Explaining the UK Current Account

James Warren, NIESR,

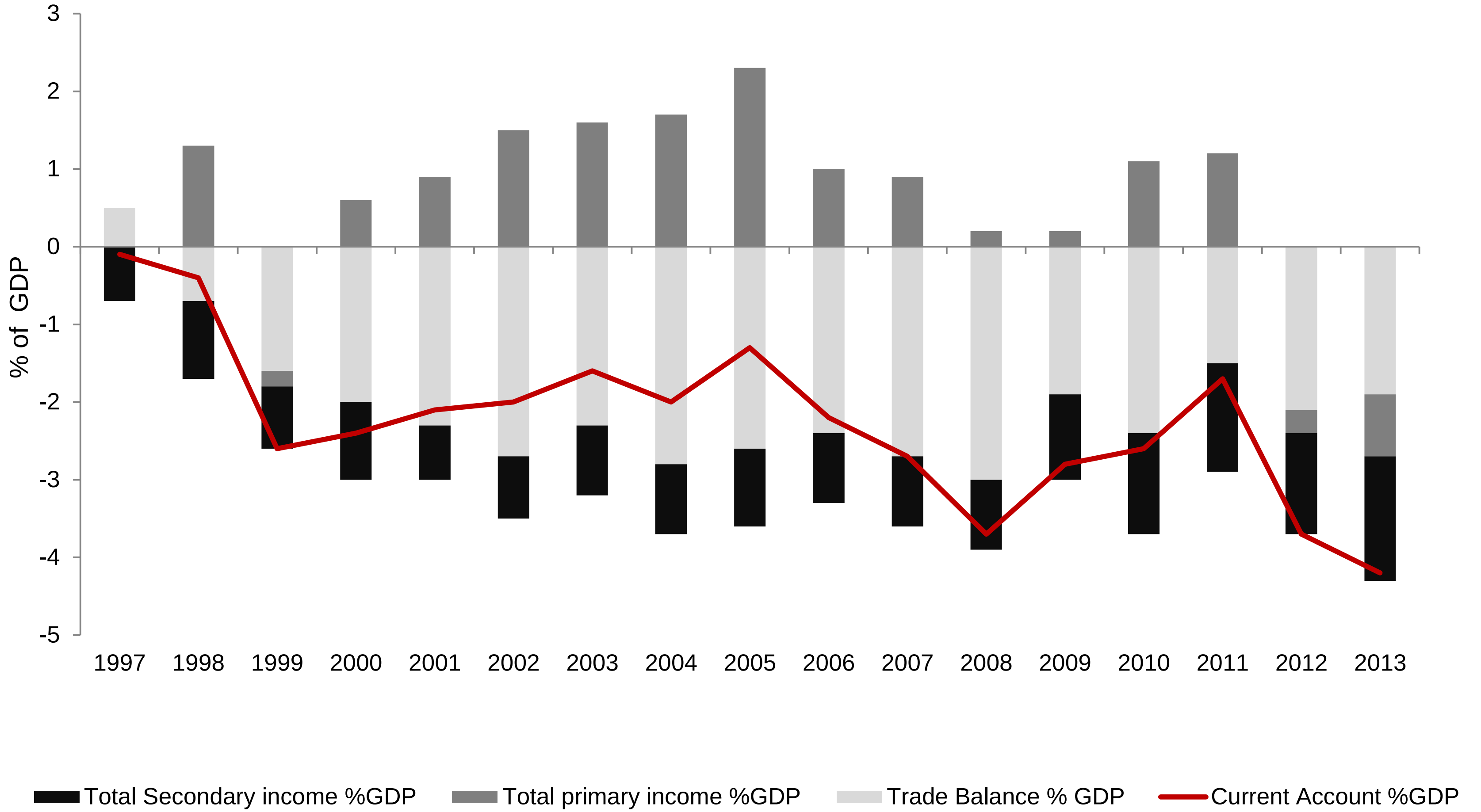
AIECE conference,

7th November 2014

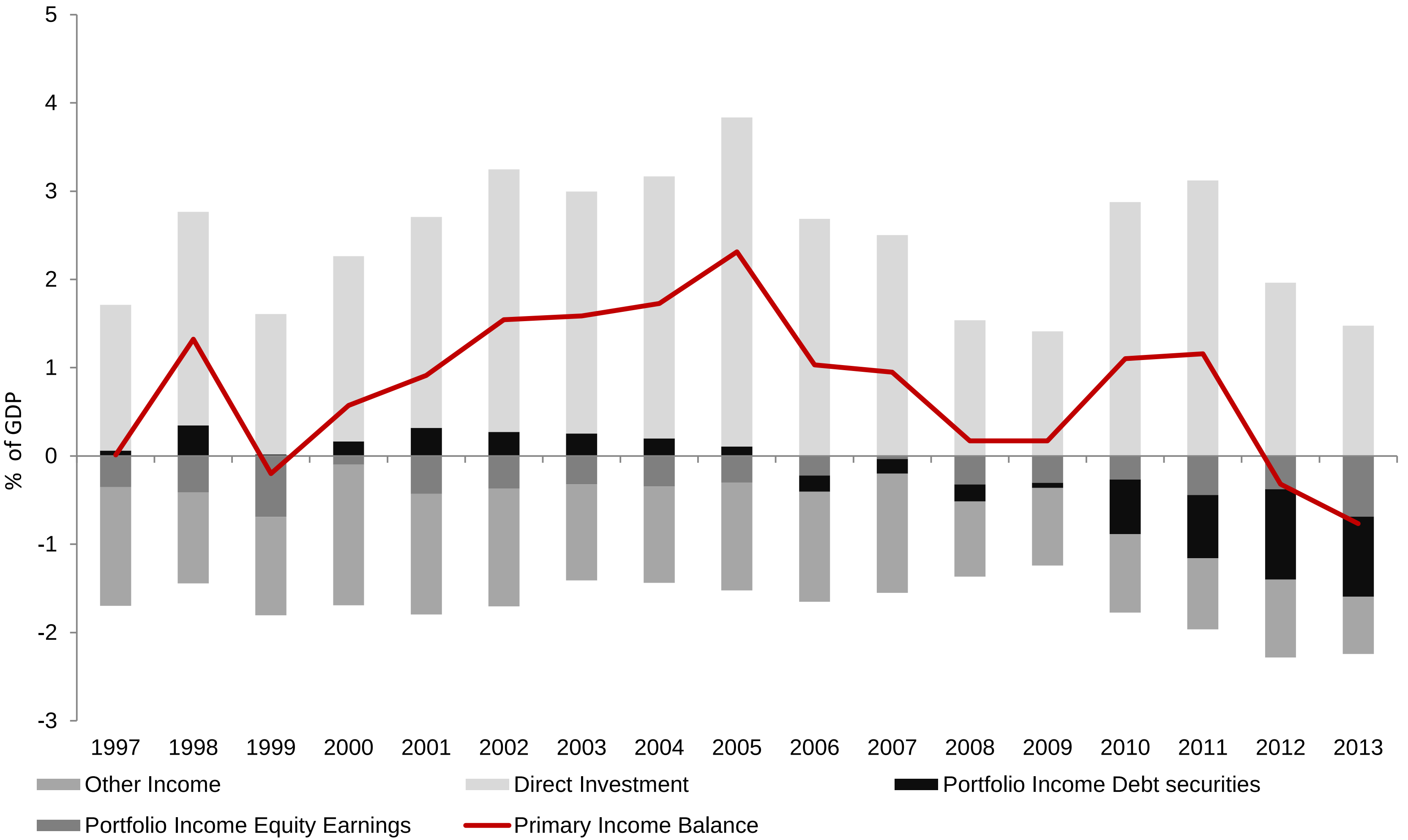
The UK Current Account

- Current Account deficit widened dramatically between 2011 and 2013
- Between 1997 and 2013 the average deficit was 2.2 per cent of GDP
- 2014 Q2 the deficit has widened as far as 5.2 per cent of GDP
- No work on explaining the recent current account deficits for the UK
- Possible explanations could include:
  - Re-domiciled PLCs (e.g. Fitzgerald (2013))

Decomposition of the Current Account



Primary Income Balance



Re-domiciled PLCs?

- Fitzgerald (2013), calculates the effect on the Irish current account of firms re-locating their headquarters to Ireland at 5.5 per cent of GDP in 2012

- Should appear in UK primary income account as an increase in debits.

