51%) of the total financial derivatives assets, down from £1,750.3 billion at the end of 2011. The EU28 held £1,451.6 billion, 47% of the total, down from £1,594.9 billion at the end of 2011. Germany accounted for £449.9 billion (15%) and France for £378.5 billion (12%) of the world total. The largest destination country for financial derivatives investment was the USA with £1,156.9 billion (38%), down from £1,459.7 billion at the end of 2011.



Financial derivatives liabilities totalled £3,032.2 billion at the end of 2012, 28% of the UK's total liabilities, a decrease on the £3,554.9 billion at the end of 2011. The main countries that accounted for this were:

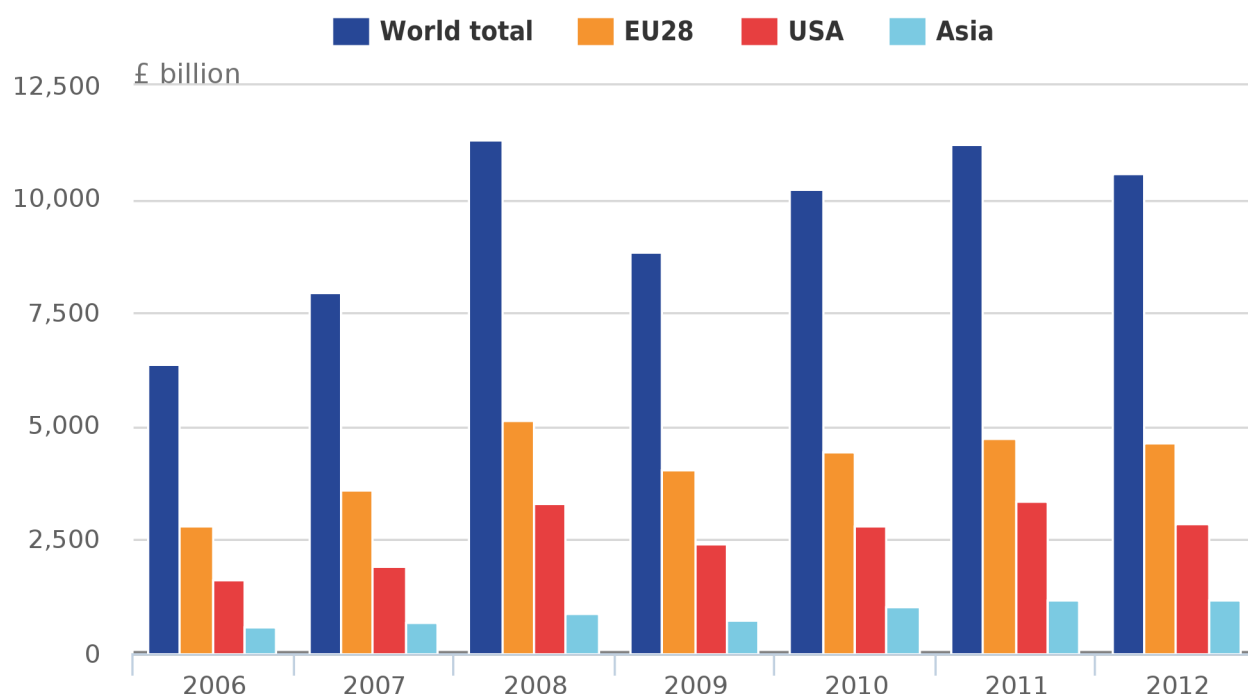
- the USA at £1,197.6 billion (39%), down from £1,508.7 billion at the end of 2011,
- the EU28 at £1,406.0 billion (46%), down from £1,527.3 billion at the end of 2011.

Within the EU 28, Germany at £418.4 billion (14%) was down from £449.9 billion at the end of 2011 and France at £350.7 billion (12%) was down from £364.6 billion at the end of 2011.

## Time series: comparisons

Geographical data prior to 2004 does not include financial derivatives data, so the time series analysis is split where appropriate.

