Balance of Payments

First quarter 2012

Statistiska centralbyrån   Statistics Sweden

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Foreword

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

The balance of payments is a compilation 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.

This report comprises the results of the first quarter of 2012.

Statistics Sweden, May 2012

Folke Carlsson

Christina Ekblom

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Summary

The current account gave a surplus of SEK 70 billion in the first quarter. In the same period last year, the surplus amounted to SEK 67 billion. Increased surplus in trade in services contributed to the strengthening.

Foreign trade in services generated a surplus of SEK 31 billion. This is a strengthening compared to the same quarter last year when the surplus amounted to SEK 24 billion. Exports have increased more than imports, creating an increased surplus. Foreign trade in goods gave a surplus of SEK 25 billion. Exports and imports of goods were basically on the same level as during the corresponding period last year.

Transactions in the financial account gave an outflow of SEK 20 billion. Portfolio investment generated a net inflow of SEK 95 billion. The inflow can be explained by the purchase of Swedish bonds by foreign investors.

At the same time, other investment gave an outflow of SEK 60 billion, which mainly consisted of increased lending to other countries. Lending to other countries has increased constantly and has been greater than borrowing from other countries for some time now.

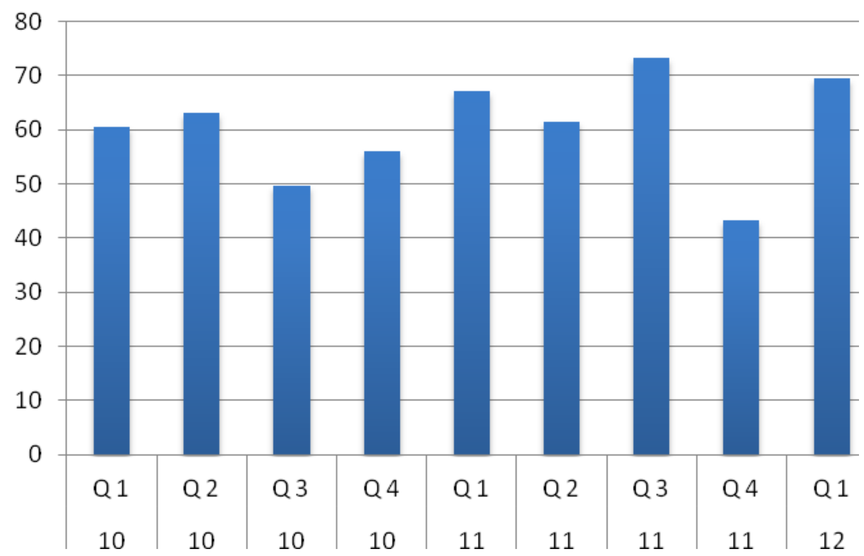
Balance of payments first quarter 2012

The balance of payments for the first quarter showed a surplus of SEK 70 billion in the current account while the capital account gave a capital outflow of just under SEK 1 billion. The financial account resulted in a net outflow of SEK 20 billion.

The current account

The current account was strengthened slightly in comparison with the same period last year and gave a surplus of SEK 70 billion. In the corresponding period last year, the surplus amounted to SEK 67 billion. An increased surplus on trade in goods and services contributed to the strengthening. The current account contains items with seasonal variations. The income surplus tends to be relatively large during the first quarter while the deficit in current transfers is usually less during the first quarter. This contributes to the relatively large surplus that tends to occur in the current account during the first quarter.

