Office for National Statistics

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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Table of contents

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.

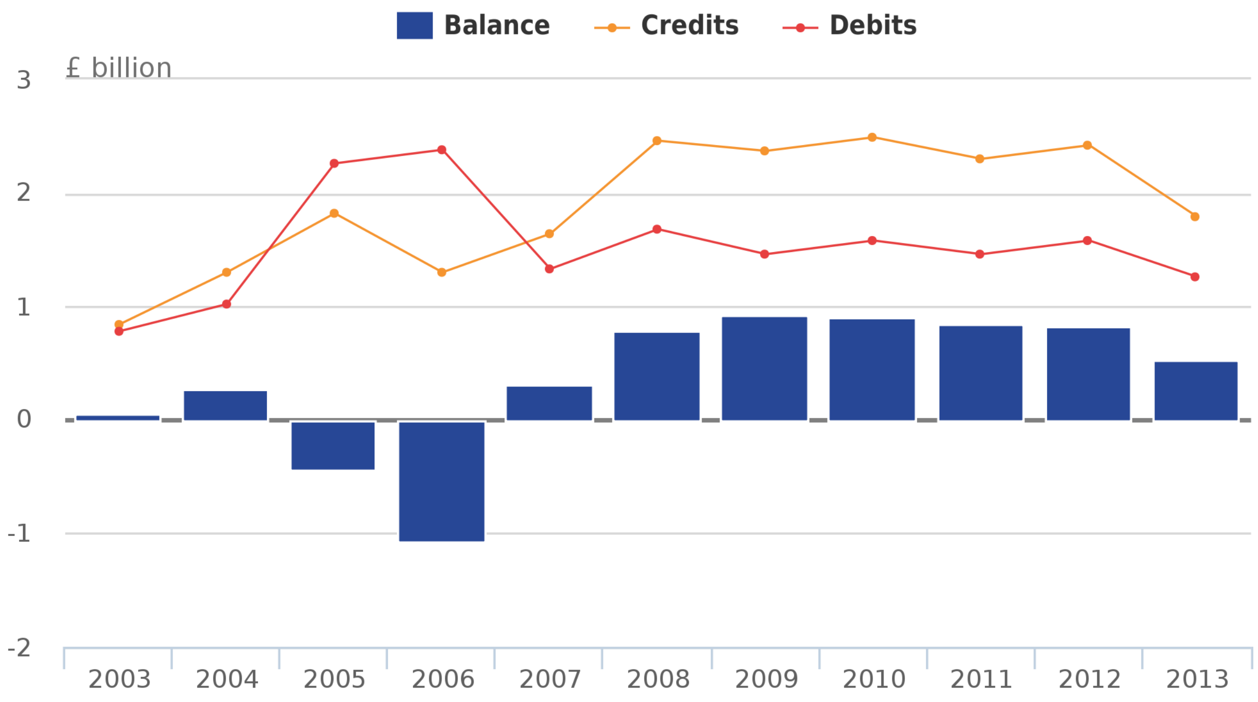
A printable version of the Pink Book 2014, Part 2: Capital Account, Financial Account and International Investment Position data is available (101.1 Kb Pdf) .

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.

