The Balance of Payments

Last update: 28 March 2012

The Balance of Payments details all of the transactions made between the UK's consumers, businesses and Government and the rest of the world over the course of a year. The components of the balance of payments must necessarily sum to zero:

Current account + Capital and Financial account + balancing item = 0

The 2010 Balance of Payments (£billion):

-36.7	+	3.7	+	41.5	+	-8.5	=	0
Current account balance		Capital account balance		Financial account balance		Balancing item		

The Current Account

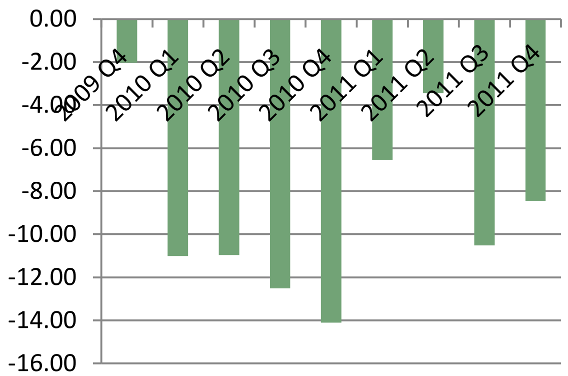
The current account is composed of trade in goods, trade in services, income and current transfers.

The UK current account has recorded a deficit every year since 1984. The deficit indicates that the UK is not paying its way in the global economy. Any deficit in the current account will be matched by a surplus of equal size in the capital and financial account.

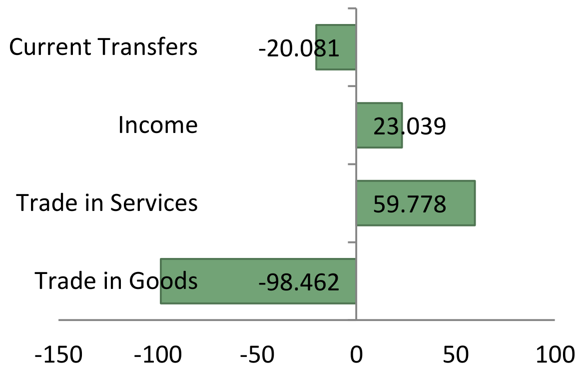
Total Current Account, 2010 (£billion)

Total Credits	*Total Debits*	*Balance*
614.867	651.593	-36.726

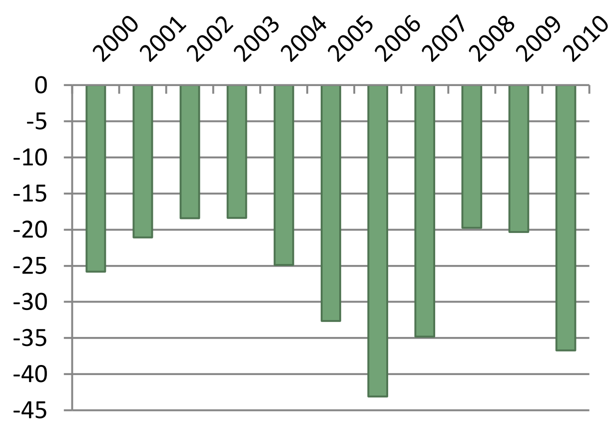
Current Account Balance by Quarter, 2009 Q4-2011 Q4 (£billion)



Composition of the Current Account, 2010 (£billion)



Current Account Balance, 2000-2010 (£billion)



Figures from ONS, Pink Book 2011 and ONS, Balance of Payments: http://www.ons.gov.uk/ons/rel/bop/balance-of payments/2nd-quarter-2011/stb-2nd-quarter-2011.html#tab-Key-points

Trade in Goods

The trade in goods is often also referred to as the trade balance, and it amounts to the total value of the exports of goods from the UK, minus the total value of the imports of goods into the UK in a year.

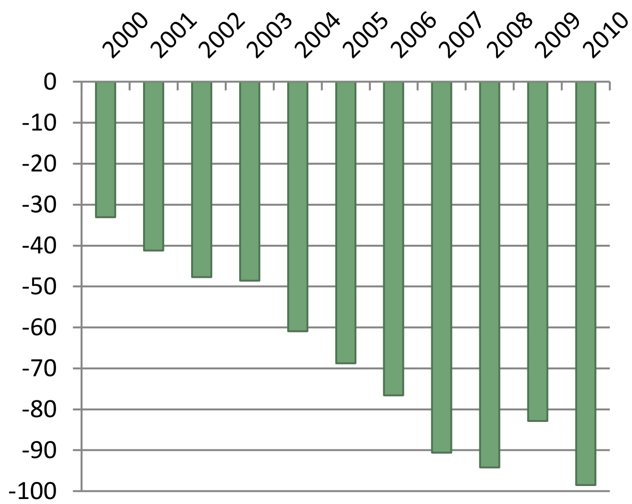
The UK almost always has a trade deficit, importing more than it exports. The balance of trade in goods has shown a deficit in all but six years since 1900. The last recorded surplus in the trade balance was in 1982. Part of the reason for the deficit is deindustrialisation – the UK mainly exports services rather than manufactured goods.

