Balance of Payments

Fourth quarter 2011

Statistiska centralbyrån Statistics Sweden

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Statistics Sweden
2012

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Foreword

The balance of payments has been compiled and published by Statistics Sweden on behalf of the Swedish Riksbank since September 2007.

The balance of payments is a summary of Sweden's real and financial transactions with the rest of the world, and is divided into the current account, the capital account and the financial account.

The report comprises the results of the fourth quarter of 2011.

Statistics Sweden, March 2012

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Summary

The current account for the fourth quarter of 2011 amounted to SEK 50 billion, which is SEK 6 billion weaker than the same period in 2010. Trade in goods has made the biggest contribution to the weaker current account.

Foreign trade in goods resulted in a surplus of SEK 15 billion, a significant decrease compared to the same quarter of 2010 when the corresponding surplus was SEK 25 billion. The reduced surplus in trade in goods depends both on a decrease in exports and an increase in imports.

Trade in services showed a surplus of SEK 34 billion during the fourth quarter, which is weaker than the year before. The most significant change is a reduction in the deficit in the item travel, primarily due to an increase in travel consumption by foreign travellers in Sweden.

The surplus in the current account is balanced by a deficit in the financial account of SEK 73 billion. Direct investments and other investments contributed with relatively large capital outflows while portfolio investments contributed with a large capital inflow through debt issues.

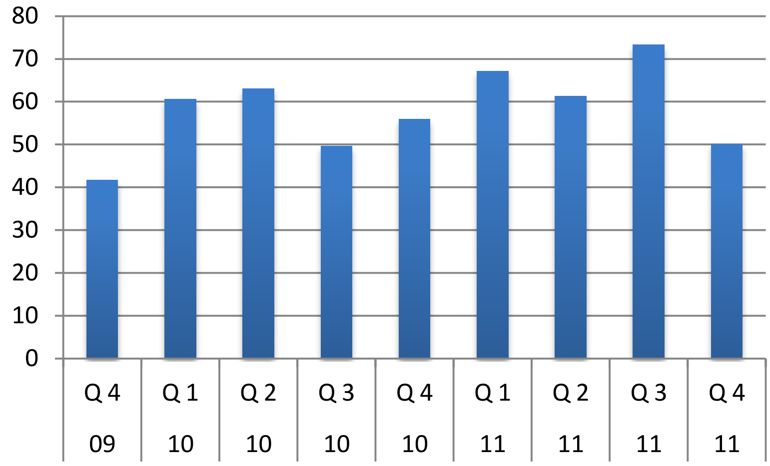
Balance of Payments – Fourth quarter of 2011

The balance of payments for the fourth quarter showed a surplus of SEK 50 billion in the current account while the capital account gave a capital outflow of almost SEK 2 billion. The financial account gave a net outflow of SEK 73 billion.

Current account

The current account was weakened during the fourth quarter and gave a surplus of SEK 50 billion. This can be compared with a surplus of SEK 56 billion during the same period last year. The main reason for a weaker current account was a reduced surplus in foreign trade in goods.

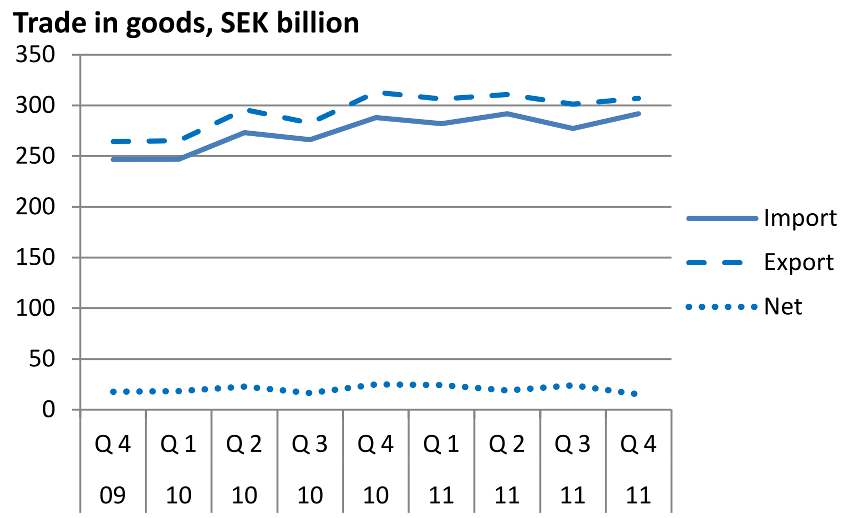
Current account, net SEK billion (see table A)