**Figure 10.3: IIP total assets**



Source: Office for National Statistics

Between 2002 and 2011, total UK IIP assets were increasing steadily from £3,255.7 billion in 2002 to £11,207.9 billion in 2011, with the exception of a large jump in 2008 to £11,332.6 billion. This was a record high which then fell to £8,841.0 billion in 2009. The increase between 2007 and 2008 was mainly due to the USA and Germany, with increases of £1,382.0 billion and £466.0 respectively. UK IIP assets then decreased to £10,595.8 billion in 2012, the small decrease compared with 2011 was mainly due to a drop in the USA of £502.8 billion. Investment in the EU28 increased from £1,510.7 billion in 2002 to £5,122.4 billion in 2008, with UK asset levels decreasing to £4,033.7 billion in 2009. The level of UK assets increased in 2010 and 2011 to reach £4,747.0 billion before decreasing slightly to £4,655.6 billion in 2013.

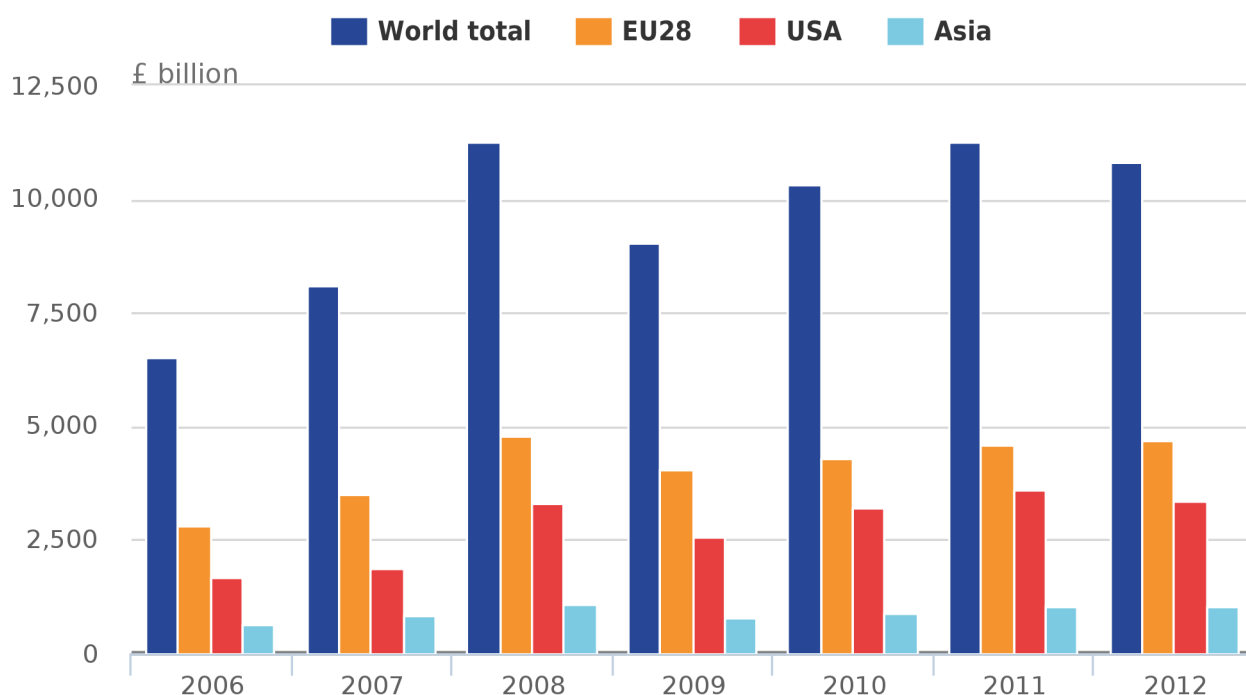
In the five broad geographical regions, there was an increase of assets held between 2005 and 2012, ranging from 67% for Europe to 100% for Asia.

The UK's assets in the EU28 grew by 72% over the period 2005 to 2012. Of the major countries within the EU28, UK assets in the countries grew by:

- 108% in Germany,
- 114% in France,
- 71% in The Netherlands,
- 65% in Ireland.

The USA remained the most important country for UK investment albeit decreasing from £3,345.5 billion in 2011 to £2,842.7 billion in 2012.