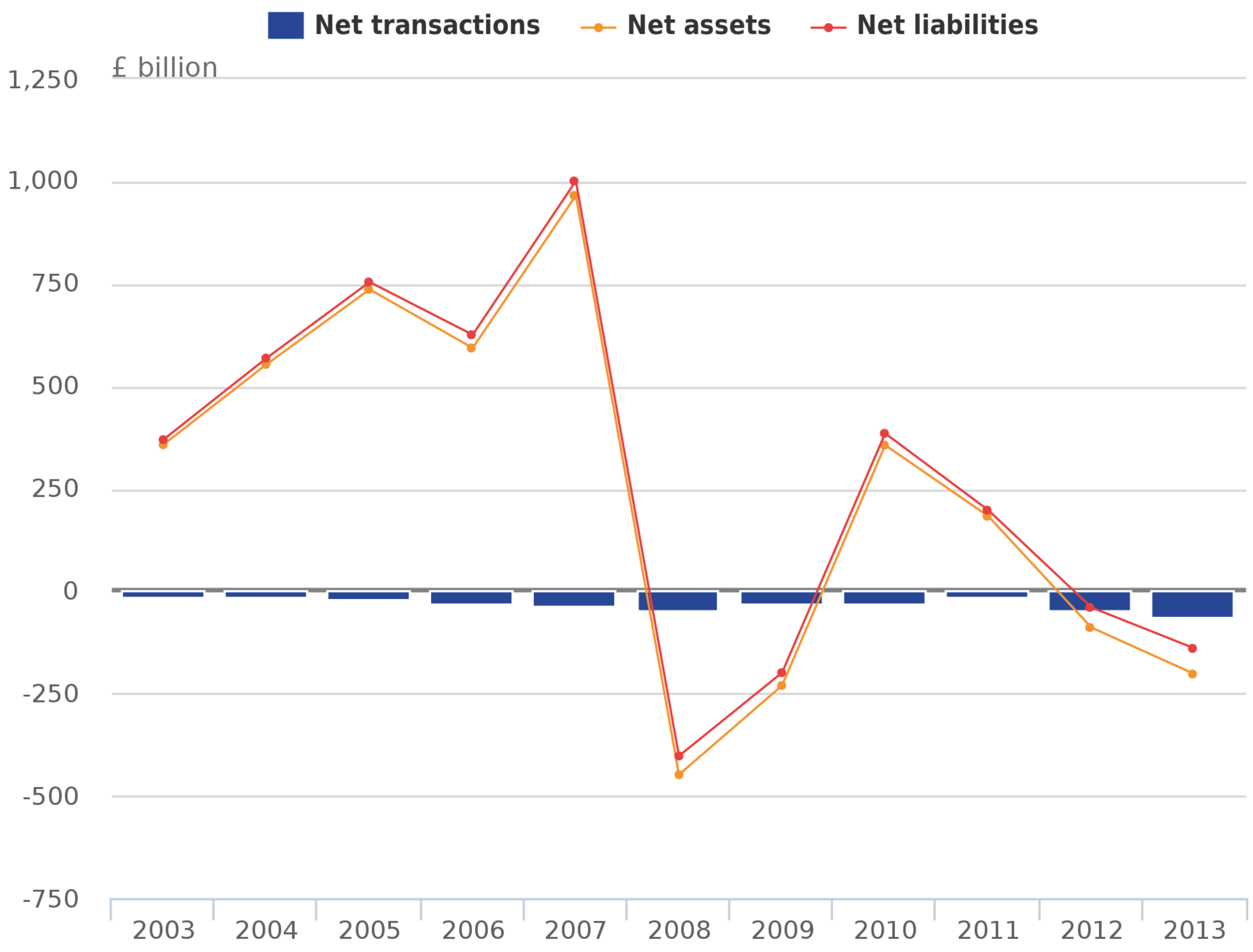
The presentation of the financial account has changed under BPM6 to the net acquisitions of financial assets by the UK less the net incurrence of liabilities by the UK. This is a reversal of its presentation under BPM5, where the financial account balance was calculated as the net incurrence of liabilities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

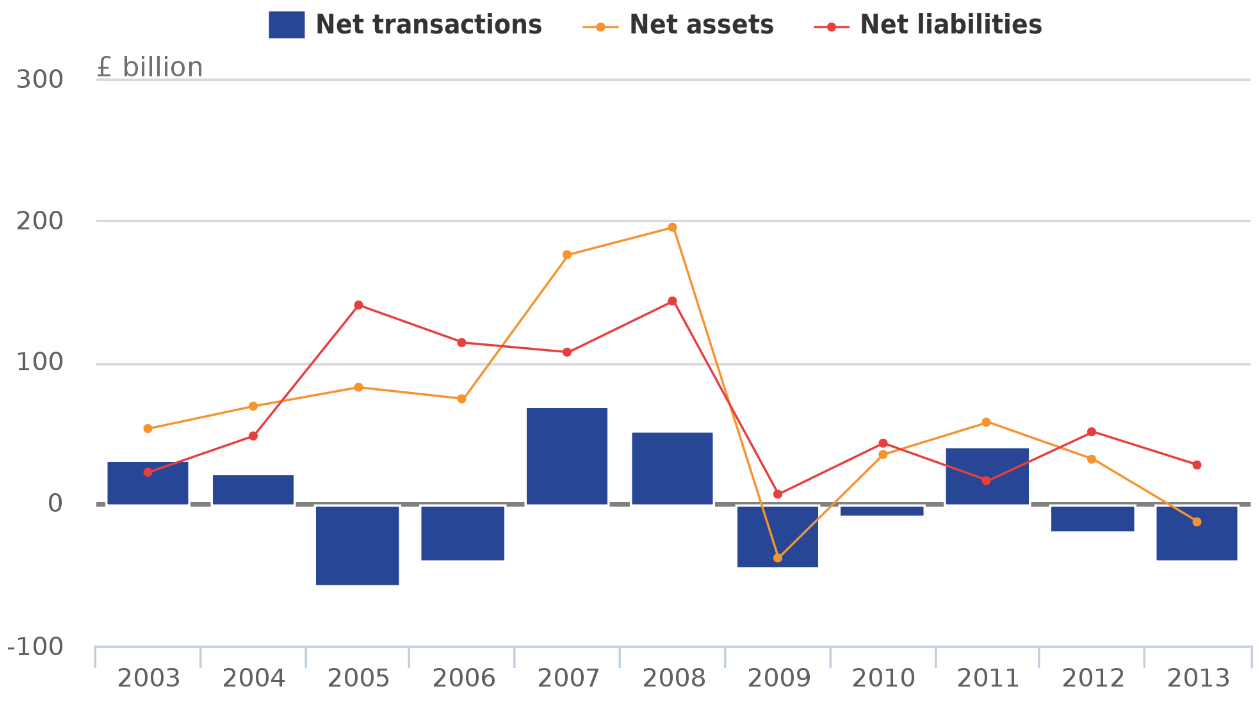
In 2013, there was a net inflow of direct investment to the UK of £40.1 billion: that is, direct investment into the UK exceeded UK direct investment abroad. Direct investment abroad (outward) switched to net disinvestment (inflow) of £12.7 billion in 2013, from net investment (outflow) of £31.5 billion 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