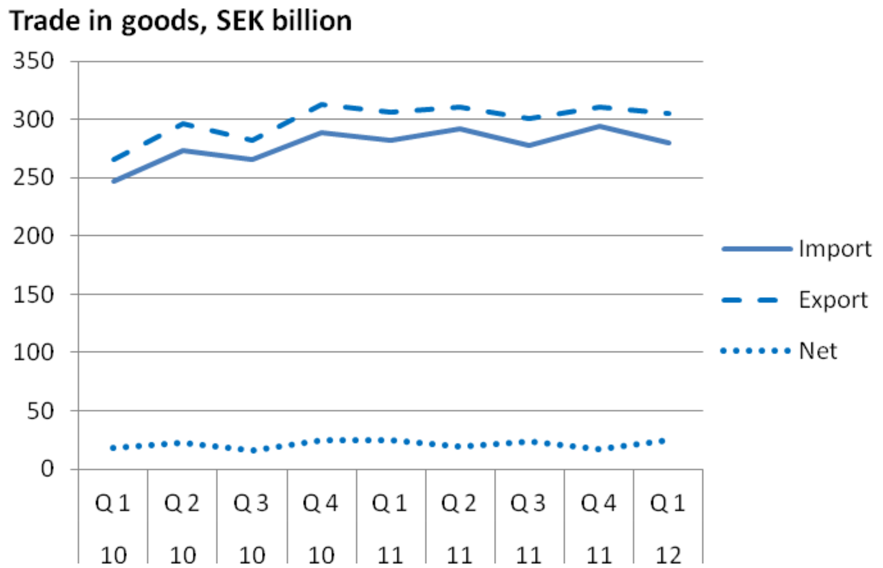
Current account, net SEK billion (see table A)



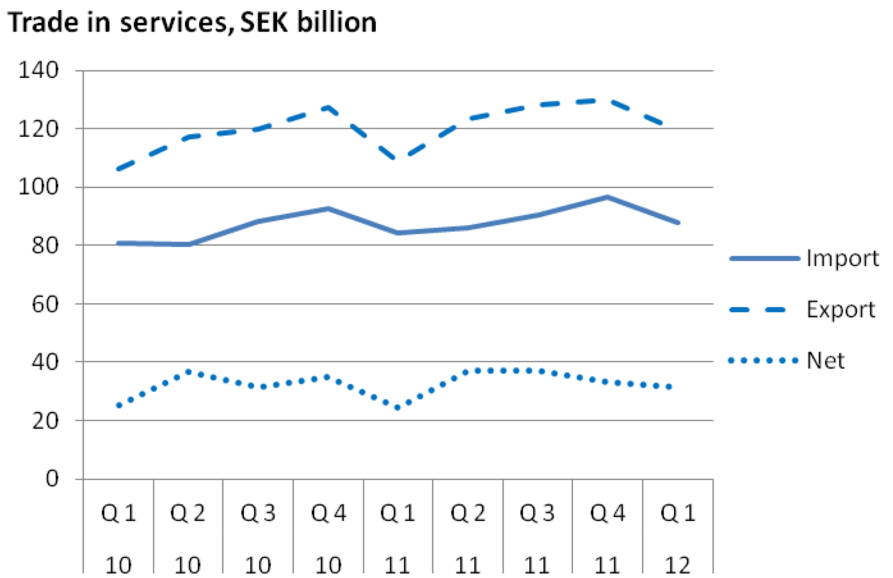
Foreign trade in goods and services

Foreign trade in goods and services gave a surplus of SEK 56 billion in the first quarter. Foreign trade in goods gave a surplus of SEK 25 billion while foreign trade in services generated a surplus of SEK 31 billion.

Exports and imports of goods were basically on the same level as during the corresponding period last year. The surplus in trade in goods during the first quarter is therefore on the same level as during the same period last year. There is still a large surplus on trade in goods with non-EU countries while trade with EU Member States generates a deficit.