**Figure 10.4: IIP total liabilities**



**Source: Office for National Statistics**

IIP liabilities also increased in every year from 2002 to 2008, from £3,354.5 billion to £11,243.7 billion. There was a decrease between 2008 and 2009 to £9,040.0 billion. This recovered during 2010 and 2011 to peak at £11,279.5 billion at the end of 2011. However, it decreased to £10,842.8 billion at the end of 2012. From 2005 to 2012, increases in investments in the UK from the five broad geographical regions ranged from 59% for Africa to 115% for Australasia and Oceania over this period. UK liabilities to the EU28 rose by 85% in the period 2005 to 2012. Within the EU28, liabilities with countries between 2005 and 2012 rose by:

- 101% in Ireland,
- 103% for France,
- 78% for Germany,
- 27% for the Netherlands.

Investment by the USA in the UK increased from £1,496.2 billion in 2005 to £3,340.9 billion in 2012, which was a rise of 123%. Within Asia the UK liabilities with China rose by 287% to a record £49.1 billion over the period and for Japan by 106%. In contrast, the UK liabilities for India showed a drop of 48% over the same period.

## Rates of return

Regional rates of return are calculated by dividing income earned and paid on investments by the total value of the investment. Financial derivatives are excluded from this calculation as no investment income accrues from them. Taking the EU28 as an example, the UK earned £49.3 billion from its average investments (excluding financial derivatives) of £3,178.1 billion in 2012, which was equivalent to an annual rate of return of 1.6%. (The average investment in 2012 is calculated by taking the mean of the end-2011 and end-2012 levels excluding financial derivatives). In 2012, the UK earned a 2.2% rate of return on its total external assets and paid out a 2.2% rate of return on external liabilities. Over the last 3 years, the UK has earned a higher rate of returns with its main partners on its external assets than it pays out on liabilities. However, this is not the case with the EU28 or total Europe in 2011 and 2012.

## Rates of Return

### Rates of Return

External assets (per cent)				External liabilities (per cent)			
	2010	2011	2012		2010	2011	2012
EU28	2.0	2.3	1.6	EU28	2.2	2.7	2.4
Total Europe	2.3	2.4	1.9	Total Europe	2.3	2.6	2.4
USA	2.2	2.6	2.1	USA	2.1	2.2	2.0
Total Asia	3.4	3.4	3.5	Total Asia	2.0	2.2	2.3
Rest of the world	3.3	3.4	2.7	Rest of the world	2.0	2.2	2.2
World Total	2.5	2.7	2.2	World Total	2.2	2.4	2.2

Source: Office for National Statistics

The reference tables in relation to Chapter 10 are available to [download \(140.5 Kb Excel sheet\)](#) .

## Notes for Chapter 10: Geographical breakdown of the UK international investment position

1. Figure 10.1 and 10.2 in Chapter 10 use the following abbreviations for the names of countries.

## Chapter 10 Abbreviation Table

Abbreviation	Country
USA	United States of America
FRA	France
GER	Germany
NDS	Netherlands
JAP	Japan
IRE	Ireland
SUI	Switzerland
LUX	Luxembourg
SPA	Spain
ITA	Italy

Source: Office for National Statistics

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## 7. Background notes

### 1. What's new

The United Kingdom Balance of Payments Pink Book 2014 is the first time that ONS presents the annual Balance of Payments and International Investment Position publication using the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014.

Due to the scale of changes to the methods and definitions with the introduction of BPM6, table 1.1R is not included in Pink Book 2014 as the latest estimates are not directly comparable with previously published data. However, [the Balance of Payments Q2 2014 statistical bulletin](#) included an Annex to explain the impact the changes have on annual data for the period 1997 to 2013.

### 2. Reliability of estimates

All the value estimates are calculated as accurately as possible; however they cannot always be regarded as being absolutely precise to the last digit shown. Similarly, the index numbers are not necessarily absolutely precise to the last digit shown. Some figures are provisional and may be revised later; this

applies particularly to many of the detailed figures for the latest years. For example, calendar year date for the International Trade in Services Survey and Foreign Direct Investment Survey are not available until after Pink Book publication. Therefore, the latest Trade in Services and Direct Investment data published in the Pink Book are provisional estimates and subject to annual benchmarking after publication.

