Balance of Payments

Second quarter 2012

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 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.

This report covers the outcome of the second quarter of 2012.

Statistics Sweden, August 2012

Folke Carlsson

Christina Ekblom

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Summary

The current account gave a surplus of SEK 55 billion in the second quarter. This is on a level with the same period last year when the surplus amounted to SEK 56 billion. Foreign trade in services has continued its strong trend and generated a surplus of SEK 37 billion. The surplus in foreign trade in goods also increased compared to the same period last year and amounted to SEK 25 billion.

Among the different types of services, Other business services, Licenses and royalties and Computer and information services contribute the largest surplus. The biggest change compared to the same quarter last year is that the deficit in the Travel item has decreased from just over SEK 4 billion to just under SEK 1 billion. The reduced deficit depends mainly on an increase in travel consumption by foreign travellers in Sweden.

Income on portfolio investment, which shows seasonal variation due to dividends distributed by Swedish companies, gave a net outflow of SEK 14 billion during the second quarter. During the same quarter of 2011, the corresponding amount was SEK 9 billion. The rise in net outflow is mainly due to increased dividends from Swedish shares.

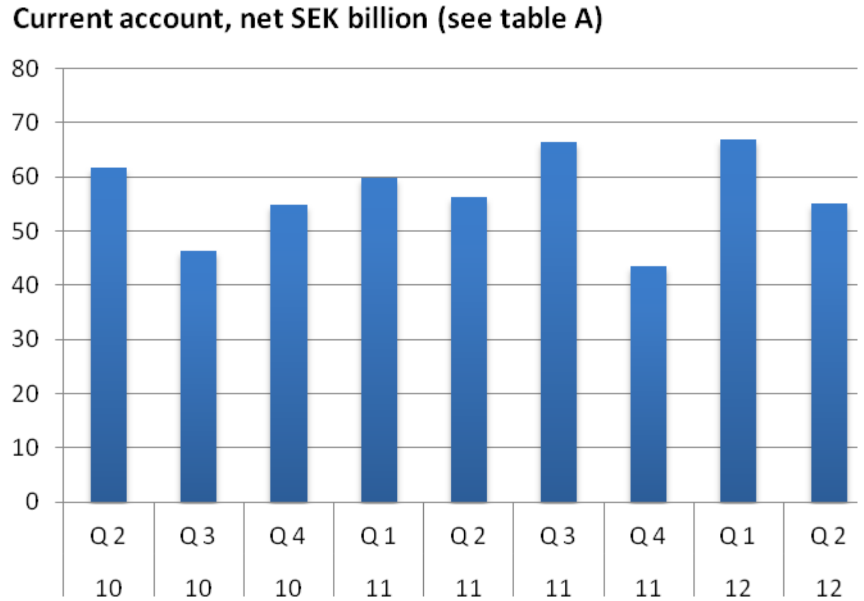
The financial account resulted in a net outflow of SEK 14 billion. Direct investment, other investment and reserve assets contributed new outflows while portfolio investment and financial derivatives generated net inflows.

Balance of payments – second quarter 2012

The balance of payments for the second quarter showed a surplus in the current account of SEK 56 billion, a slightly negative capital account and a capital outflow of SEK 15 billion in the financial account.

Current account

The current account gave a surplus of SEK 55 billion in the second quarter. This is on a level with the same period last year when the surplus amounted to SEK 56 billion. The surplus in foreign trade in goods and services increased by SEK 6 billion and amounted to SEK 61 billion. Income resulted in an inflow of SEK 4 billion which is down on the same quarter last year when the inflow amounted to SEK 8 billion. In addition, the deficit in current transfers increased and amounted to SEK 10 billion.