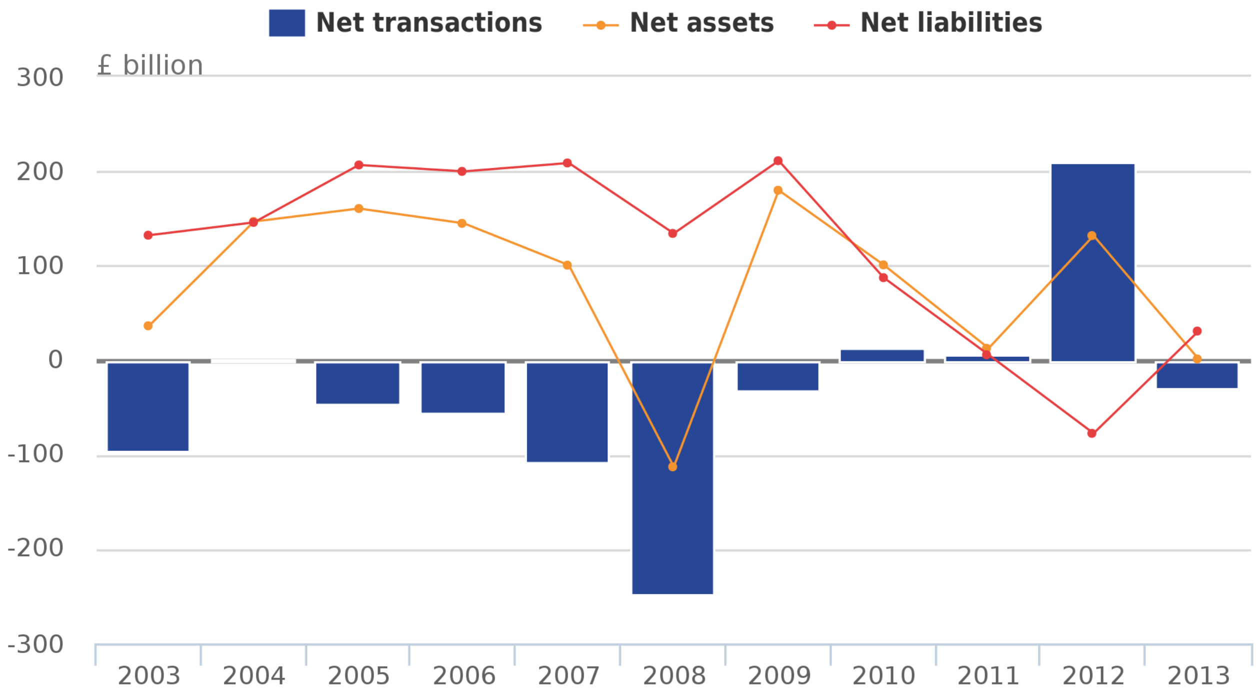
In 2013, there was a net inflow of portfolio investment to the UK: that is, portfolio investment into the UK exceeded UK portfolio investment abroad. Portfolio investment abroad (outward) decreased to investment of £1.2 billion in 2013, from net investment of £131.8 billion in 2012. This was due to equity 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