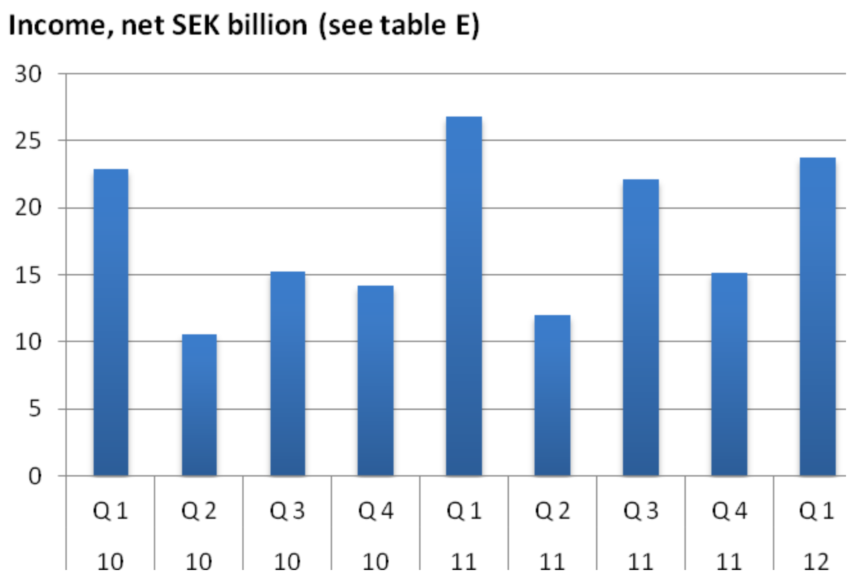
Trade in services gave a surplus of SEK 31 billion in the first quarter. This is a strengthening compared to the same quarter last year when the surplus amounted to SEK 24 billion. Both imports and exports of services have increased. Exports have increased more than imports, which has led to a stronger balance. Trade in services shows a surplus with countries both inside and outside the EU.



Among the different types of services, other business services, Royalties and license fees and computer and information services contribute the largest surplus. The major changes compared to the same quarter last year are that the deficit in the item Travel has decreased from just over SEK 7 billion to just over SEK 3 billion, and that the surplus in the item other business services has increased from just over SEK 13 billion to almost SEK 17 billion. The lower deficit in the item travel depends on increased foreign consumption in Sweden. Consumption by Swedish residents abroad did not increase to the same extent. Merchanting accounts for a considerable part of the net export within the item other business services. Merchanting is a service that involves the mediation of goods from a foreign supplier to a foreign customer.

Income

Income covers compensation of employees and investment income. Together these resulted in a surplus of SEK 24 billion. This is a decrease of SEK 3 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.

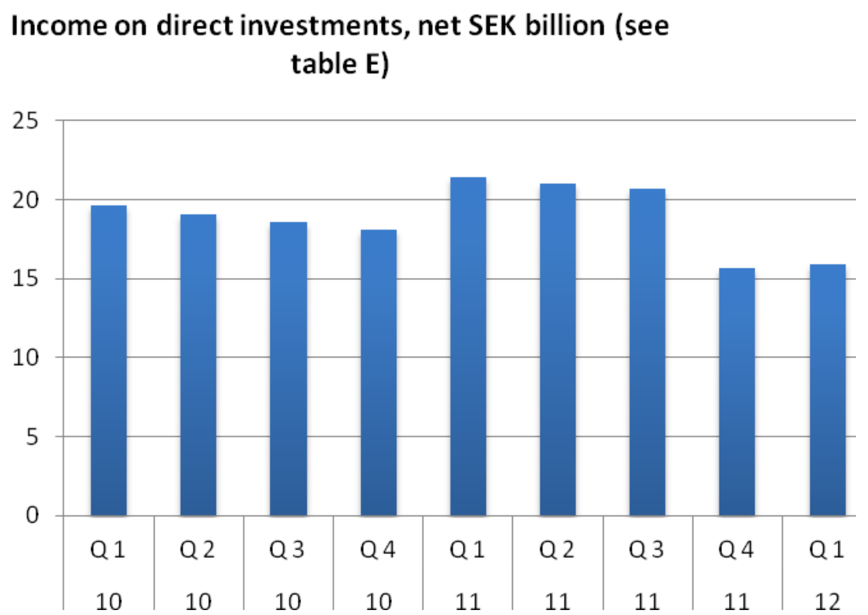


Direct investment income

Direct investment income contributed to a surplus of SEK 16 billion during the first quarter. Income from Swedish direct investments abroad was SEK 59 billion while income from foreign direct investment in Sweden was SEK 43 billion.