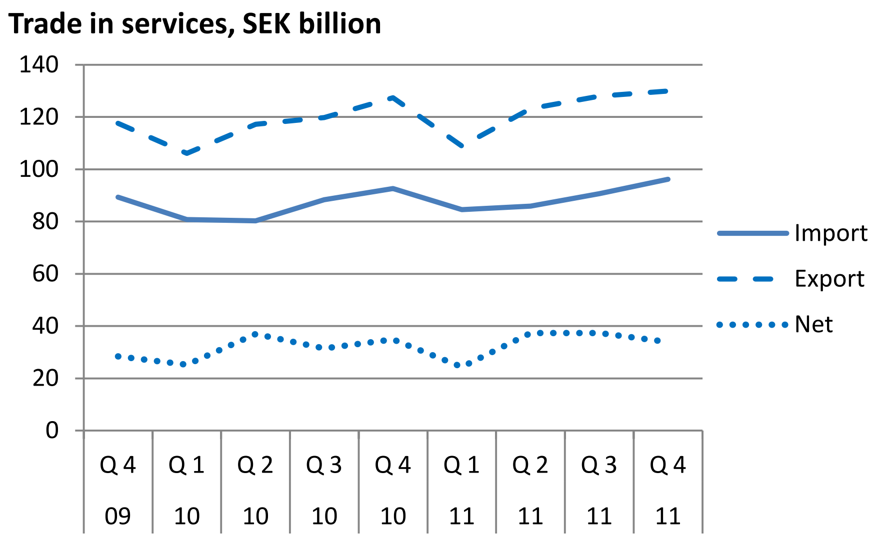
Foreign trade in goods and services

Foreign trade in goods and services gave a surplus of SEK 49 billion during the fourth quarter. This is reduction compared to the same quarter last year when the surplus amounted to SEK 60 billion. For the whole of 2011, trade in goods and services gave a surplus of SEK 215 billion, a slight increase compared to the whole of 2010.

Weaker trade in goods explains the reduced surplus in trade in goods and services during the fourth quarter. The surplus in the trade in goods amounted to SEK 15 billion, which can be compared to the same period last year when the surplus amounted to SEK 25 billion. The reduced surplus in trade in goods depends both on a decrease in exports and an increase in imports.



Trade in services gave a surplus of SEK 34 billion during the fourth quarter. This is slightly weaker compared to the surplus during the same quarter of last year which amounted to SEK 35 billion. The lower surplus depends on the fact that imports have increased more than exports.

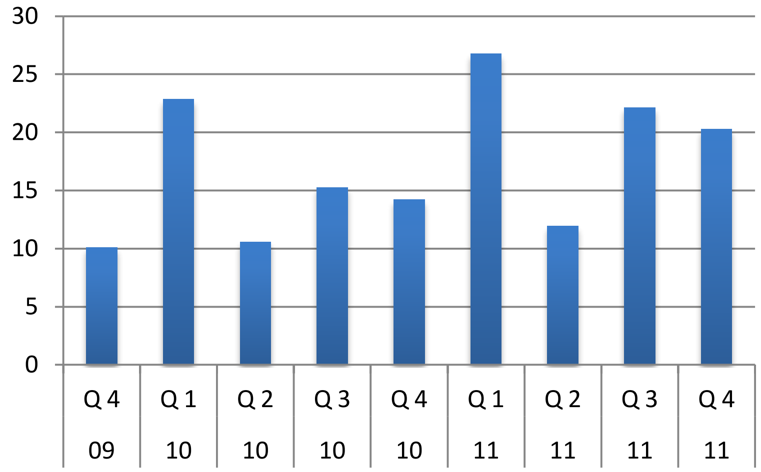


The sub-items showing the greatest surplus included transport services, computer and information services and other business services. The biggest change compared to the same period last year is the fact that the deficit in the sub-item travel has decreased from SEK 6 billion to just under SEK 2 billion. The reduced deficit depends on an increase in travel consumption by foreign travellers in Sweden.

Income

Income consists of compensation of employees and investment income. Together these gave a surplus of SEK 20 billion. This is an increase of about SEK 6 billion compared to the same quarter last year. Investment income is responsible for most of the income while compensation of employees gave a slightly negative contribution.

