FOCUS · The improvement in the income balance

The Spanish economy's current account has improved considerably since 2008, going from a deficit of 10.2% of GDP to a surplus of 1.9% in Q1 2017. During this period the current account increased by EUR 124.34 billion, of which 29.9% (EUR 36.516 billion, 3.2% of GDP) can be attributed to a smaller deficit in the primary and secondary income balance.[1]

The income balance has improved owing to a reduction in payments, EUR 39.717 billion, which far outweighs the drop in income of EUR 3.201 billion. Looking at the net figures (income minus payments) for the different primary and secondary income components, most of the improvement over this period, namely 86.7%, comes from net property income.[2] The second contribution in order of importance, accounting for 10.7% of the total improvement in the income balance, comes from net personal transfers, including a reduction in remittances by foreign immigrants to their countries of origin. In third place are temporary and seasonal wages, contributing 4.1% of the total. The other components all made a more modest contribution.

A more detailed analysis of property income points clearly to lower interest rates playing a key role. Interest income and payments fell by EUR 17.186 and EUR 39.255 billion respectively, producing a net contribution of EUR 22.069 billion (60.4% of the improvement in the income balance). Spain is benefitting from the low interest rate environment because the amount of debt (public and private) held by foreign investors is much higher than the foreign debt held by Spanish investors (1.3 trillion compared with 0.5 trillion in Q1 2017).

Income on equity contributed a cumulative increase of EUR 9.651 billion, 26.4% of the total improvement in the income balance between Q2 2008 and Q1 2017. This is due to the larger rise in non-debt investment (equity and investment fund shares) for assets compared with liabilities.

The two main factors behind this improvement in the income balance are expected to continue. On the one hand, the benefits produced by low interest rates should continue or, at most, only diminish slightly according to current CaixaBank Research forecasts, projecting a gradual but moderate rise in interest rates over the coming quarters. The positive contribution made by returns from equity should also continue over the next few years since direct investment tends to be long term.

1. The current account is made up of the trade balance in goods and services and the income balance which, in turn, is made up of primary income (income from work and investment, production-related taxes and subsidies) and secondary income (personal current transfers, taxes on income and wealth and social contributions and benefits).
2. The net figure resulting from income from investment made by Spaniards resident abroad and payments resulting from income on investment made by foreign residents in Spain.

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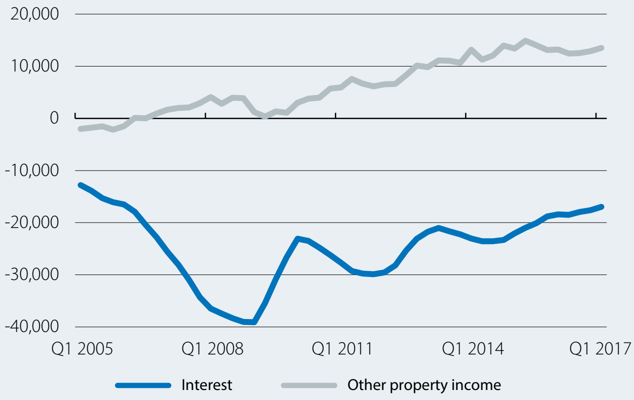
	Q2 2008 (EUR million)	Q1 2017 (EUR million)	Change (EUR million)	Contribution to improvement in the income balance (%)
Income balance *	**–45,654**	**–9,138**	**36,516**	**100.0**
Primary income	**–29,956**	**2,019**	**31,975**	**87.6**
Compensation of employees	740	2,221	1,481	4.1
Property income	–35,160	–3,440	31,720	86.9
Interest	–39,034	–16,965	22,069	60.4
Non-interest	3,874	13,525	9,651	26.4
Other production-related taxes and subsidies	4,464	3,238	–1,226	–3.4
Secondary income	**–15,698**	**–11,157**	**4,541**	**12.4**
Personal transfers	–17,317	–13,392	3,925	10.7
Other transfers, taxes on income and wealth, insurance	1,619	2,235	616	1.7

Note: ** Cumulative over four quarters. Balances.*
Source: *CaixaBank Research, based on data from the INE.*

Net property income *
(EUR million)



Note: ** Revenue minus payments (cumulative over four quarters). Account for the rest of the world.*
Source: *CaixaBank Research, based on data from the INE.*