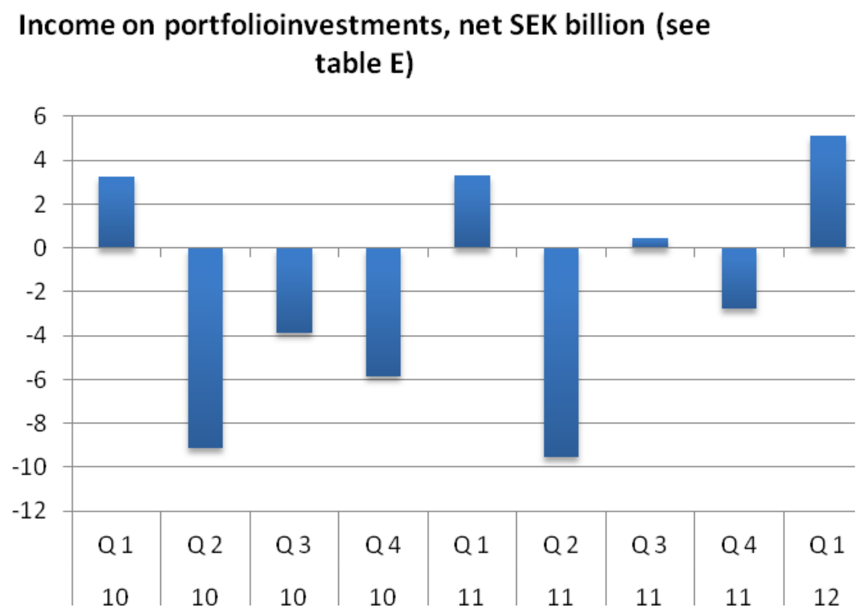
Interest on direct investment loans contributed a deficit of nearly SEK 7 billion. Interest has made a negative contribution to investment income for a prolonged period of time.

Dividends were relatively small during the quarter which in turn means that large reinvested earnings are presented in the statistics. 'Reinvested earnings' is a residual item in the statistics that refers to that part of the income that is not distributed to shareholders.



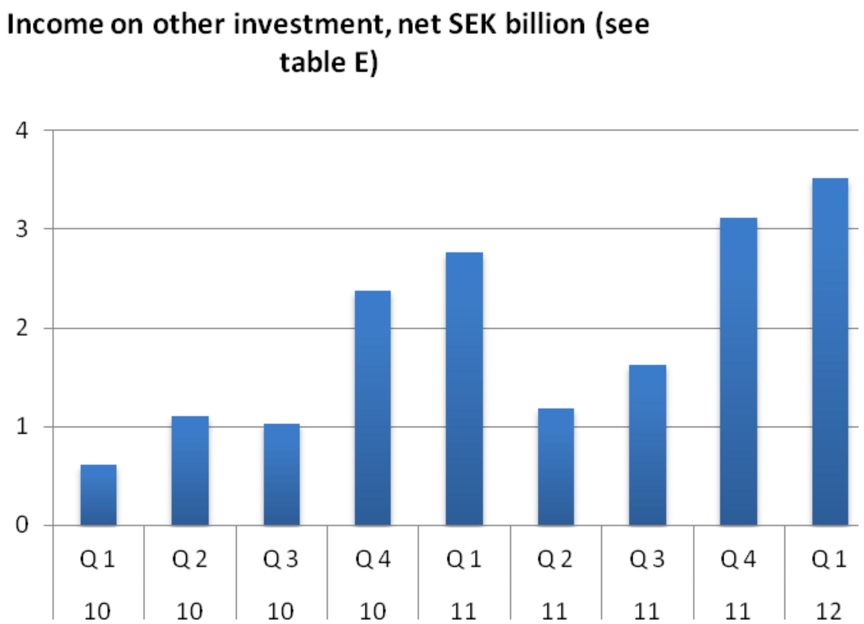
Portfolio investment income
Portfolio investment income generated a net capital inflow of SEK 5 billion, which is an increase compared to the same period last year.