Income, net SEK billion (see table E)

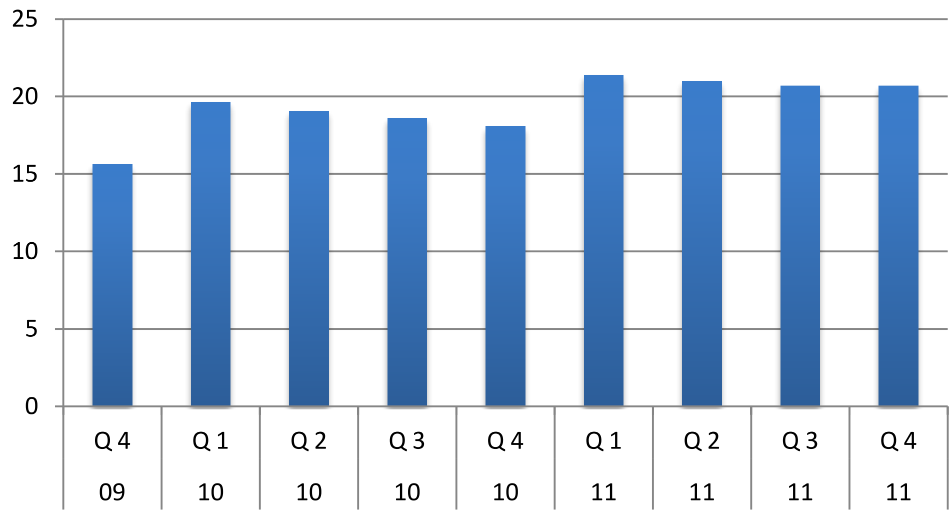


Earnings on direct investments

Earnings on direct investment gave a net inflow of SEK 21 billion during the fourth quarter. Earnings on Swedish direct investments abroad amounted to SEK 69 billion, while earnings on foreign direct investments in Sweden totalled SEK 49 billion.

Dividends tend to be relatively large during the fourth quarter, which was also the case during the fourth quarter of 2011. Swedish investments abroad gave dividends of SEK 24 billion while foreign investments in Sweden gave dividends of SEK 16 billion.

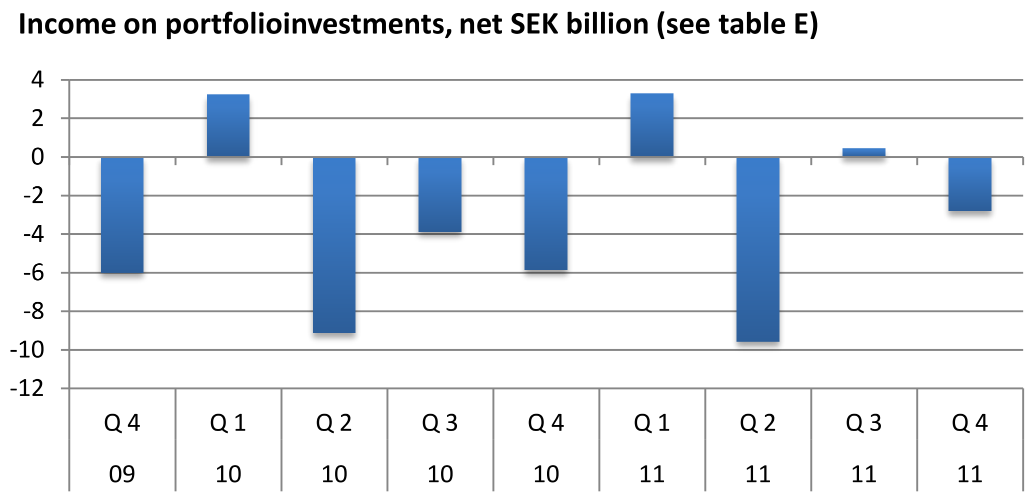
Income on direct investments, net SEK billion (see table E)



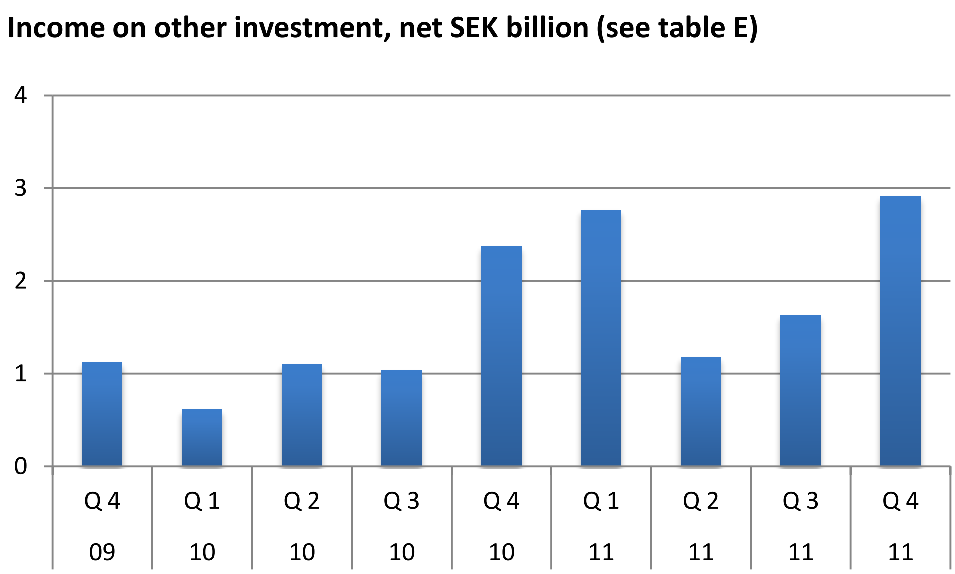
Earnings on portfolio investments
Earnings on portfolio investments generated a capital outflow of nearly SEK 3 billion net, which is slightly down compared to the same period last year.

