

Compendium

Primary income



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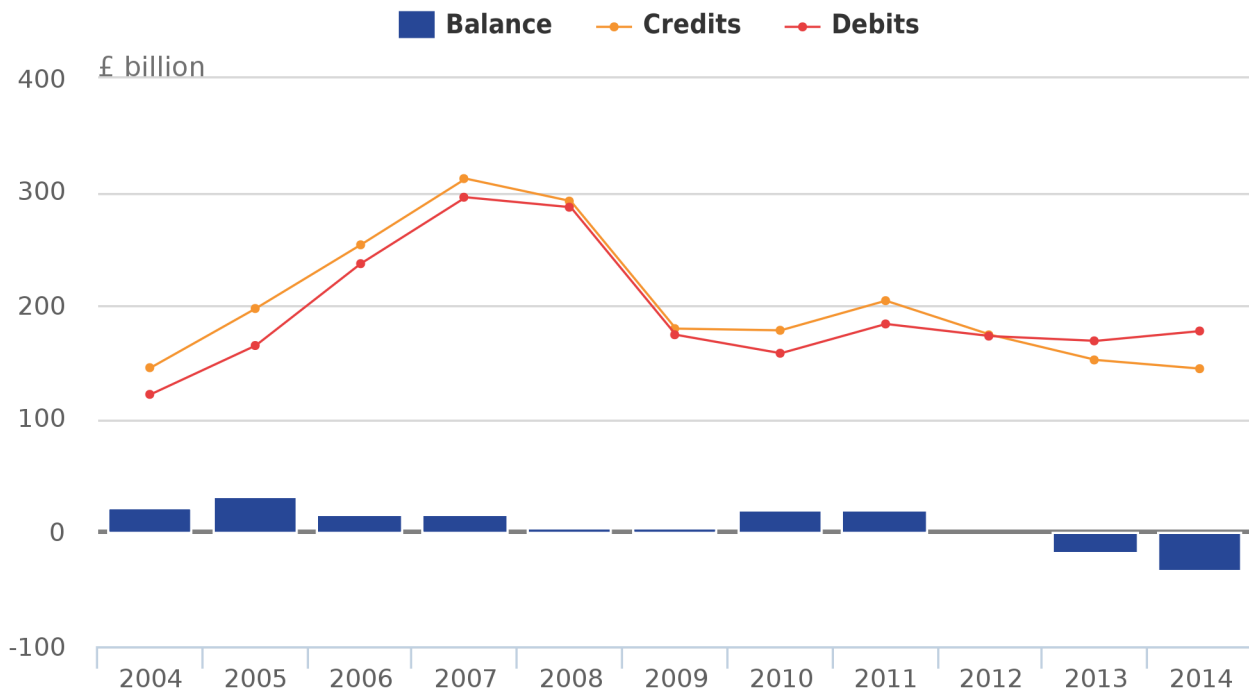
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1 . Primary income

The primary income account is made up of compensation of employees, investment income and other primary income.

Figure 4.1: UK primary income, 2004 to 2014



Source: Office for National Statistics

The deficit on the primary income balance widened from £16.8 billion in 2013, to £33.1 billion in 2014. The widening was mainly due to the surplus on direct investment falling from £18.8 billion in 2013, to £2.0 billion in 2014.

Credits decreased by £7.6 billion, from total earnings of £152.1 billion in 2013, to £144.5 billion in 2014. This was due to earnings on debt securities abroad falling by £3.6 billion, from £25.8 billion in 2013, to £22.2 billion in 2014. Also, earnings on direct investment and other investment abroad both fell by £2.6 billion, from £75.3 billion and £25.6 billion in 2013 to £72.6 billion and £23.1 billion in 2014 respectively. Partially offsetting these was an increase in the earnings on equity and investment funds shares abroad of £1.4 billion, from £21.1 billion in 2013 to £22.5 billion in 2014.

On a sector basis the fall was due to the earnings of UK monetary financial institutions falling by £4.7 billion, from £37.3 billion in 2013 to £32.6 billion in 2014, and earnings of UK other sectors falling by £2.7 billion, from £110.2 billion in 2013 to £107.5 billion in 2014.