Dividends on Swedish shares generated foreign investors' income of SEK 2 billion, which is on a level with the same period last year. The dividends earned by Swedes on investments in shares gave a capital inflow of SEK 20 billion, SEK 9 billion of which came from overseas funds.



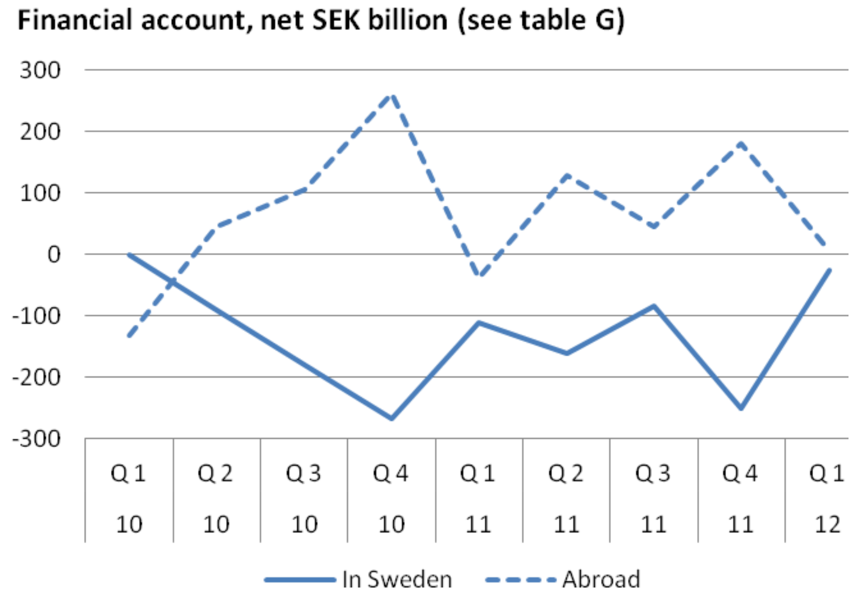
Other investment income
Other investment income, which is interest on loans and deposits, gave a net surplus of nearly SEK 4 billion. Other investment income on investments abroad resulted in a net inflow of nearly SEK 10 billion while

Other investment income in Sweden gave a net outflow of nearly SEK 7 billion.



The financial account

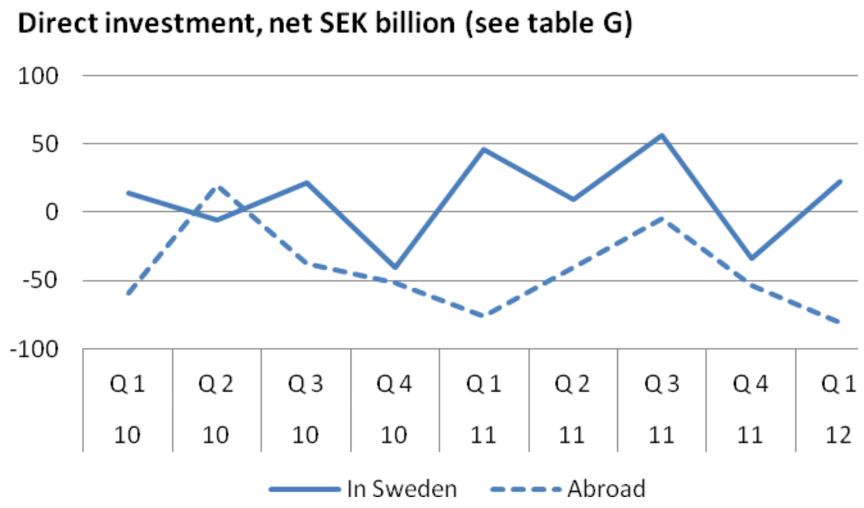
Transactions in the financial account gave a net outflow of SEK 20 billion during the first quarter. Direct investment, other investment and the reserve assets generated outflows while portfolio investment and financial derivatives generated inflows.



Direct investment

Direct investment gave a net outflow of SEK 58 billion in the first quarter. Swedish direct investments abroad increased during the quarter by SEK 81 billion while foreign direct investments in Sweden increased by SEK 22 billion.