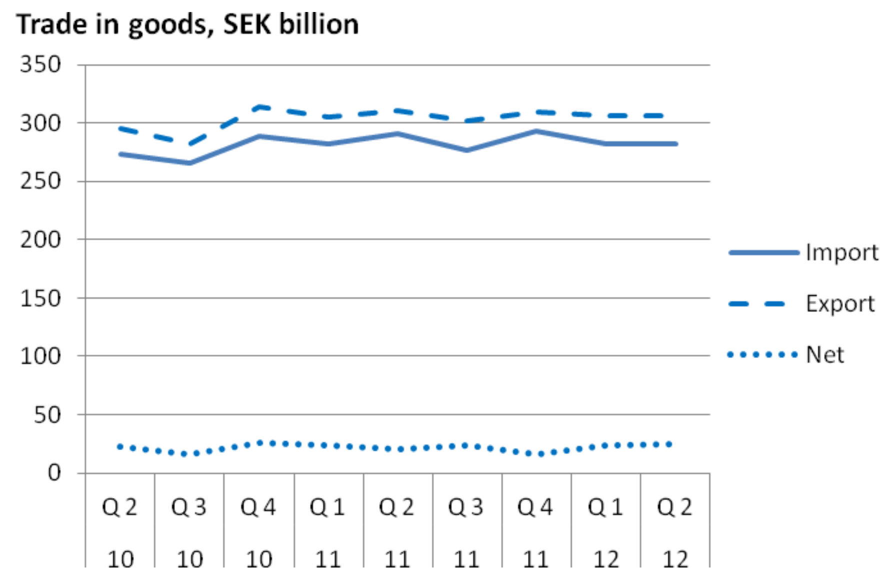


Foreign trade in goods and services

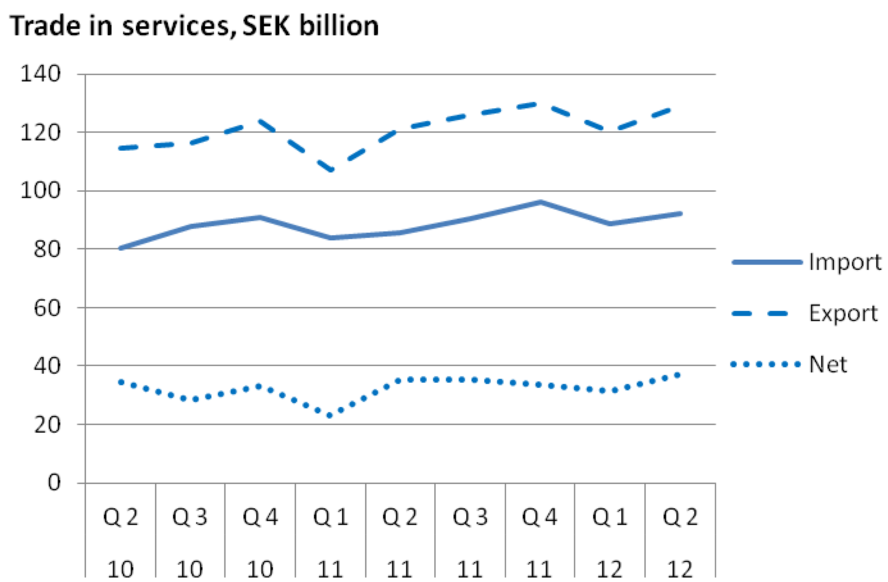
The total net trade in goods and services gave a surplus of SEK 61 billion in the second quarter. Foreign trade in goods gave a surplus of SEK 25 billion while foreign trade in services generated a surplus of SEK 37 billion.

Trade in goods and services with EU Member States showed a surplus after a long period of deficit. Most of the surplus in foreign trade in goods and services is still generated from non-EU countries, however.

Exports of goods amounted to SEK 306 billion during the quarter while imports of goods totalled SEK 282 billion. This gave a surplus in trade in goods of SEK 25 billion. In the same quarter last year, the surplus amounted to SEK 20 billion. Imports fell more than exports, which led to an increased surplus in trade in goods. The surplus in the trade in goods comes from trade with non-EU countries while trade with EU Member States generated a deficit.



Trade in services gave a surplus of SEK 37 billion in the second quarter. This is a stronger result compared to the same quarter last year when the surplus amounted to SEK 35 billion. Exports increased by SEK 8 billion while imports went up by just under SEK 7 billion which led to a greater surplus in trade in services. Trade in services shows a surplus with both EU Member States and non-EU countries.

