

United Kingdom Balance of Payments: preliminary figures for the fourth quarter and year 1986

Preliminary figures indicate that the UK current account was in deficit by £0.8 billion (seasonally adjusted) in the fourth quarter of 1986. For 1986 as a whole there was a deficit of £1.1 billion compared with estimated current account surpluses of £2.9 billion in 1985 and £1.3 billion in 1984 (Table 1).

Visible trade was in deficit in the fourth quarter by £2.6 billion and showed a deficit of £8.3 billion for 1986 overall. This compares with deficits of £2.2 billion in 1985 and £4.4 billion in 1984 (Table 1). The deficits in 1984 and 1985 were, however, estimated to have been increased by the coal strike by £2¼ billion and £1¼ billion respectively.

The preliminary figures for invisible transactions in the quarter show a surplus of £1.8 billion, producing an estimated invisibles surplus for 1986 of £7.2 billion. This compares with £5.1 billion in 1985 and £5.7 billion in 1984. It must be stressed that figures for invisible transactions, particularly for the most recent quarters, are liable to substantial revisions as later information becomes available (Table 1).

The reduced deficit on visible trade in the fourth quarter was due to an increase in the surplus on oil of £0.2 billion and a reduction in the deficit on non-oil trade of £0.1 billion. Comparing 1986 with 1985 the surplus on trade in oil declined by £4.0 billion while the deficit on non-oil trade increased by £2.1 billion (Table 2).

The preliminary estimates for the fourth quarter put the net credit on services at £1.5 billion, similar to that in the preceding quarter (Table 5). Net investment earnings (i.e. of interest, profits and dividends) are estimated at £1.2 billion following an estimated third quarter figure of £1.3 billion (Table 6). Net transfer payments overseas, put at £0.9 billion, also showed little change from the third quarter figure (Table 7).

The estimated surplus on trade in services in 1986, £5.3 billion, compares with £5.7 billion in 1985 and £3.8 billion in 1984. Net earnings on financial and other services increased by £1.4 billion between 1985 and 1986 following a similar increase between 1984 and 1985. The travel account, however, which had been in surplus by £0.6 billion in 1985 recorded a deficit of £0.5 billion in 1986 mainly because of a sharp increase in expenditure abroad by UK residents. The civil aviation account which had been in surplus by £0.3 billion in 1985 showed a deficit of £0.2 billion in 1986 (Table 5).

The preliminary estimate of the balance on interest, profits and dividends in 1986 is £4.3 billion compared with £2.9 billion in 1985 and £4.1 billion in 1984. Earnings on UK direct investment overseas fell by £1.0 billion between 1985 and 1986, but there was an even larger fall, of £2.1 billion, in earnings due on overseas investment in the UK which was more than accounted for by the decline in the earnings of oil companies. Earnings on overseas portfolio investment by UK residents other than banks increased from £2.8 billion in 1985 to £3.7 billion in 1986 (Table 6).

The deficit on transfers in 1986 was £2.4 billion, compared with £2.1 billion in 1985 and £2.3 billion in 1984. The deficit with EC institutions fell by £1.2 billion between 1985 and 1986 reflecting payments in 1986 under both the 1984 and 1985 Inter-Governmental Agreements and a deficit until 1986 in the receipt of most of the lump sum VAT abatement from the UK's excessive net contribution to the 1984 Community budget (Table 7).

Although figures for transactions in external assets and liabilities are not yet complete for the fourth quarter (most of the transactions between the UK non-bank private sector and banks overseas are not yet known) a smaller net outflow is identified for 1986 as a whole (£5.8 billion) than in 1985 (£7.3 billion) and 1984 (£6.4 billion) (Table 8).

Net transactions in assets and liabilities should, with reversal of sign, equal the balance on current account. The movement between 1985 and 1986 thus reflects the changes in the current account over the same period but inexactly because of the many measurement and timing problems which necessitate the inclusion of a balancing item in the accounts. Over the last three years the strongly positive nature of the balancing item indicates that, if there are no significant omissions from the current account, there must be overstatement of financial outflows, understatement of inflows, or a combination of both (Table 1).

The major change between the latest two years occurred in overseas lending and borrowing and overseas portfolio investment by UK banks (Tables 8 and 10). A net outflow of £2.8 billion under these headings in 1985 was followed by a net inflow of £3.7 billion in 1986.

Direct investment overseas by UK residents, rose sharply in the second half of 1986. Fourth quarter investment was £4.2 billion as compared with £1.9 billion in the fourth quarter, was much smaller than in the earlier quarters of 1986 in the lead up to the "Big Bang". The total for the year 1986, £12.8 billion, was £4.8 billion higher than in 1985 (Table 10).

Direct investment in the UK by overseas residents, though reduced to £0.6 billion in the fourth quarter, was £1.7 billion higher in 1986 than in 1985 (Table 9).

The official reserves fell by £0.3 billion in the fourth quarter but rose by £2.9 billion in the year with the addition of the proceeds from the Government's \$4 billion floating rate note issue in September (Table 11).

Revisions

Revisions have been made to the figures for earlier quarters published in December, including substantial reductions to earnings on UK portfolio investment overseas. These mainly stem from the results of the inquiry to insurance companies which have just become available.

Central Statistical Office

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