The reinvestment of earnings contributed large flows both in Swedish direct investments abroad and in foreign direct investments in Sweden. Major transactions in equity have been carried out during the quarter both in Swedish direct investments abroad and foreign direct investments in Sweden.

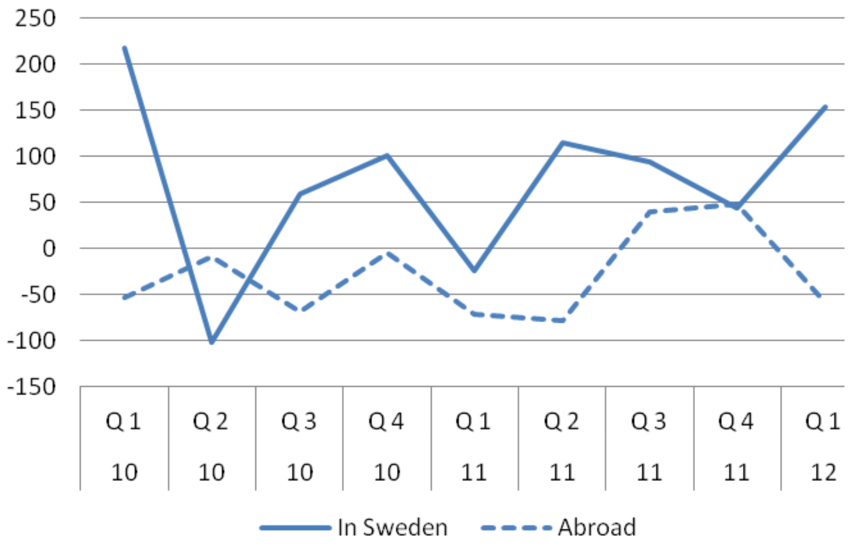


Portfolio investment

Portfolio investment with other countries gave a net capital inflow of SEK 95 billion during the first quarter of 2012. The inflow can be explained by the purchase of Swedish bonds by other countries. Foreign investors continued to show considerable interest in Swedish housing bonds and increased their total holdings by SEK 63 billion during the first quarter. During the quarter, Swedish banks issued bonds in foreign currency worth SEK 66 billion. Swedish shares also generated an inflow from other countries. Foreign investors increased their holdings in Swedish shares and fund units by SEK 12 billion.

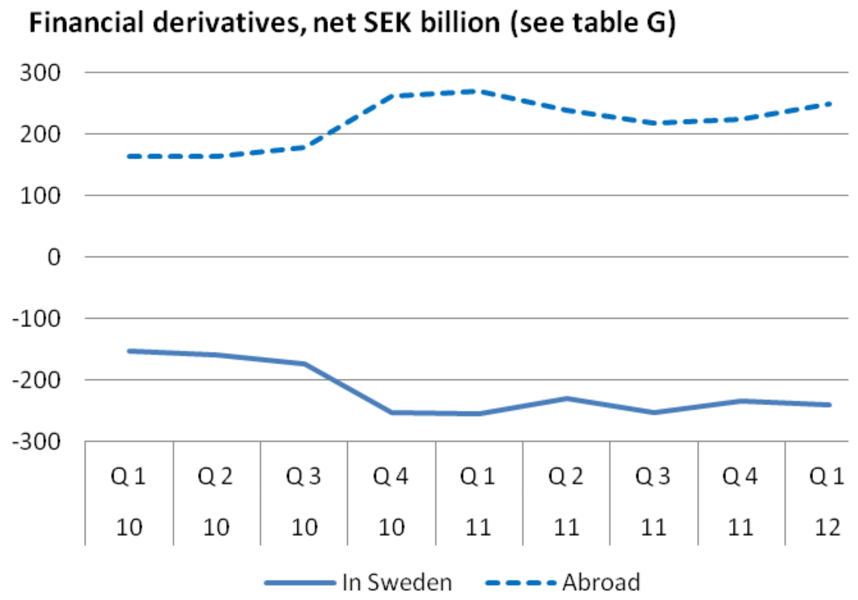
Swedish investors made net purchases of foreign debt securities for SEK 12 billion during the first quarter of 2012. Considerable interest was also shown in shares and fund units. All in all, Swedish investors made net purchases of foreign shares and fund units for SEK 47 billion.