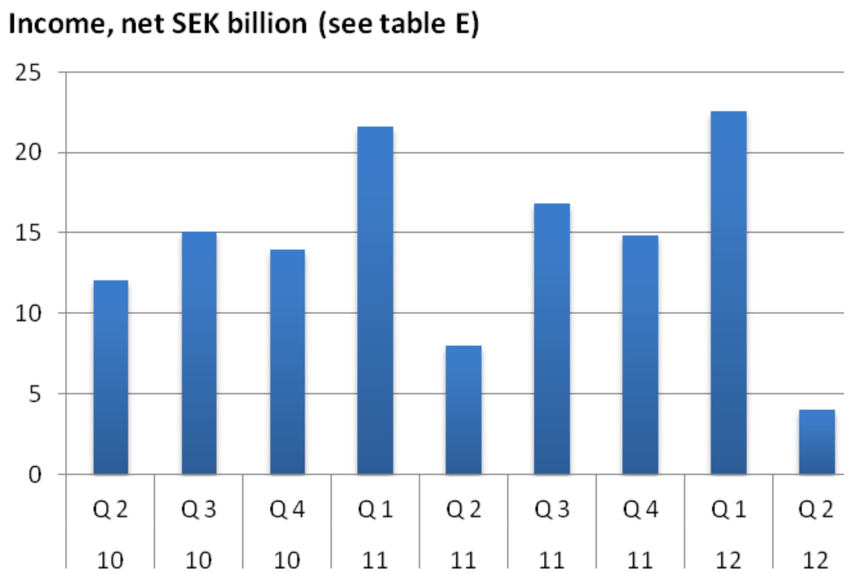


Among the different types of services, Other business services, Royalties and license fees and Computer and information services contribute the largest surplus. The biggest change compared to the same quarter last year is that the deficit in the Travel item has decreased from just over SEK 4 billion to just under SEK 1 billion. This reduced deficit is due to increased exports.

The Travel item includes goods and services that travellers purchase when travelling in other countries. Travel exports, which consist of foreign travellers' consumption when travelling in Sweden, amounted to SEK 26 billion during the quarter. Travel imports, i.e. Swedes' expenses when travelling abroad, amounted to SEK 27 billion. Other types of services are on a similar level as the same quarter last year.

Income

Income consists of compensation of employees and income from invested capital. Together these generated a surplus of SEK 4 billion. In the same quarter last year, the surplus amounted to SEK 8 billion. Income from capital is responsible for the biggest share of the factor income. Compensation of employees made a slightly negative contribution.

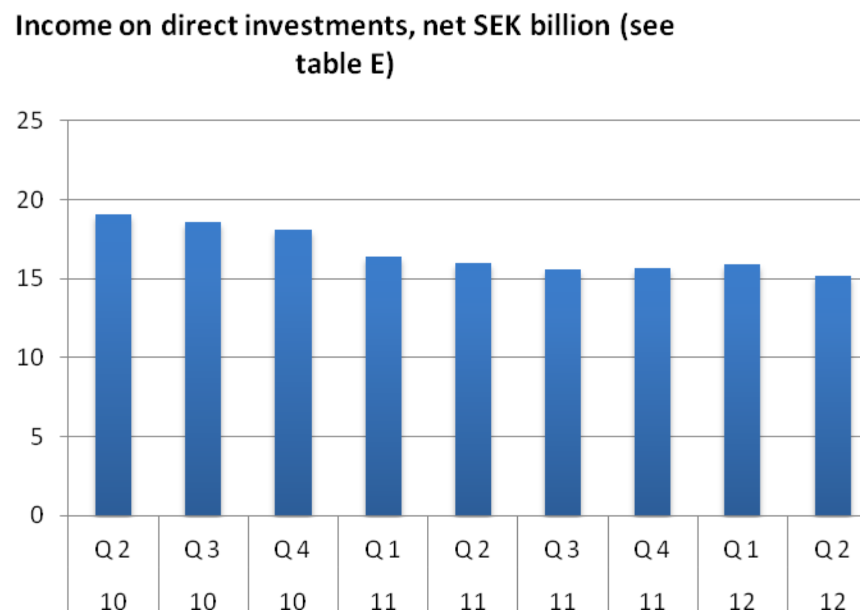


Direct investment income

Direct investment income gave a net inflow of SEK 15 billion during the quarter as a result of earnings from Swedish direct investment abroad exceeding earnings from foreign direct investment in Sweden. The surplus was on the same level as in the corresponding quarter last year.