Debits increased by £8.7 billion, from £168.9 billion in 2013 to £177.6 billion in 2014. This was mainly due to foreign earnings on direct investment in the UK rising by £14.2 billion, from £56.5 billion in 2013 to £70.6 billion in 2014. Partially offsetting this were decreases in earnings on other investment and earnings on equity and investment funds shares in the UK of £3.7 billion and £3.1 billion respectively in 2014.

On a sector basis the rise was due to foreign earnings on investment in the UK in other sectors increasing by £14.9 billion, from £108.2 billion in 2013, to £123.1 billion in 2014. Partially offsetting this were decreases in the earnings of foreign owned UK monetary financial institutions and central government, from £40.3 billion and £16.0 billion in 2013, to £35.0 billion and £15.0 in 2014 respectively.

2 . Compensation of employees

Compensation of employees presents remuneration in return for the labour input into the production process contributed by an individual. In the international accounts, compensation of employees is recorded when the employer (the producing unit) and the employee are resident in different economies.

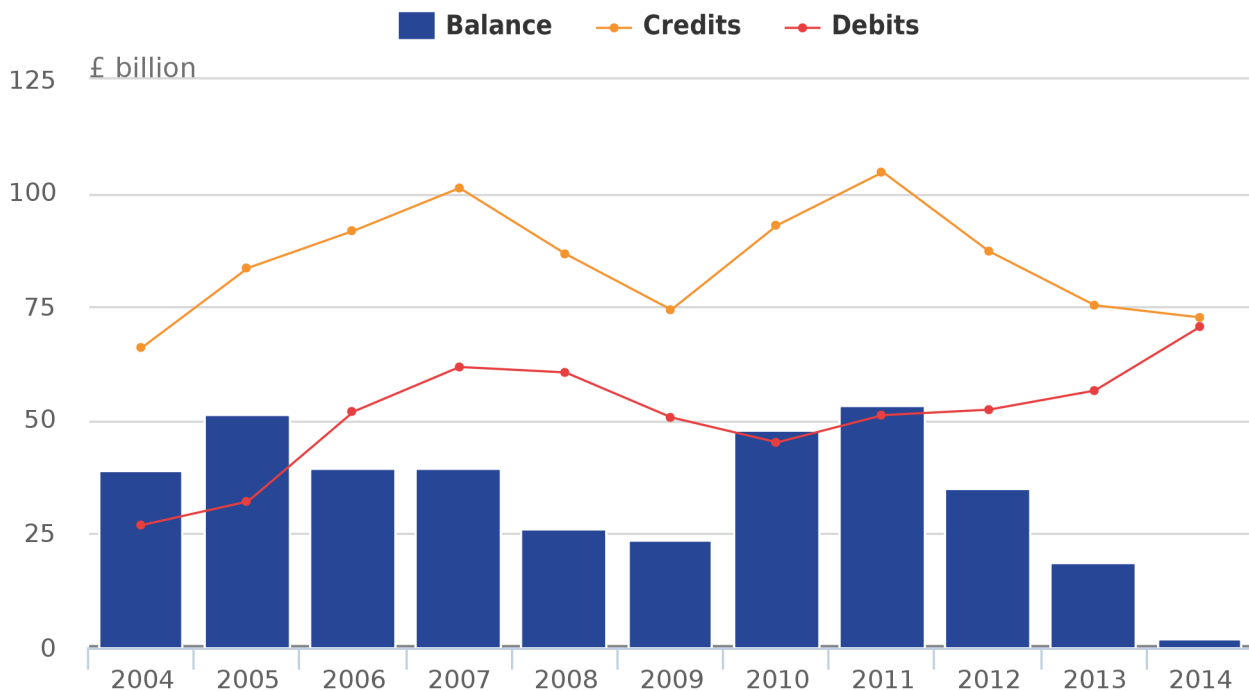
In 2014, the deficit on compensation of employees widened to £443 million, from £326 million in 2013. This was due to credits decreasing, while debits increased.