This decrease is explained by slightly lower interest rates on debt securities. Since foreign holdings of Swedish securities are greater than Swedish holdings of foreign securities, interest rate fluctuations have a greater impact on foreign earnings on Swedish assets in absolute numbers, which in this case explains the reduction in capital outflow.

Dividends on foreign shares increased slightly at the same time as dividends on Swedish shares and funds were low.



Earnings on other investments
Earnings on other investments gave a surplus of SEK 3 billion net. Earnings on other investments consist of earnings on loans and bank deposits, etc. The largest contributions to this item come from the earnings of Swedish banks on their assets and liabilities in relation to their counterparts abroad.

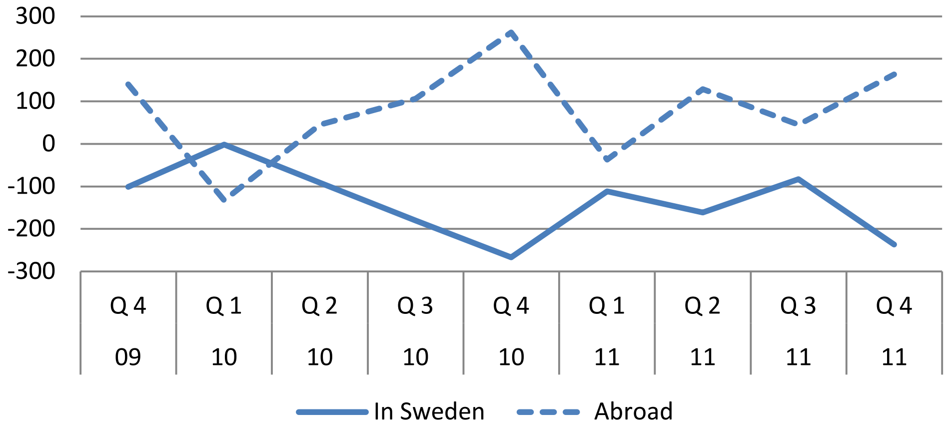


Financial account

Transactions in the financial account gave a net outflow of SEK 73 billion during the fourth quarter. Direct investments, other investments, financial derivatives and reserve assets gave outflow while portfolio investments generated inflow.

The financial account has shown a net outflow in all quarters of 2011 and gave an outflow of SEK 293 billion for the whole of 2011. In 2010, the financial account generated an outflow of SEK 260 billion. Other investments were responsible for most of the outflow in both 2010 and 2011.

Financial account, net SEK billion (see table G)

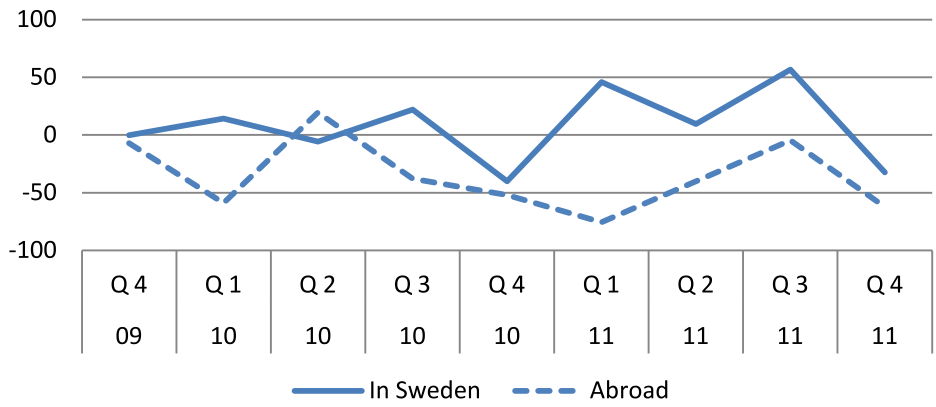


Direct investments

Direct investments gave a net outflow of SEK 95 billion in the fourth quarter. Swedish direct investment abroad increased by SEK 62 billion while foreign investment in Sweden fell by SEK 32 billion.