The second quarter is a quarter when dividends are usually relatively large, as was also the case in this quarter. Dividends are, however, on a lower level than in the same quarter last year.

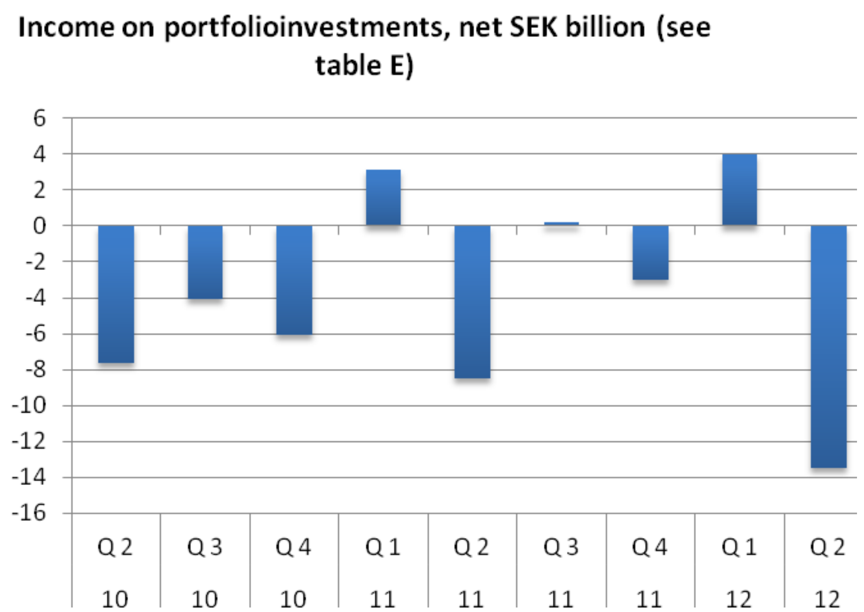
Interest on direct investment loans contributed a deficit of SEK 7 billion. Interest continues therefore to make a negative contribution to investment income.



Portfolio investment income

Portfolio investment income generated a net capital inflow of SEK 14 billion, which is an increase compared to the same period last year. This increased outflow depends mainly on the fact that share earnings generated lower net inflows.

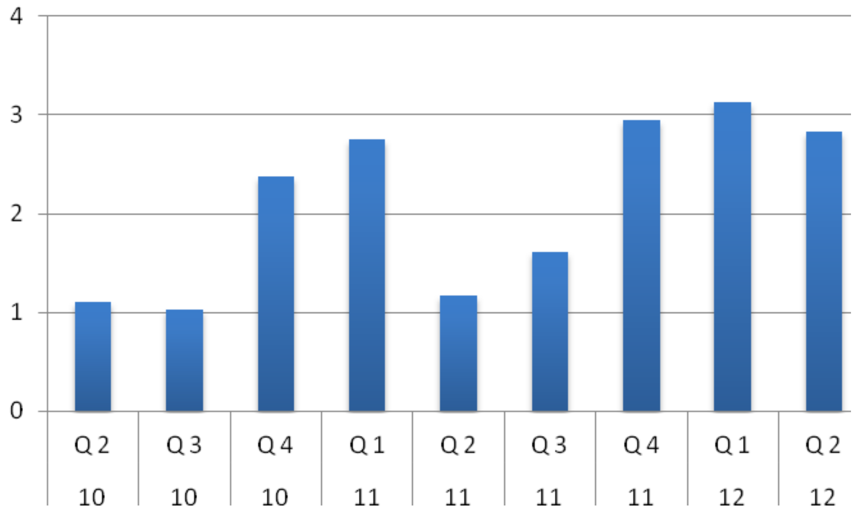
Dividends from Swedish shares generated foreign investors' income of SEK 46 billion, which was slightly higher than the same period last year. Swedes' earnings from investment in foreign shares gave a capital inflow of SEK 47 billion.



Other investment income

Other investment income, which is interest on loans and deposits, gave a net surplus of just under SEK 3 billion. Other investment income abroad resulted in an inflow of just over SEK 8 billion while Other investment income in Sweden gave an outflow of just over SEK 5 billion.