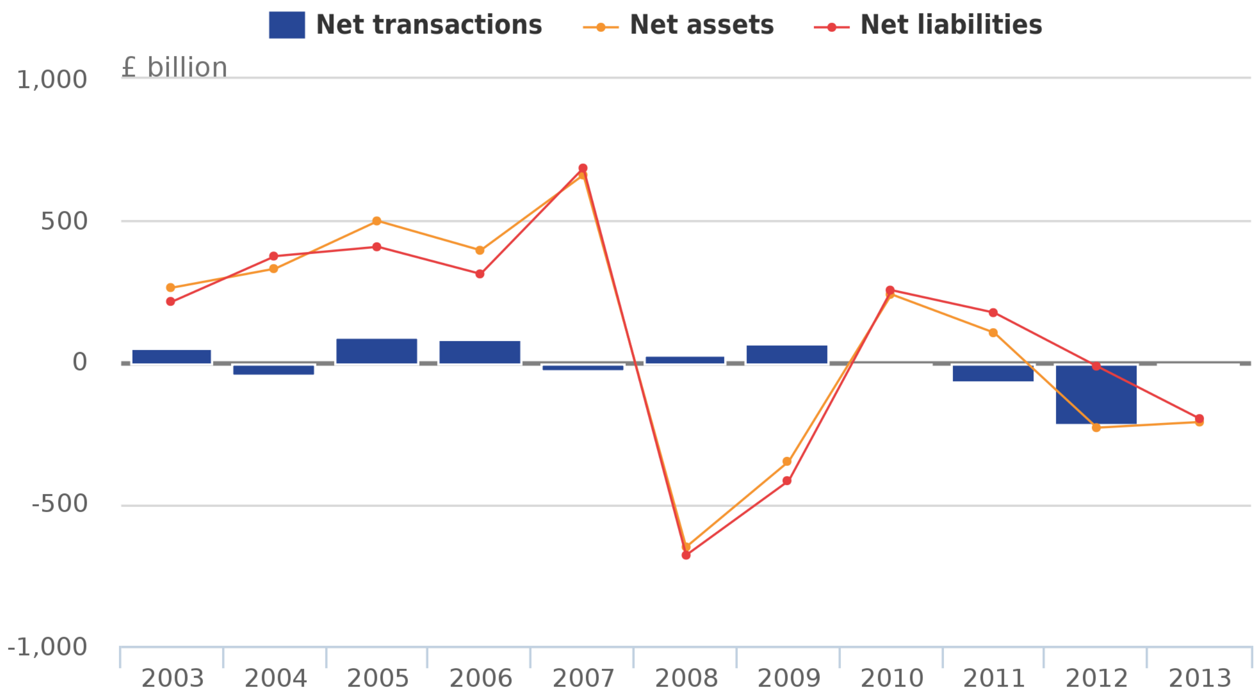
Other investment

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.