3 . Investment income

Investment income covers earnings (for example, profits, dividends and interest payments and receipts) coming from foreign investment in financial assets and liabilities. Credits are the earnings of UK residents from their investments abroad and other foreign assets. Debits are the earnings of foreign residents from their investments in the UK and other UK liabilities. The flow of investment in the financial account is recorded separately from earnings, although reinvested earnings of companies with foreign affiliates are a component of both. The total value of UK assets and liabilities held at any time is also recorded separately under the International Investment Position.

Direct investment

Figure 4.2: UK direct investment income, 2004 to 2014



Source: Office for National Statistics

In 2014, the net earnings surplus on direct investment income decreased by £16.8 billion, from £18.8 billion in 2013 to £2.0 billion in 2014. This was mainly due to net earnings surplus on equity falling by £14.0 billion, from £19.4 billion in 2013 to £5.4 billion in 2014. In addition, there was a widening in the deficit on other capital of £2.8 billion, from £0.6 billion in 2013 to £3.4 billion in 2014.

Earnings on direct investment abroad decreased by £2.6 billion, from £75.3 billion in 2013 to £72.6 billion in 2014. This was due to total earnings on equity decreasing by £3.6 billion, from £68.3 billion in 2013 to £64.6 billion in 2014. The total earnings on equity of £64.6 billion was made up from total dividends and distributed branch profits of £74.4 billion, and negative reinvested earnings of £9.7 billion. Negative reinvested earnings indicate a withdrawal of equity by a direct investor. This can be due to the direct investment enterprise incurring a loss on its operations, or the declared dividends are larger than net income in the period. Offsetting this was an increase of £1.0 billion in earnings on other capital, from £7.0 billion in 2013 to £8.0 billion in 2014.

On a sector basis, the decrease was due to decreases in profits for most sectors, especially:

- foreign earnings of UK insurance companies decreased by £1.7 billion, from £4.2 billion in 2013 to £2.5 billion in 2014
- foreign earnings of UK other financial intermediaries by £1.0 billion, from £12.2 billion in 2013 to £11.2 billion in 2014

Foreign earnings on direct investment in the UK increased by £14.2 billion, from £56.5 billion in 2013 to £70.6 billion in 2014. This was mainly due to total dividends and distributed branch profits increasing by £10.3 billion, from £37.8 billion in 2013 to £48.0 billion in 2014. In addition, there was an increase of £3.8 billion in earnings on other capital, from £7.6 billion in 2013 to £11.4 billion in 2014.

On a sector basis, the increase was due to higher profits with:

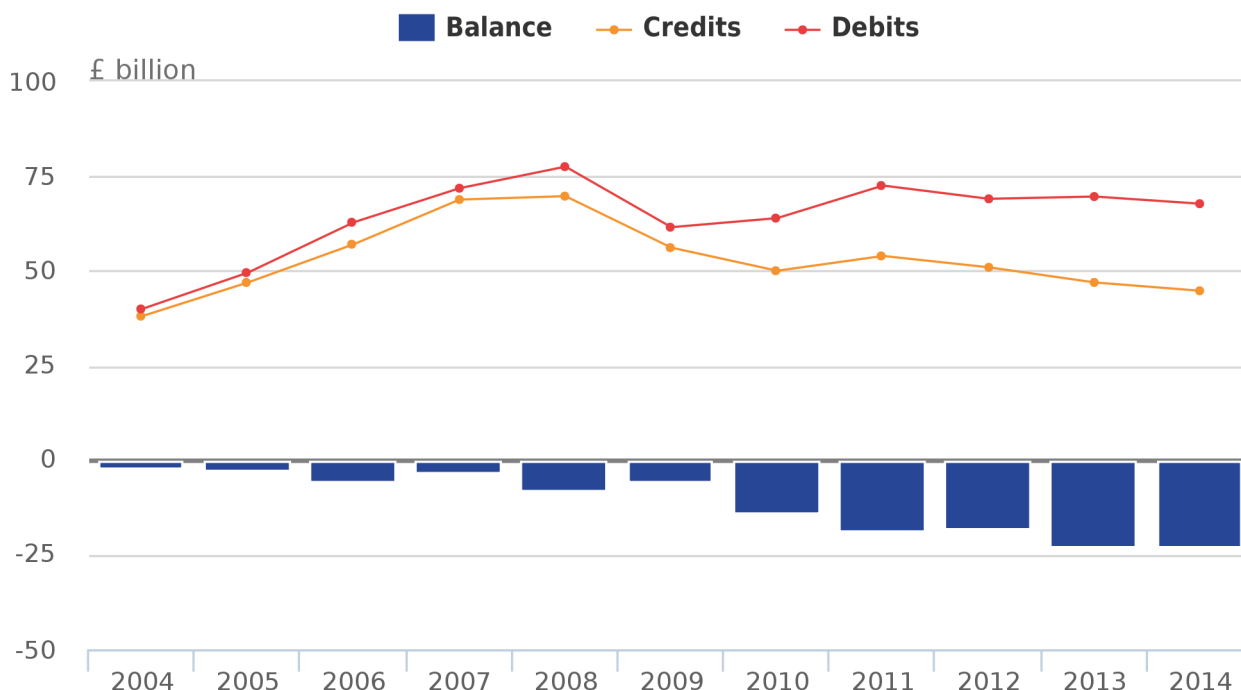
- foreign-owned UK private non-financial corporations increased by £16.7 billion, from £36.0 billion in 2013 to £52.7 billion in 2014
- foreign-owned UK insurance companies increased by £1.4 billion, from £1.8 billion in 2013 to £3.2 billion in 2014