Many transactions are usually carried out in the fourth quarter, especially intra-group ones, which was also the case in the fourth quarter of 2011. Flows in equity were influenced by large cross-border transactions, which also affected the third quarter. A large transaction that has affected direct investments both in the third and fourth quarters is Nycomed’s sale of a Danish subsidiary to Takeda Pharmaceutical.

Direct investment, net SEK billion (see table G)



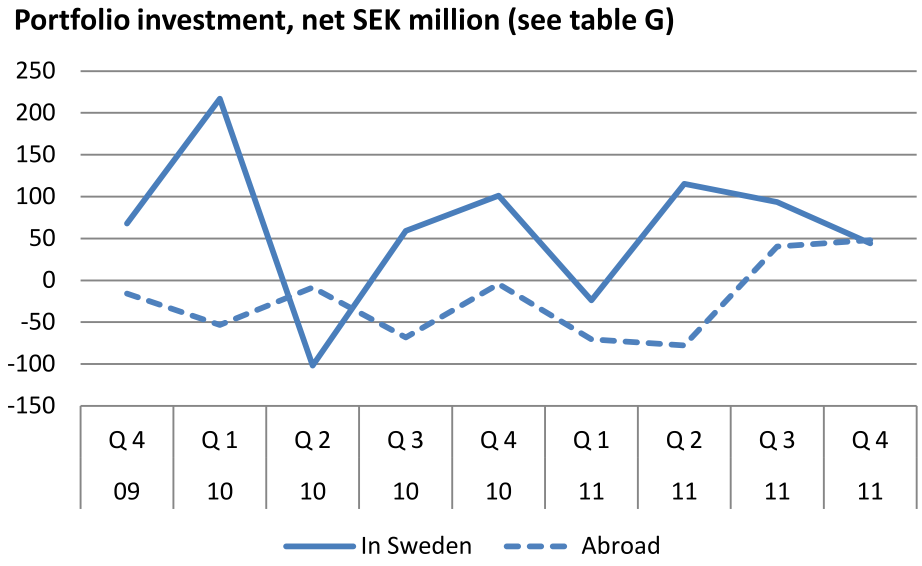
For the whole of 2011, Swedish enterprises invested SEK 183 billion in direct investment abroad. Foreign enterprises, on the other hand, invested SEK 80 billion in Sweden. This can be compared to the whole of 2010 when Swedish enterprises invested SEK 129 billion abroad while foreign enterprises reduced their investment in Sweden by SEK 10 billion.

Portfolio investments

Portfolio investments with other countries gave a capital inflow of SEK 92 billion net during the last quarter of last year. The net inflow for all of 2011 was SEK 170 billion.

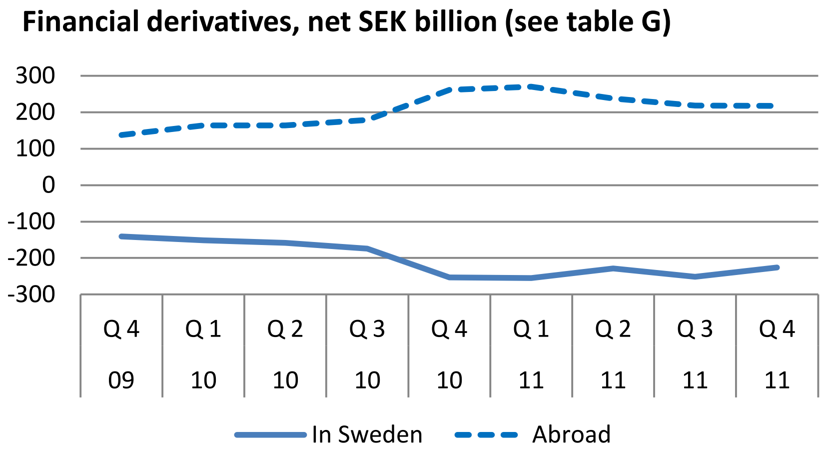
Swedish investors sold foreign debt securities for SEK 65 billion net during the quarter. These were mainly made up of German bonds. For the whole of 2011, however, Swedish investors made net purchases of foreign securities for a total of SEK 9 billion. Foreign investors, on the other hand, demonstrated considerable enthusiasm to invest in issues of Swedish debt securities, which resulted in SEK 214 billion in net purchases for the whole of 2011. Bank and mortgage bonds were very popular although securities issued by non-financial corporations also attracted a certain amount of interest.

Trade in shares and funds accounted for an outflow of SEK 10 billion during the fourth quarter of the year. Swedish investors made net purchases of foreign shares and investment funds for SEK 17 billion. Investment was mainly made in Finnish shares as well as in funds registered in Luxembourg.