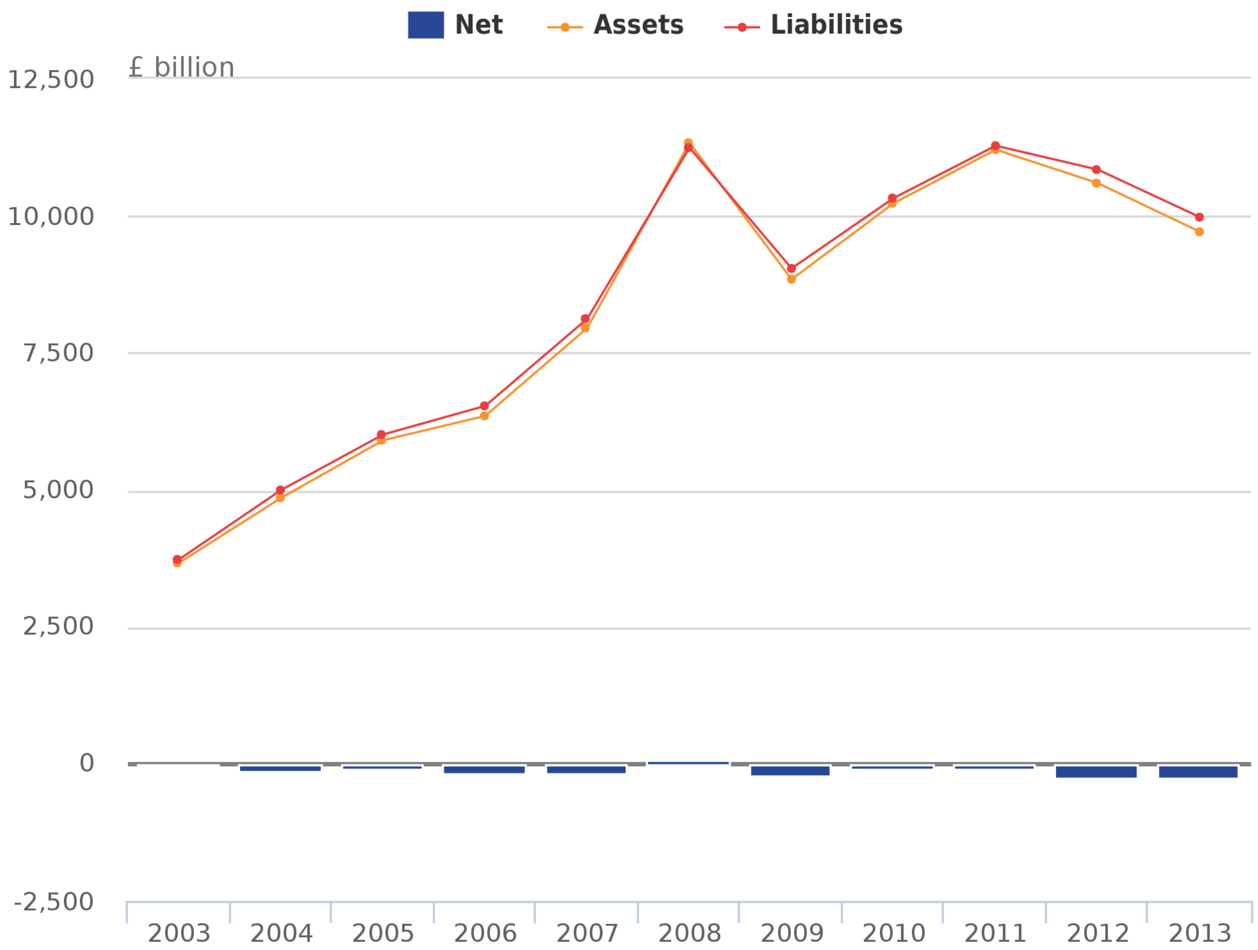
Since records began in 1966 through to 1994, UK assets exceeded UK liabilities (known as a UK net asset position) in all but one year. Since 1995, the UK has recorded a net liability position in all but two years. In 2008 the UK recorded a net asset position of £88.9 billion, partially due to exchange 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

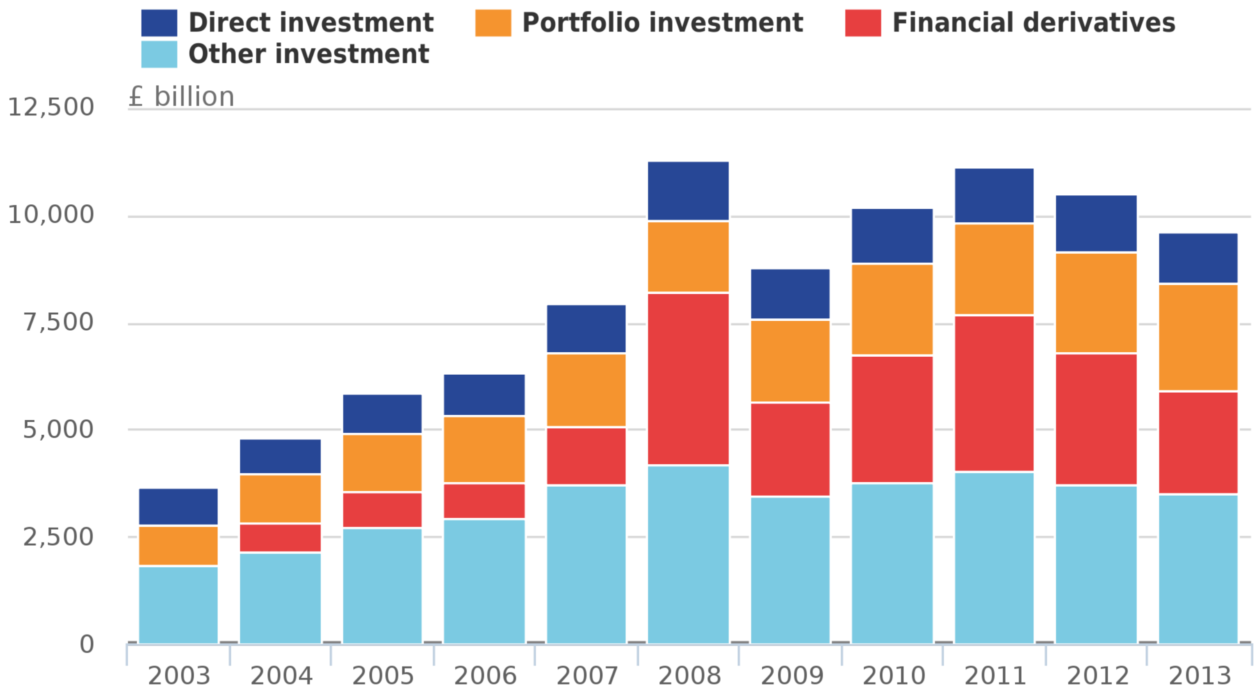
Financial derivatives of UK banks are included in the main aggregates of the international investment position from 2004, at which time they accounted for 15% of total assets. The financial derivatives of UK securities dealers are included from 2010, at which time they accounted for 7% of total assets. 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