Portfolio investment, net SEK million (see table G)



Financial derivatives

During the fourth quarter, capital inflows of SEK 10 billion were noted for the item Financial derivatives. Interest swaps and currency swaps were responsible for the inflow. Both forwards and futures went in the opposite direction and generated capital outflows.

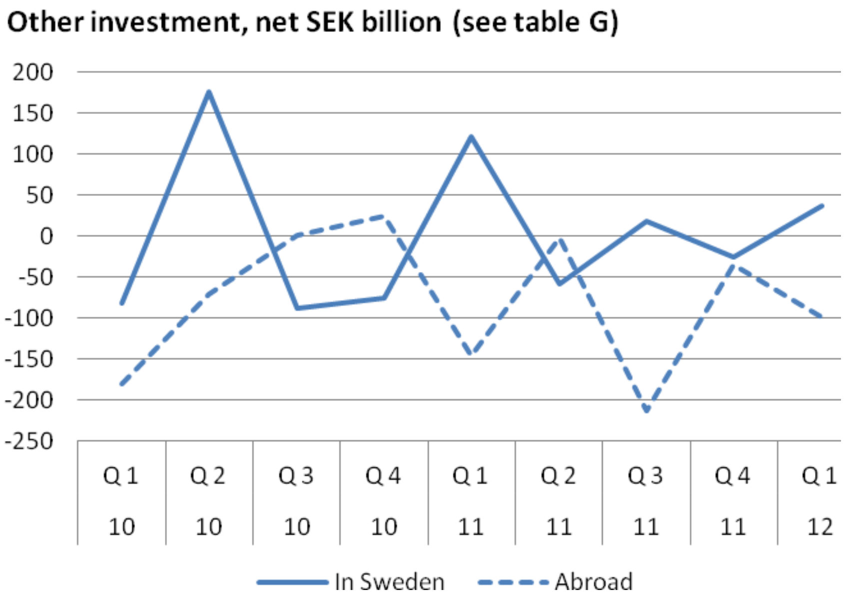


Other investment

In the first quarter, Other investment gave a net outflow of SEK 60 billion, mainly consisting of increased lending to other countries. The bank sector was responsible for almost all the increase. Lending to other countries produced a net outflow of SEK 98 billion while borrowing from other countries produced a net inflow of SEK 38 billion.

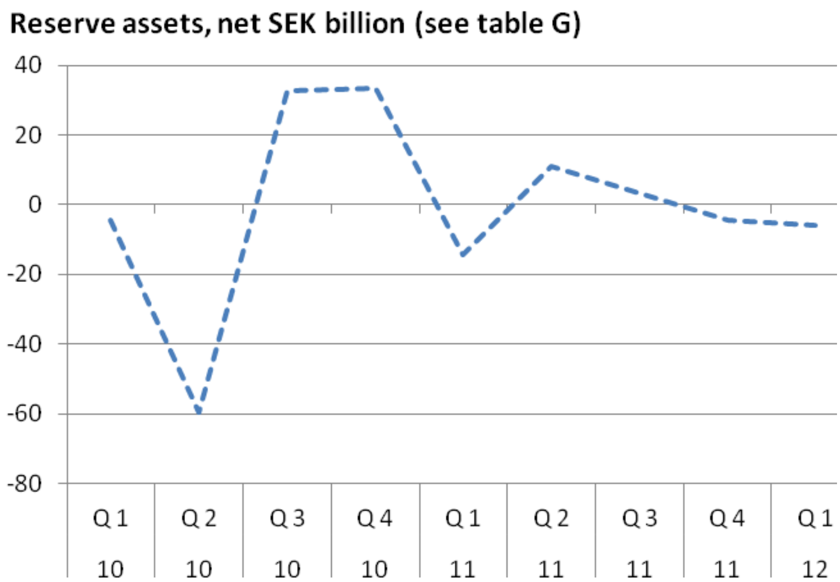
Assets have increased constantly in recent quarters. Other investment assets have therefore been greater than the corresponding liabilities over the last few quarters.