Financial derivatives

During the fourth quarter, capital outflows of SEK 9 billion were noted for financial derivatives. Fluctuations on financial markets were behind these flows. The Swedish krona strengthened against the TCW index, while both Swedish and foreign interest rates fell slightly. Interest and currency swaps were responsible for most of the outflows.



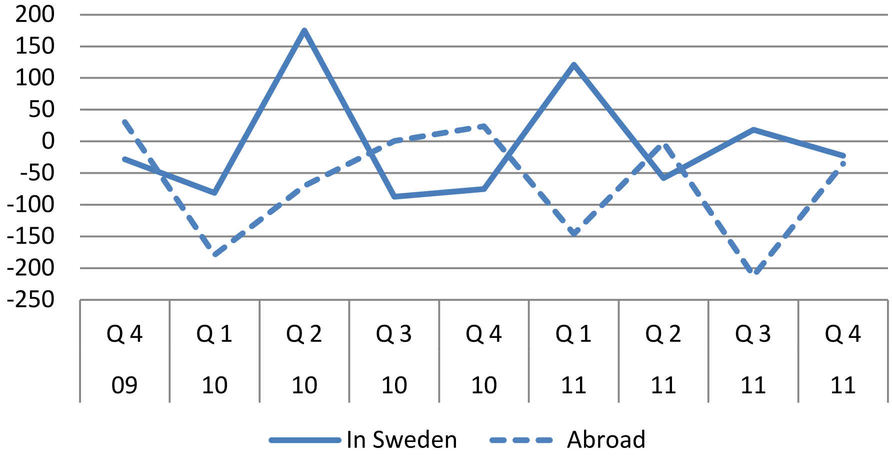
Other investments

Other investments gave a net inflow of SEK 58 billion during the fourth quarter of 2011. External lending by the bank sector was responsible for most of the net outflow. Non-financial corporations, on the other hand, generated a net inflow, which was mostly due to a decrease in bank assets abroad. The largest net outflows during the quarter were to Finland.

A net outflow of SEK 337 billion was generated for the whole of 2011. This can be compared to a net outflow of SEK 294 billion in 2010. The net outflows in both 2010 and 2011 can be explained mainly by increased external lending.

Other investments mainly consist of loans by the bank sector to and from other countries, excluding loans of securities. Among other things, these include promissory note loans, deposits and repurchase agreements.

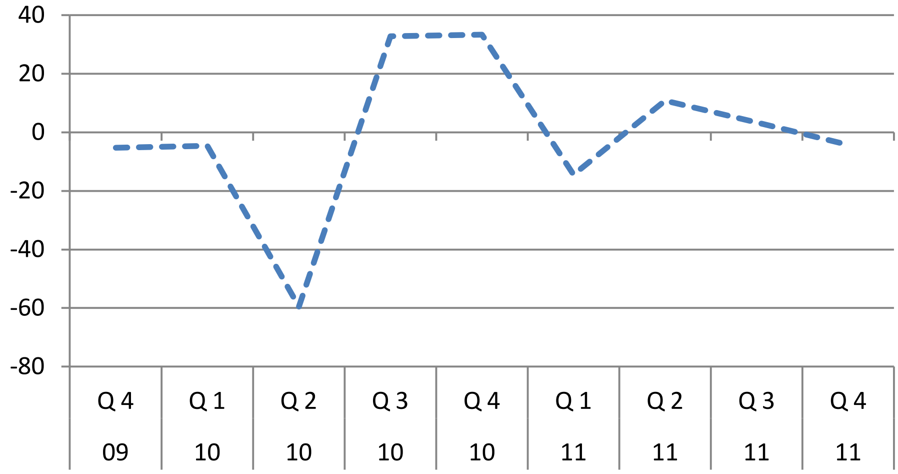
Other investment, net SEK billion (see table G)



Reserve assets

During the quarter, reserve assets generated a net outflow of SEK 4 billion in the form of an increase in balances with banks and security investments. At the end of the year, reserve assets amounted to SEK 346 billion. This is an increase of SEK 21 billion compared to the year before when reserve assets amounted to SEK 325 billion.