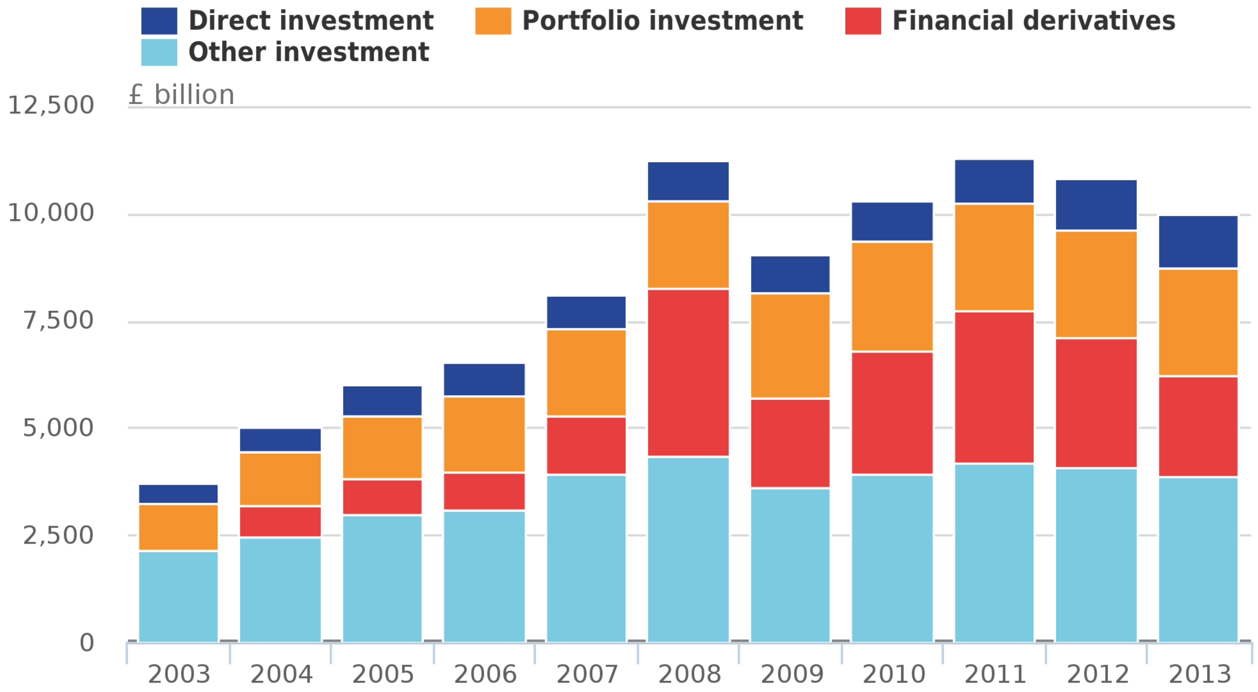
As a proportion of UK total liabilities, direct investment in the UK accounted for 11% in 1997, rising slowly to reach 15% in 2002. More recently the share has declined, mainly due to the inclusion of financial derivatives, reaching a low of 9% in 2008. It then increased to reach 13% at the end of 2013,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