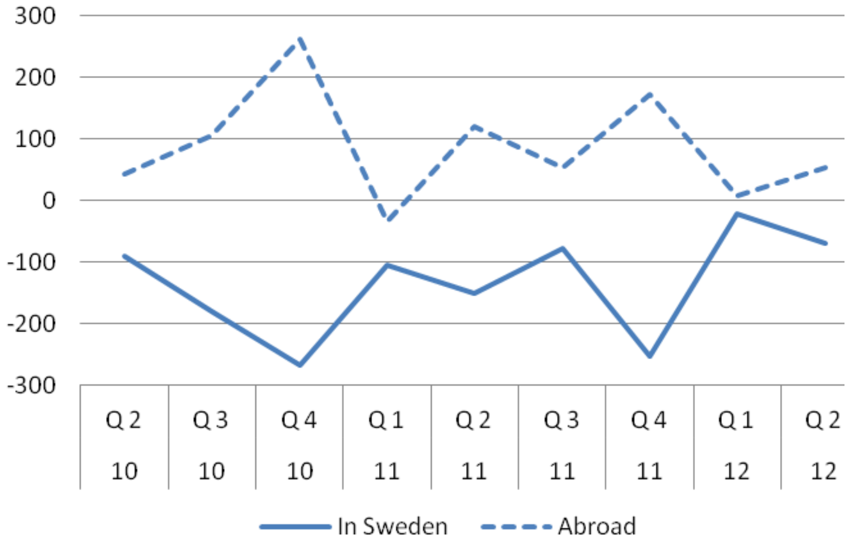
Income on other investment, net SEK billion (see table E)



Financial account

The financial account resulted in a net outflow of SEK 14 billion during the second quarter. Direct investment, other investment and reserve assets generated net outflows while portfolio investment and financial derivatives generated net inflows.

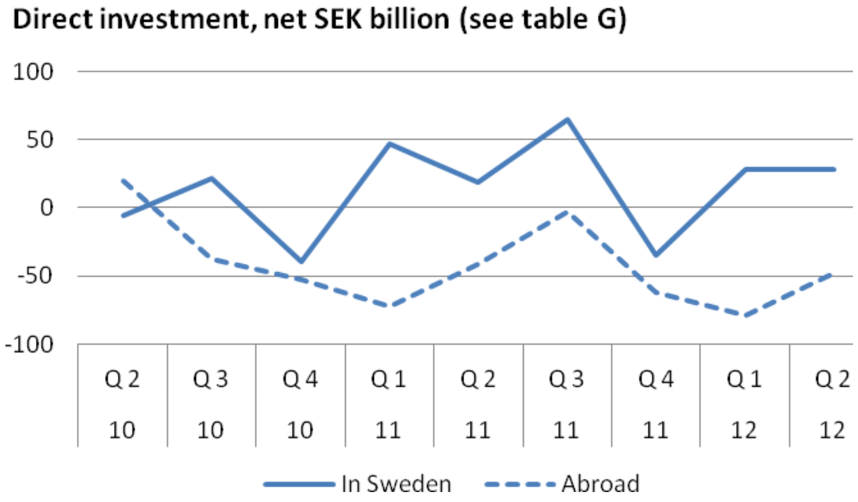
Financial account, net SEK billion (see table G)



Direct investment

Direct investment gave a net outflow of SEK 19 billion in the second quarter. Swedish direct investment abroad increased during the quarter by SEK 48 billion while foreign direct investment in Sweden increased by SEK 28 billion.