It is important to remember that it is the flow of money, and not goods, which is recorded. The monetary payment for an export flows into the UK, and payment for an import flows out.

Trade in Goods, 2010 (£billion)

Exports	*Imports*	*Balance*
265.714	**364.176**	**-98.462**

The Balance of Trade, 2000-2010 (£billion)



Figures from ONS, Pink Book 2011

Trade in Services

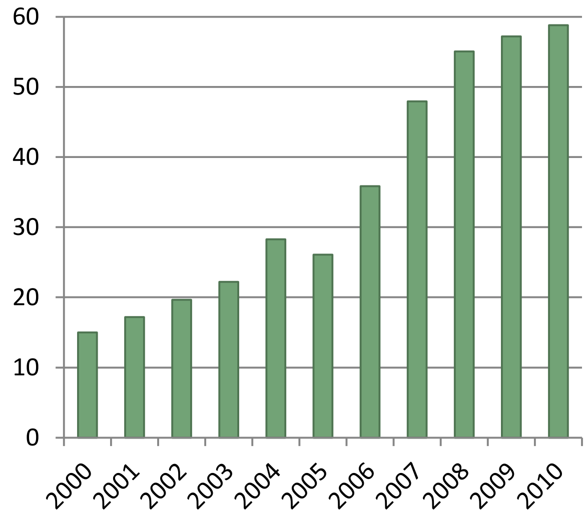
The trade in services is similar to the trade in goods, but does not refer to the ownership of a tangible object. Services in which the UK trades include: financial services, such as banking and insurance; transport services, i.e. shipping; management consultancy, tourism and accounting.

The UK persistently has a surplus in its trade in services: a surplus has been recorded every year since 1966. This is partly due to the strength of the UK in the financial services sector – the city is responsible for a significant proportion of the inflow of money into the UK.

Trade in Services, 2010 (£billion)

Exports	*Imports*	*Balance*
171.082	**112.304**	**+58.778**

The Balance of Trade in Services, 1999-2009 (£billion)



Figures from ONS, Pink Book 2011

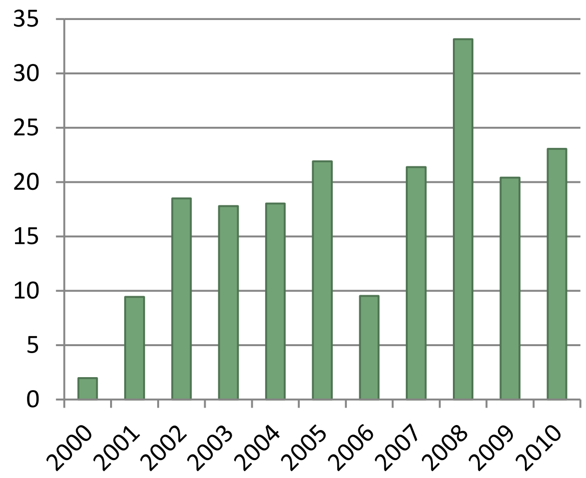
Income

Income refers to all of the money earned by UK residents from non-residents and *vice versa*. This is broken down into two categories: compensation of employees and investment income. Compensation of employees covers any wages, salaries or other benefits earned by UK residents from foreign economies, and investment income relates to interest payments, profits and dividends from assets located outside of the UK.

Income is a crucial link between the current account and the capital and financial accounts, as it includes the annual earnings from the investments that are recorded in the capital account and the financial account.

Income, 2010 (£billion)		
Credits	*Debits*	*Balance*
163.463	140.424	+23.039

Income Balance, 1999-2009 (£billion)



Figures from ONS, Pink Book 2011

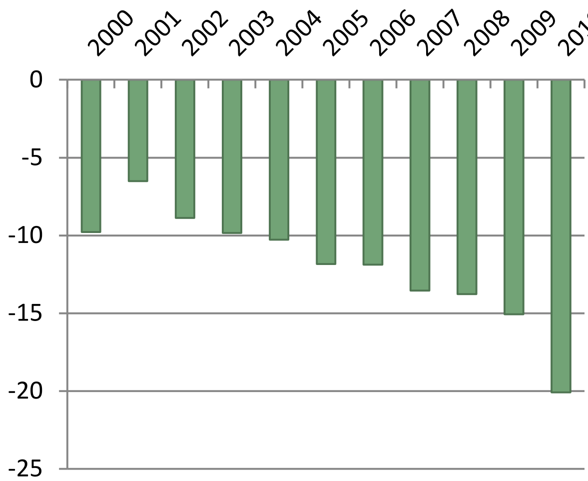
Current Transfers

The current transfers component comprises Government transfers and transfers from other sectors. Government transfers include the country's contributions to the EU institutions, as well as foreign aid. Other sector transfers include the transfer of assets to foreign bank accounts by individuals. A significant feature of the current transfers component is that they do not necessarily have a *quid pro quo* economic value, as they are transfers and not transactions.