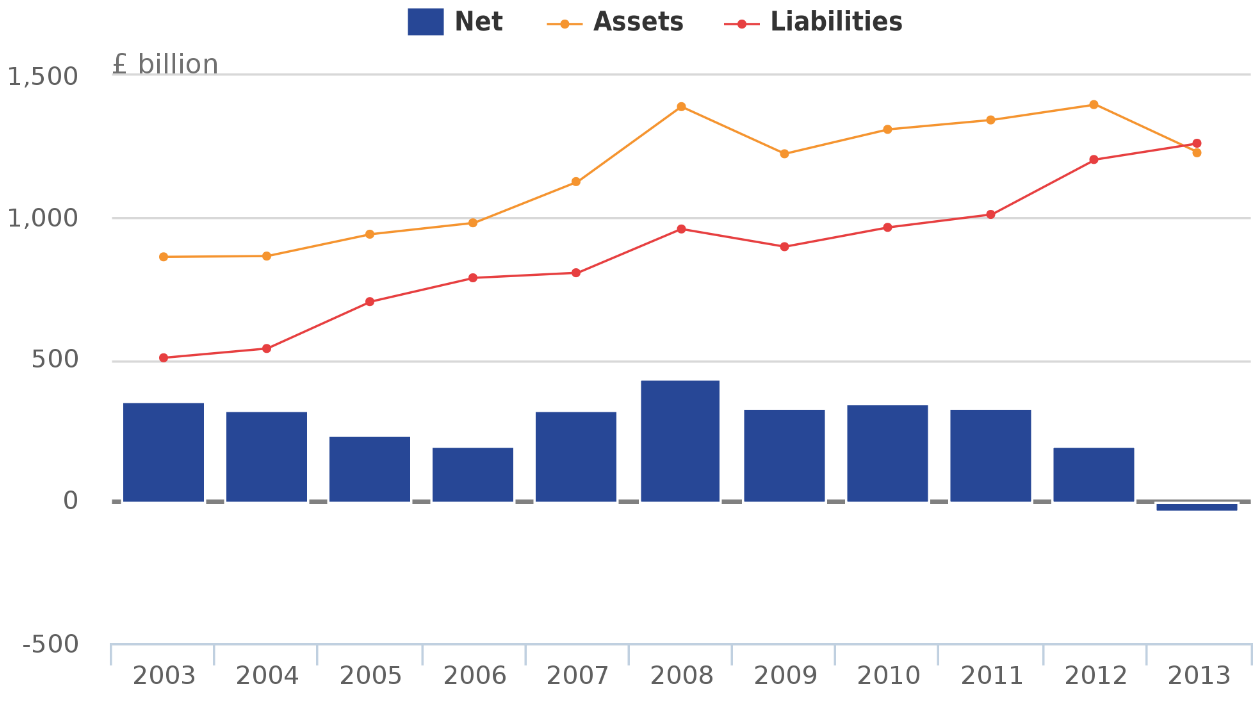
Source: Office for National Statistics

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 PNFC' s 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