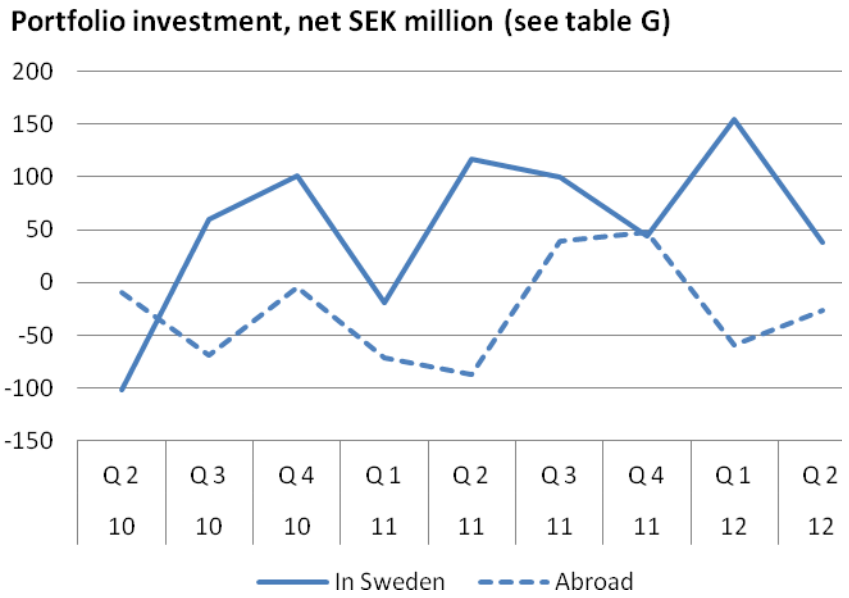
Equity and reinvested earnings contributed greater outflows to Swedish direct investment abroad while loans and reinvested earnings mostly contributed to the inflow in foreign direct investment. Several major transactions have been carried out within groups of companies as regards both equity and loans during the quarter. However, several of the transactions cancel each other out which explains the relatively small aggregate net flows.



Portfolio investment

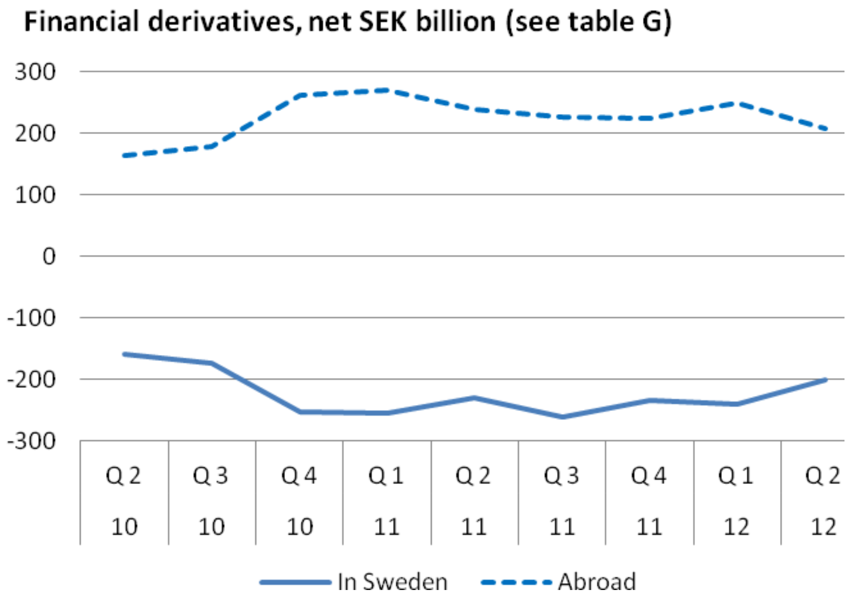
Portfolio investment gave a net capital inflow of SEK 12 billion during the second quarter of 2012. Cross-border trade in debt securities resulted in a net inflow of SEK 60 billion. The biggest inflow is generated by increased borrowing by Swedish banks abroad. In total, foreign investors bought currency-denominated securities for SEK 31 billion in the banks' issues. Foreign investors also increased their holdings of government bonds, but at the same time decreased their holdings of treasury bills.

Swedish investors sold foreign debt securities for SEK 26 billion net during the quarter. On the other hand, there was considerable interest in foreign shares and funds which generated a net capital outflow of SEK 52 billion.