The UK's current transfers account has shown a deficit every year since 1960. However, the size of the deficit has been volatile due in particular to the fluctuating contribution of the UK to the EU.

Current Transfers, 2010 (£billion)		
Credits	*Debits*	*Balance*
14.609	34.689	-20.081

Current Transfers Balance, 2000-2010 (£billion)



Figures from ONS, Pink Book 2011

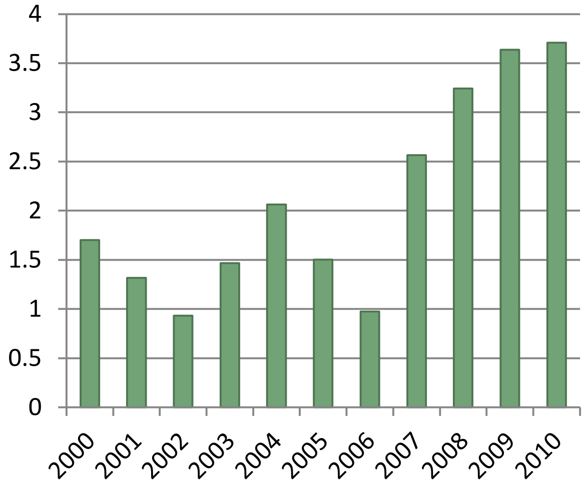
The Capital and Financial Account

The Capital Account

The capital account records all longer term monetary transactions between the UK and the rest of the world. The transactions include capital transfers and the acquisition or disposal of non-produced non-financial assets. Non-produced non-financial assets refer to, for example, land purchased or sold by a foreign embassy, copyrights, patents, trademarks, franchises or leases. The earnings from these assets are reported in the trade in services account, in the opposite direction. In the UK, the capital account has been in surplus since 1982.

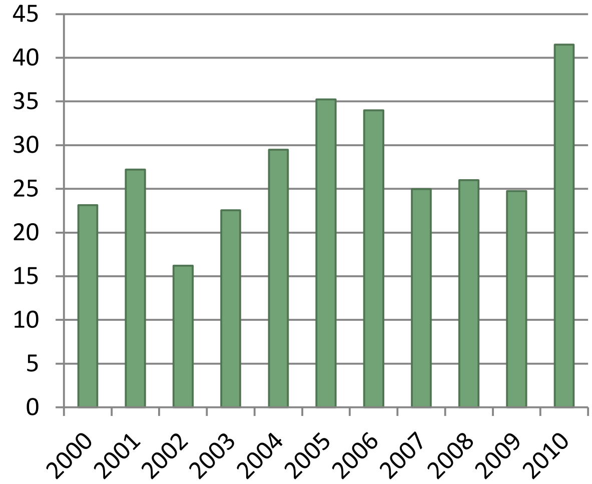
Capital Account, 2010 (£billion)		
Credits	*Debits*	*Balance*
5.927	2.219	+3.708

Capital Account Balance, 2000-2010 (£billion)



Figures from ONS, Pink Book 2011

Financial Account Balance, 2000-2010 (£billion)



Figures from ONS, Pink Book 2011

The Financial Account

The financial account reports all of the investments of UK residents in foreign countries, and foreign residents' investments in the UK. It is composed of direct investment, portfolio investment, other investment, financial derivatives and reserve assets.

Direct investment is money that flows across national boundaries for the purpose of investing in a business. A foreign company building a factory in the UK would be an example of an inflow of direct investment, and a UK company opening a shop in a foreign country would be an example of an outflow of direct investment. The earnings from the investments abroad, following the initial outflow of money recorded, are included in the investment income section of the current account.

Financial Account, 2010 (£billion)

UK investment abroad	*Investment in the UK*	*Balance*
298.466	**339.983**	**+41.517**

The Balancing Item

The balancing item, or net errors and omissions, is a figure added onto the balance of payments to represent instances of inaccurate measurement (errors) or missing information (omissions) in the current and capital and financial account, and to ensure they sum to zero. Errors and omissions are due to the information being gathered using a survey – to collect perfect information would be very expensive. If the balance of payments balanced perfectly, the balancing item would equal zero; indeed as time goes by and the erroneous or missing figures are corrected, the balancing item gets smaller. Unfortunately the balancing item cannot identify whereabouts the error or omission is in the accounts, but it is thought that it is most likely to be in the financial account.

The 2010 Balancing Item (net errors and omissions) was -£8.499billion.

In 2011, the 2009 Balancing Item was revised down by £14.776billion to -£8.086billion, on account of revised figures.

Figures from ONS, Pink Book 2011