The latest data when available for the [International Trade in Services Survey](#) can be found at its landing page.

The latest data when available for the [Foreign Direct Investment Survey](#) can be found at its landing page.

### 3. Rounding

As figures have been rounded to the nearest final digit, there may be slight discrepancies between the sums of the constituent items and the totals as shown.

### 4. Revisions since ONS Pink Book 2013

The data in the Pink Book are subject to revisions following the [ONS National Accounts Revisions Policy](#).

With the implementation of new international standards the current account balance is revised from 1955 onwards.

**Trade in goods** - The revisions to trade in goods from 1955 reflect the inclusion of illegal activities relating to drug smuggling. Revisions from 1997 onwards reflect revised data from Her Majesty's Revenue and Customs and other data suppliers and revised estimates of trading associated with VAT MTIC fraud. The revisions are consistent with the 2014 Blue Book.

**Trade in services** - Revisions from 1997 onwards result from a general reassessment of data following the annual supply use balancing process, the incorporation of updated source data from the Bank of England, Chamber of Shipping and Department for Transport. Revisions from 2012 additionally reflect the use of final results from ONS's International Trade in Services Survey for 2012.

**Primary income** - Revisions from 1999 reflect changes to the methodology for the reporting of Monetary Financial Institution earnings from foreign direct investment. Revisions from 2011 reflect the use of annual inquiry results from the ONS direct investment surveys.

**Secondary income** - Revisions to current transfers are attributed to the reclassification of some transactions to primary income, revised source data for transfers involving the UK government and the use of the latest data from various ONS surveys.

**International investment position** - The large revisions to the International Investment Position for the period 2013 are a result of new data being available for direct investment rather than as a result of implementing the new international standards. These new data are sourced from the improved ONS quarterly FDI survey. The methodology within this quarterly survey has now been aligned with the ONS' annual FDI survey. In addition, the sample size of the quarterly survey has been increased to provide better coverage and higher quality estimates. The increased sample size of the ONS' quarterly FDI survey now allows the opening and closing balances on the different forms of investment as well as the flows of investment to be utilised. This provides a more coherent picture of investment positions of individual businesses and is consistent with the approach used by the ONS' annual FDI survey. Previously, due to the smaller sample size and different methodologies, the ONS' quarterly FDI survey derived the closing balance by carrying forward the closing balance from the last ONS annual FDI survey and applied the flows of investment to calculate the closing balance. This was then carried over to the next quarters opening balance where the flows for the next quarter were then applied to calculate the next quarter's closing balance. The improved ONS quarterly FDI survey will continue to be benchmarked to the ONS annual FDI survey when this is available to do so.

### 5. Symbols

The following symbols are used throughout:

.. = not available - = nil or less than a million

## 6. Understanding the data

At the time of publishing the Pink Book 2014 on 31 October 2014, not all of the following documents were updated with BPM6 definitions. ONS apologises and aims to complete updating them before the end of November 2014.

A [brief introduction to the United Kingdom balance of payments](#) provides an overview of the concepts and coverage of the UK Balance of Payments.

A [glossary](#) of terms used in the UK balance of payments is available on the National Statistics website.

More detailed [methodological notes for the UK balance of payments](#) are also available on the website.

The following [webpage](#) contains articles of interest which relate to UK balance of payments statistics.

## 7. References

The internationally agreed framework for the presentation of the Balance of Payments and the National Accounts are described in the following publications:

Balance of Payments Manual (6<sup>th</sup> edition), International Monetary Fund (ISBN 978-1-58906-812-4), <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>

Balance of Payments and International Investment Position Compilation Guide, International Monetary Fund (ISBN 978-1-48431-275-9), <https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>

European System of Accounts (ESA 2010), Eurostat. [http://epp.eurostat.ec.europa.eu/portal/page/portal/esa\\_2010/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction)

System of National Accounts (2008), (ISBN 978-92-1-161522-7). <http://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

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

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