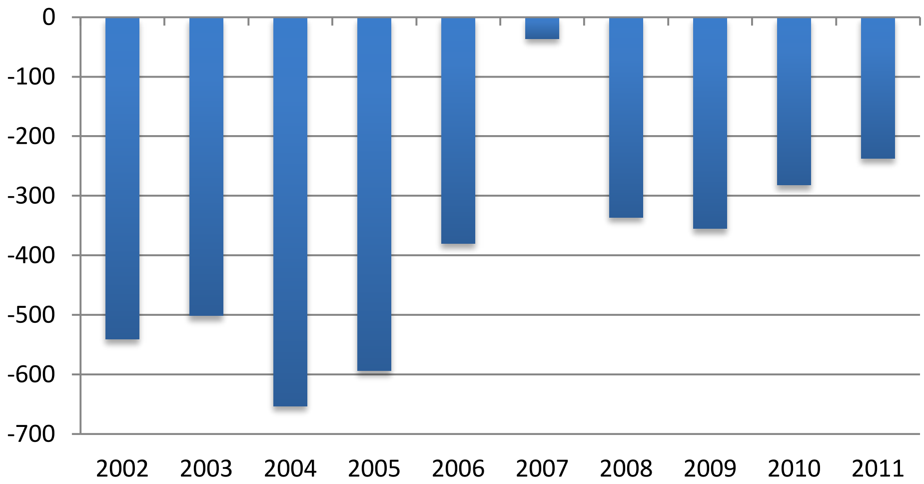
Reserve assets, net SEK billion (see table G)



International investment position, net

At the end of 2011, preliminary figures on Sweden's international investment position showed a net liability of SEK 237 billion. Compared to 2010, the liability has decreased by approximately SEK 45 billion.

Investment position, net SEK billion (see table I)



Two clear trends have been visible in the international investment position in recent years. The first is a substantial rise in Swedish debt via securities. The other trend, which is essentially a mirror image of the first, is an equally large increase in net external claims via other investments. Other investments consist mainly of assets and liabilities in the form of loans and deposits. The rise in external securities liabilities mainly depends on the ever-greater borrowing of banks and housing credit institutions in foreign currency via issues abroad. Liabilities via debt securities increased in 2011 by SEK 340 billion while net claims via other investment rose by about SEK 300 billion.

Apart from securities (portfolio investments) and other investments, the net investment position comprises direct investments, financial derivatives and the Riksbank’s reserve assets. In all of these categories bar portfolio investments, it can be noted that Sweden has a net claim on the rest of the world.

The international investment position is a summary of a country's total financial assets and liabilities in relation to the rest of the world. It is hence a measure of the country' wealth compared to other countries. The data are reported at market value apart from direct investment, which is reported at book value. To supplement this information, a summary of Sweden's international investment position is published, in which a market value has been calculated. For 2011, the complete market value calculation shows a positive international investment position, i.e. Sweden has a net claim on the rest of the world.

It is important to note that several sub-items in the international investment position for 2011, such as direct investment and portfolio shares, are estimates. A more definitive outcome cannot be reported for approximately another 12 months. It is hence important to interpret the figures with a certain amount of caution.

Definitions and explanations

The international investment position is a compilation of all domestic sectors' total external assets and liabilities. The net result of these assets and liabilities is a measure of Sweden's wealth in relation to other countries. This should not be confused with the national debt, which is the total deficit and surplus in the central government budget over time.

What is the balance of payments?

The balance of payments has been produced and summarised by Statistics Sweden on behalf of the Swedish Riksbank since September 2007.

In a closed economy, the level of investment is determined by the total savings in the economy. This means that if the savings decline for some reason, investment will also decline. In an open economy, the relationship between savings and investment is not as clear, as global financial markets enable international capital to flow easily between countries. The balance of payments contains information on these flows. The balance of payments is quite simply a summary of a country's real and financial transactions with the rest of the world and can be divided into the following:

- The current account, which shows the trade in goods and services, compensation for employees, earnings on financial assets and liabilities, and regular transfers such as EU subsidies and fees.
- The capital account, which covers EU subsidies and foreign aid for real investment as well as the purchase and sale of rights, such as patents.
- The financial account, divided into direct investment, portfolio investment, financial derivatives, other investment and reserve assets, shows changes in financial assets and liabilities in relation to the rest of the world.

Derivation of the balance of payments

A country's gross domestic product, BNP_t, is the total value of the goods and services produced in the country during a certain year t. Production is used to satisfy either domestic demand in the form of household consumption, C_t, private investment, I_t, and public sector expenses, G_t, or to be delivered abroad in the form of exports of goods and services, X_t. Domestic demand can also be satisfied by the import of goods and services, M_t. The National Income Identity shows that a country's production during an individual year is equal to the sum of domestic demand ($C_t + I_t + G_t$) and net sales of goods and services to the rest of the world ($X_t - M_t$):

$$BNP_t = C_t + I_t + G_t + X_t - M_t.^{1} \qquad (1)$$

By adding together the net incomes, F_t, i.e. Swedish factor income earned abroad (compensation to Swedish wage-earners abroad and earnings on Swedish capital abroad) minus foreign factor income earned in Sweden (compensation to foreign wage-earners in Sweden and earnings on foreign

[1] This relationship is called an identity because it must by definition be fulfilled in every individual time period.