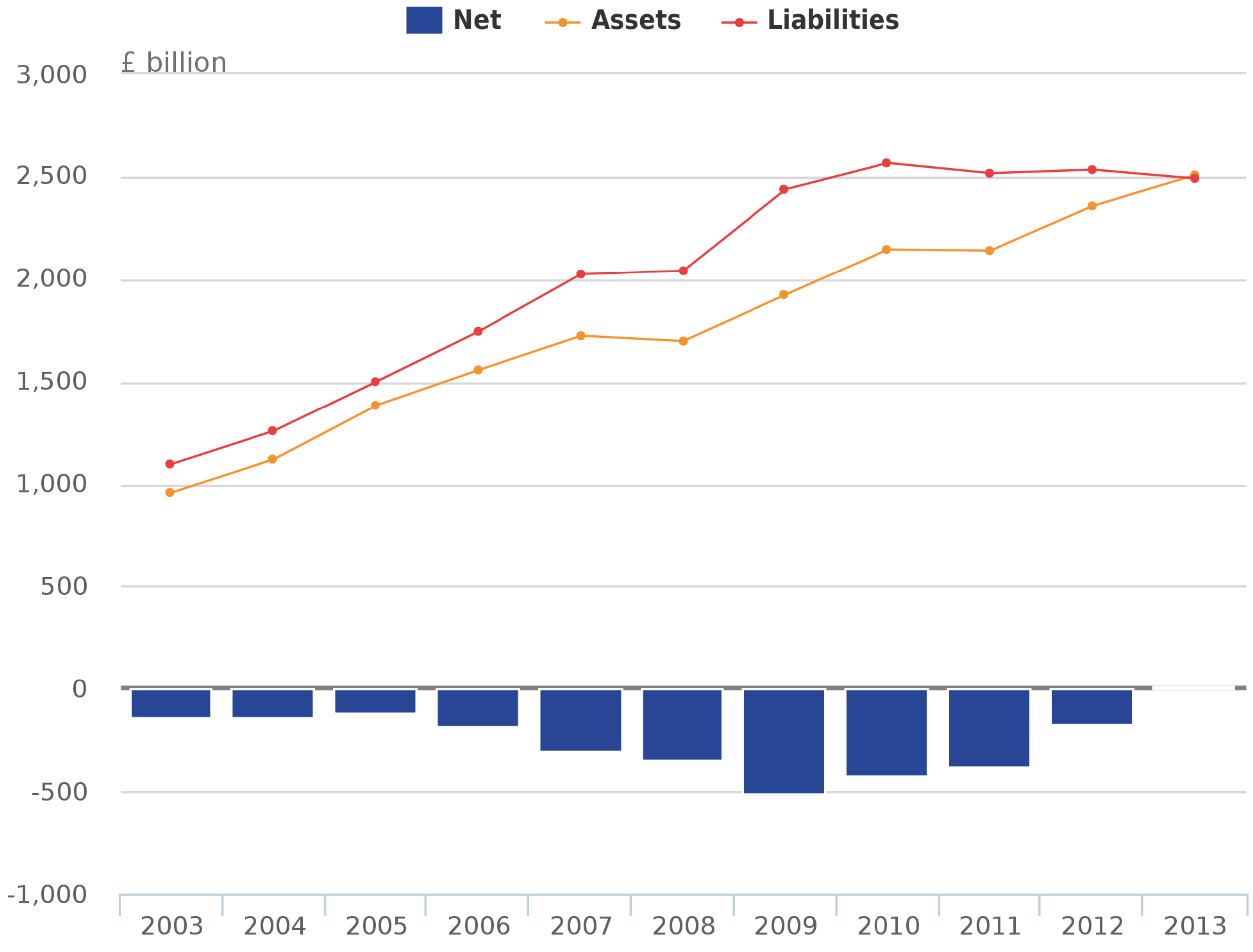
Portfolio investment

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



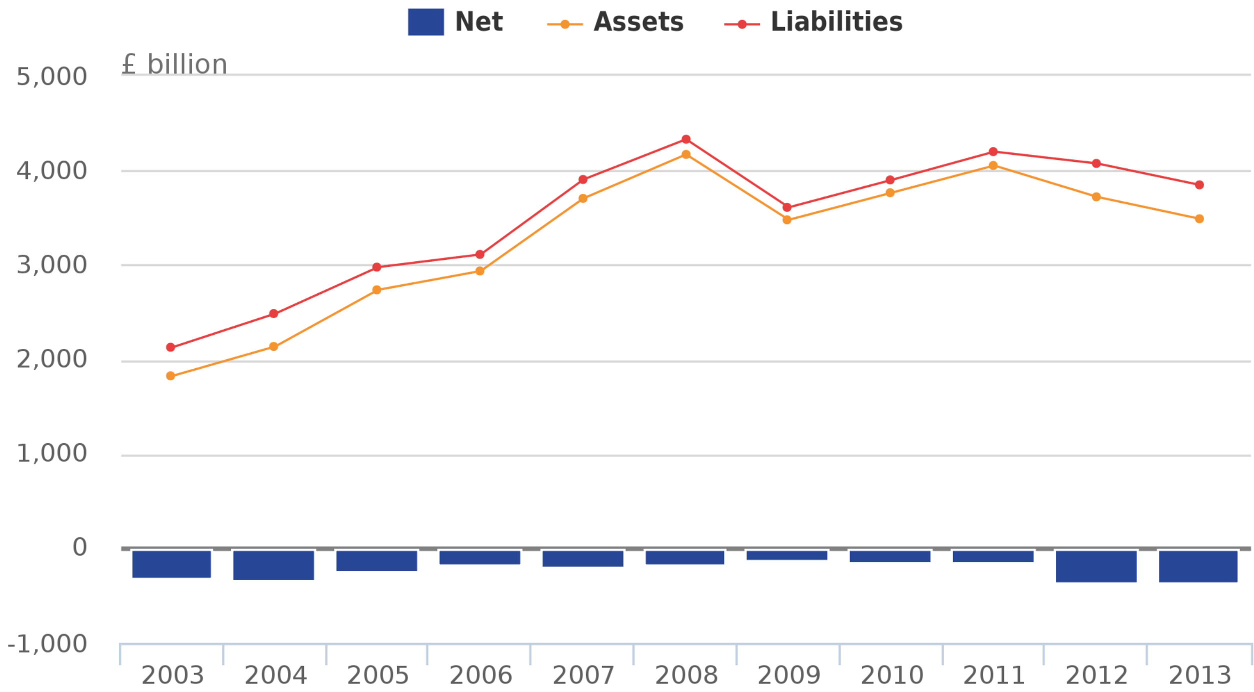
Source: Office for National Statistics

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 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 (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

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 or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs;
- are well explained and readily accessible;
- are produced according to sound methods; 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.