Other investment mainly consists of loans by the bank sector to and from other countries, excluding loans of securities. Among other things, it includes promissory note loans, deposits and repurchases.



The reserve assets

The Riksbank strengthened the reserve assets by SEK 6 billion during the quarter. The increase comprised securities while assets in banks diminished.



Revisions

Sweden's revision policy for the balance of payments is as follows:

- When publishing quarter 1, the previous quarter is revised.
- When publishing quarter 2, the previous 13 quarters are revised
- When publishing quarter 3, the previous 10 quarters are revised
- When publishing quarter 4, the previous 11 quarters are revised

This follows the Eurostat revision policy for the balance of payments with the exception of quarter 3, where Sweden revises a longer period. By way of exception, further periods can be revised if methodological changes have been made or new data have arisen that provide a substantially changed picture of the balance of payments.

During the revised period, net revisions of SEK -7 billion occurred in the current account and of SEK 3 billion in the financial account. The majority of the revisions in the current account were caused by new calculation source data for direct investment income and revised information from data providers regarding current transfers.
An error in the foreign trade in services statistics for 2010 and 2011 means that this publication contains a slight correction in the figures for the fourth quarter of 2011. The other periods will be corrected when the statistics for the second quarter of 2012 are published.

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 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. Simply put, it is 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 of employees, income on financial assets and liabilities, and current 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, The financial account 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 expenditure, 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 income, F_t, i.e. Swedish income earned abroad (compensation of Swedish employees in other countries and income from Swedish capital abroad) minus foreign income earned in Sweden (compensation of foreign employees in Sweden and income from 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 the gross domestic product, BNI_t:[2]

$$BNI_t = C_t + I_t + G_t + X_t - M_t + F_t\,. \qquad (2)$$

Rewriting (2) gives:

$$BNI_t - C_t - G_t = S_t = I_t + X_t - M_t + F_t\,, \qquad (3)$$

where S_t refers to the total national savings in the economy. The national savings consist of the 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:

$$S_t - I_t = X_t - M_t + F_t\,. \qquad (4)$$

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 balance of trade. $X_t - M_t + F_t$ is the current account. Equation (4) thus shows that there is a simple connection between net investment and the balance of trade. For a given net 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 trade deficit 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 its 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 a sign that central government expenditure is greater than 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 income is often referred to as primary income. Net income consists of compensation of employees, investment income and current transfers.

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

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

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

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

where A_t are the net external assets during period t and $r_t A_t$ are the interest income 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):

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

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the balance of trade and net income. The term $(A_t - A_{t+1})$ on the right side shows how the net external assets change over time. Please note that if Swedes 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 identical to zero.[6]

The connection to the international investment position

As the financial account measures external net lending, a change in the current account will - by definition - always be matched by a similar change in the net external claims. A surplus in the current account is thus matched by an increase in external net claims - private or public sector. The surplus can also be reflected in an increase in the reserve assets, as these transactions are included in the financial account. A deficit on the current account instead means that the net purchaser abroad must pay either by selling external 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, the 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 the domestic sector’s external assets and liabilities. 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 can be divided up exactly like the financial account, into direct investment, portfolio investment, financial derivatives, other investment and the reserve assets.[7]

The relationship between the international investment position and the transactions 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,

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[6] Because there are a number of sources for measuring the items in the balance of payments, measurement errors, such as periodisation errors, can arise. A residual in the form of an errors and omissions item has therefore been included.

[7] In certain cases the book value is used instead of the market value, because the base for calculating market value is insufficient.

write-downs of claims (an example of other corrections in the diagram). If the current account shows a deficit or surplus over a longer period of time, this entails 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**