capital in Sweden) can (1) be rewritten in terms of gross national income, BNI_t:[2]

$$BNI_t = C_t + I_t + G_t + X_t - M_t + F_t. \tag{2}$$

Rewriting (2) gives:

$$BNI_t - C_t - G_t = S_t = I_t + X_t - M_t + F_t, \tag{3}$$

where S_t refers to the total national savings in the economy. The national savings consist of consolidated public sector savings, $T_t - G_t$, where T_t is tax income, and household savings, $BNI_t - T_t - C_t$.[3]

According to (3), the following applies:

$$S_t - I_t = X_t - M_t + F_t. \tag{4}$$

The difference between S_t and I_t is often called net external investment and the difference between X_t and M_t is called the trade in goods. $X_t - M_t + F_t$ is called the current account. Equation (4) thus shows that there is a simple connection between net investment and trade in goods. For a given net factor income, changes in the difference between S_t and I_t will always be followed by corresponding changes in the difference between X_t and M_t. Equation (4) also shows that it is not possible in the short term to reduce a deficit in the trade in goods without at the same time increasing national savings or reducing domestic investment.[4] It is also interesting to note that equation (4) means that if household savings are as great as domestic investment, public sector savings will develop roughly in line with net exports over time.[5]

In the same way as national savings can be divided up into consolidated public sector savings and household savings, domestic investment can be divided up into public sector investment and private investment. This division indicates that if public sector investment exceeds public sector savings, and if this is not completely counteracted by a savings surplus in the private sector, it must by definition be matched by a deficit in the current account. A growing deficit in the current account can thus be one of many signs that central government expenditure is greater than central government income.

By combining the national income identity (1) with the national budget restriction, it is possible to derive the balance of payments. According to the budget restriction, the country's total expenditure in each time period is limited by the income in the same period and the country's possibilities to borrow:

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[2] This factor income is often called primary income. Net factor income consists of compensation to employees, capital earnings and current transfers.

[3] This means that the national savings are identical to the sum of the public sector savings and household savings.

[4] Net factor income is assumed to be constant in the short term.

[5] This relationship means in actual fact that the public sector's budget balance will covary with the trade in goods during certain periods of time.

$$BNP_t + r_t A_t = C_t + I_t + G_t + (A_{t+1} - A_t). \quad (6)$$

where A_t are the net external assets during period t and $r_t A_t$ are the interest earnings on these assets. The net assets in turn consist of the capital account and the financial account. It is simple to obtain the balance of payments from (1) and (6):

$$X_t - M_t + F_t = -(A_t - A_{t+1}). \quad (7)$$

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the sum of trade in goods and net factor income. The term $(A_t - A_{t+1})$ on the right side shows how net external assets change over time. Please note that if Swedish investors make net purchases of foreign assets, the capital account and the financial account will show a net deficit, i.e. $A_t - A_{t+1} < 0$. Equation (7) thus means that the sum of the current account, the capital account and the financial account is always zero.[6]

The connection to the international investment position

As the financial account measures net external lending, a change in the current account will - by definition - always be matched by a similar change in net external claims. A surplus in the current account is thus matched by an increase in net external claims - private or public sector. The surplus can also be reflected in an increase in reserve assets, as reserve asset transactions are included in the financial account. A deficit in the current account instead means that the net purchaser abroad must pay either by selling foreign assets or by increasing external liabilities.

This means that if, for instance, Sweden were to buy more assets abroad than are sold abroad (this is the same as saying that the net total of the financial account is less than zero), Sweden must at the same time sell more goods and services abroad than it buys from abroad. Put simply, total outward payments from a country must correspond to the total inflow of payments.

The international investment position shows a country's total net debt and is reported in the form of stock data on all domestic sector assets and liabilities abroad. The net total of assets and liabilities is thus a measure of a country's wealth relative to other countries. Stock data are reported at market value and divided up exactly like the financial account, into direct investment, portfolio investment, financial derivatives, other capital and reserve assets.[7]

[6] Because there are a number of sources for measuring the sub-items in the balance of payments, measurement errors such as periodisation errors may occur. To counteract this, a residual in the form of an errors and omissions sub-item is included.

[7] In certain cases, the book value is used instead of the market value, because the background data used to calculate the market value is insufficient.

The relationship between the international investment position and the transactions included in the balance of payments is illustrated below. Changes in the net external position are due to transactions that have been implemented and registered in the financial account and to changes in exchange rates and asset prices. In addition, the stocks can be affected by, for instance, write-downs of claims (an example of other corrections in the diagram). A deficit or surplus in the current account over a longer period of time causes a build-up of either a net liability or a net asset.

	Changes in the international investment position depending on				
Opening balance	Transactions	Price changes	Exchange rate changes	Other corrections	**Closing balance**