Partially offsetting these were decreases in profits from:

- foreign-owned UK monetary financial institutions by £2.2 billion, from £8.1 billion in 2013 to £5.9 billion in 2014
- foreign-owned UK other financial intermediaries by £1.7 billion, from £10.4 billion in 2013 to £8.7 billion in 2014

Portfolio investment

Figure 4.3: UK portfolio investment income, 2004 to 2014



Source: Office for National Statistics

In 2014, the net earnings deficit on portfolio investment income recorded a small increase of £0.3 billion. This was due to the net earnings deficit on debt securities widening by £4.8 billion, from £10.6 billion in 2013 to £15.4 billion in 2014. Offsetting this was a narrowing in the net earnings deficit on equity and investment fund shares of £4.5 billion, from £12.0 billion in 2013 to £7.6 billion in 2014.

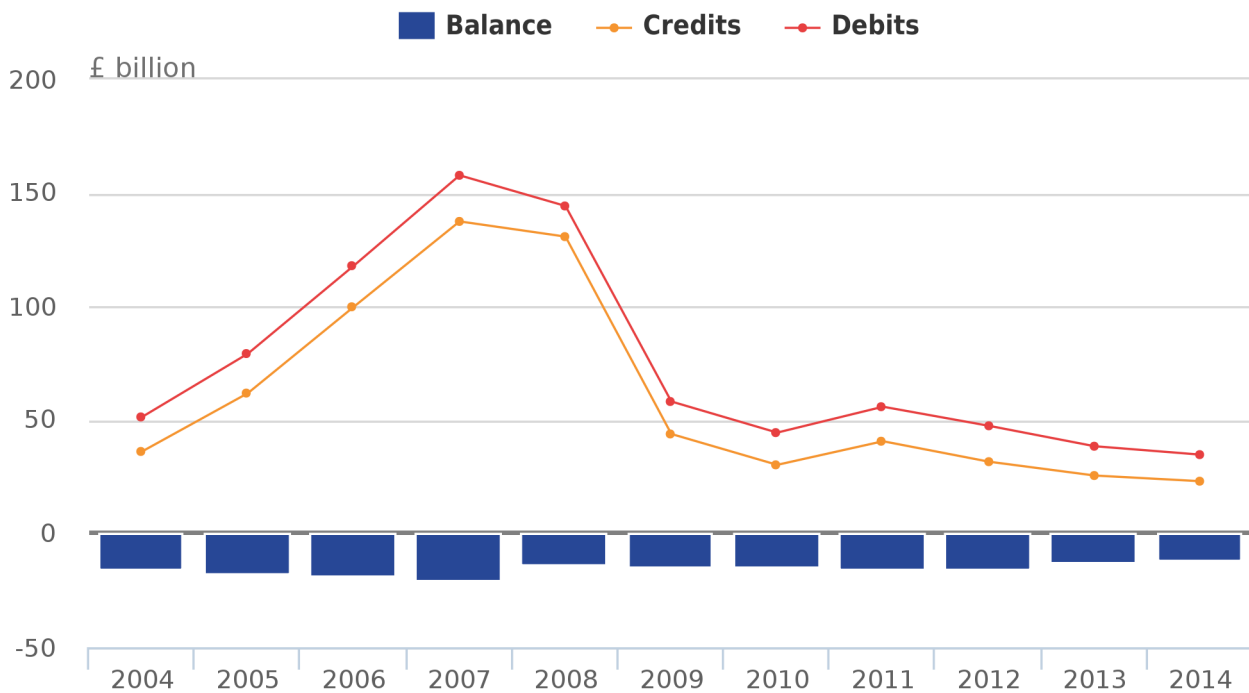
UK earnings on portfolio investment abroad decreased by £2.2 billion, from £46.9 billion in 2013 to £44.7 billion in 2014. This was due to the UK earnings on foreign debt securities falling by £3.6 billion from £25.8 billion in 2013 to £22.2 billion in 2014. While the UK earnings on foreign equity and investment fund shares rose by £1.4 billion, from £21.1 billion in 2013 to £22.5 billion in 2014.