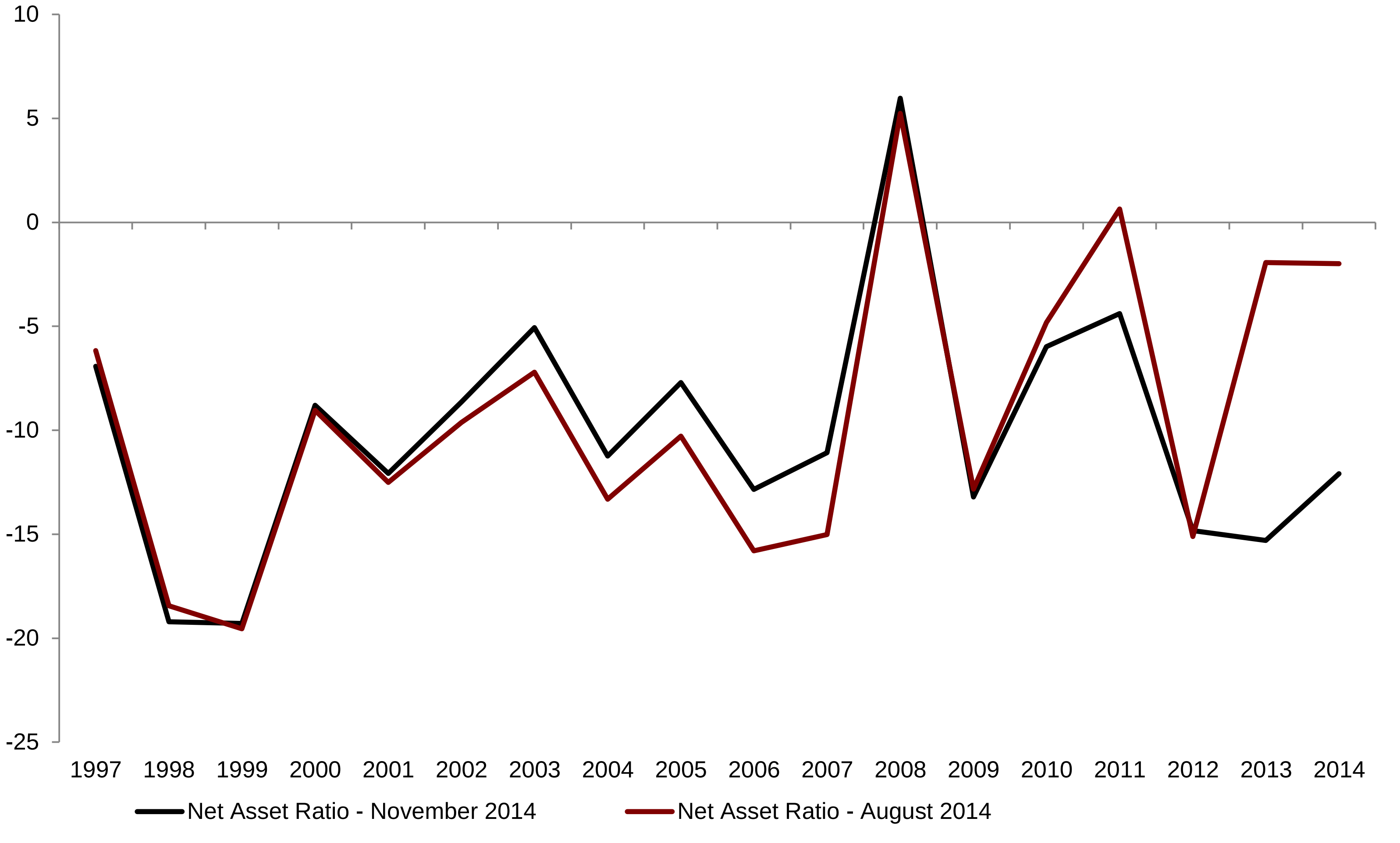
- Between 2011 and 2013 debits increased by approximately €6.5 bn

- Overall balance on income earned fell by around €33 bn

Non-Financial PLCs

- Largest contribution to the fall in the primary income account came from earnings on direct investment from Non- financial PLCs
- These credits fell by around €33bn between 2011 and 2013
- Implied rates of return on both assets and liabilities have been relatively stable
- Did re-dom PLCs kept debits higher than would have otherwise been?

Revisions to Net Asset Ratio



Revisions to the Balance of Payments

Change	Part of Current Account Affected	Revision Impact
Measurement of FDI	Investment Income Balance	Both Directions
FSIM indirectly measured	Trade + Investment Income balance	Both Directions
Illegal Activities	Trade Balance	Downward
Non-Monetary Gold	Trade Balance	Both Directions
Remote Gambling	Trade Balance	Downward
Investment Fund Shares	Income Balance	Upward Revisions