Foreign earnings on portfolio investment in the UK decreased by £2.0 billion, from £69.6 billion in 2013 to £67.7 billion in 2014. The fall in the earnings was mainly due to foreign earnings on equity and investment fund shares decreasing by £3.1 billion, from £33.1 billion in 2013 to £30.0 billion in 2014. Partially offsetting this was a rise in foreign earnings on UK debt securities of £1.1 billion, from £36.5 billion in 2013 to £37.6 billion in 2014.

Other investment

Movements in the other investment balance are mainly due to interest rate changes, which impact on interest paid and received on loans and deposits. As the UK has an excess of other investment liabilities over assets, there is generally a deficit on other investment income, with rising interest rates leading to a rising deficit and falling interest rates to a falling deficit.

Figure 4.4: UK other investment income, 2004 to 2014



Source: Office for National Statistics

The deficit on the other investment income balance narrowed from £12.8 billion in 2013, to £11.7 billion in 2014, as payments decreased more than receipts.

Receipts decreased by £2.6 billion, from £25.6 billion in 2013, to £23.1 billion in 2014. This was mainly due to total earnings on deposits abroad decreasing by £2.4 billion, from £24.8 billion in 2013 to £22.4 billion in 2014.

Payments decreased by £3.7 billion, from £38.5 billion in 2013, to £34.8 billion in 2014. This was due to total earnings on deposits decreasing by £2.9 billion, from £21.6 billion in 2013 to £18.8 billion in 2014. Additionally, total earnings on loans decreased by £1.2 billion, from £14.7 billion in 2013 to £13.5 billion in 2014.

On a sector basis, the narrowing of the deficit on the other investment income balance was mainly due to the deficit on monetary financial institutions narrowing by £1.0 billion, from £4.1 billion in 2013 to £3.1 billion in 2014.

4 . Other primary income

Other primary income covers earnings from rent and taxes, and subsidies on production and on the import of goods. Under the Balance of Payments Manual fifth edition, taxes and subsidies on production and on the import of goods were classified to secondary income (previously titled current transfers). The recording of rent was previously classified to other investment income.

The deficit on other primary income widened in 2014 to £0.7 billion, from £0.5 billion in 2013.

Credits decreased by £0.1 billion, from receipts of £2.5 billion in 2013 to £2.3 billion in 2014. This was due to other sectors subsidies on products and production: Agricultural guarantee fund, decreasing from £2.5 billion in 2013 to £2.3 billion in 2014.

Debits were £3.0 billion in 2014, virtually unchanged from 2013.