Financial derivatives

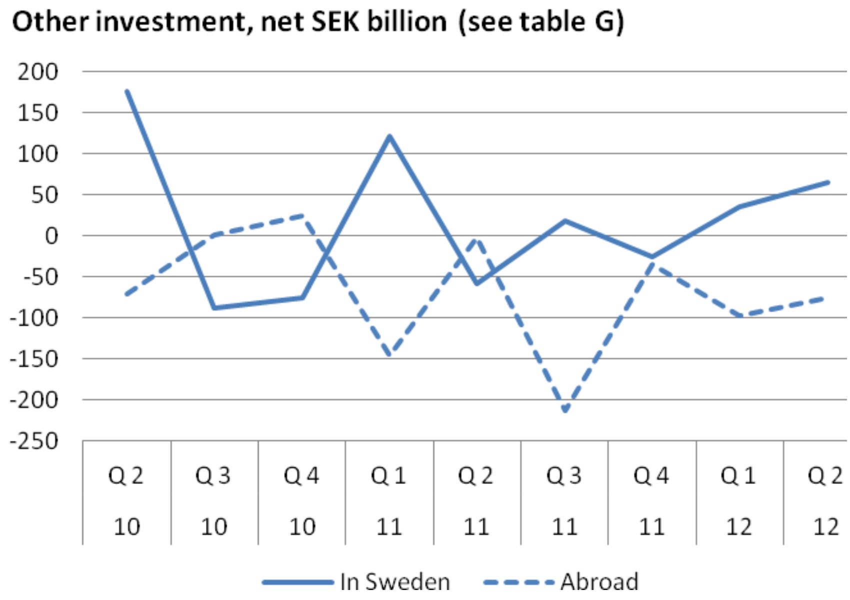
During the second quarter a capital inflow of about SEK 7 billion was noted for the financial derivatives item. Lower capital flows on both foreign and Swedish contracts were generated during the quarter. Flows from financial derivatives arise in part when derivative contracts with foreign counterparts become due, and in part via different types of premium payments, mainly options. The type of derivative that results in the largest transactions originates from different types of currency derivatives.



Other investment

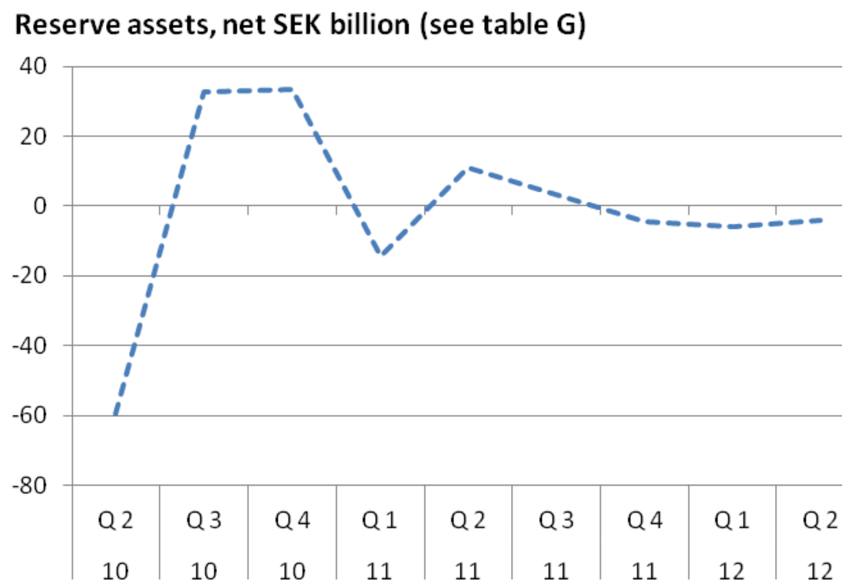
Other investment gave a net outflow of SEK 10 billion in the second quarter. The net flow was less than in previous periods which is explained by the fact that the flows in both lending and borrowing were relatively equal during the quarter. Lending gave a net outflow of SEK 75 billion while borrowing generated a net inflow of SEK 65 billion. The bank sector was responsible for most of the flows. Non-financial corporations increased their bank holdings abroad by SEK 12 billion.

Other investment mainly consists 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 repurchases.



Reserve assets

Reserve assets gave a net outflow of SEK 4 billion during the quarter. At the end of June, therefore, reserve assets amounted to SEK 355 billion.



Revisions

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

- When publishing Quarter 1, the previous 4 quarters are 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

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.

When publishing 2012 Quarter 2, the normal revision policy has been abandoned. The balance of payments has been revised from 1998 Quarter 1 up to and including 2012 Quarter 1. During the revised period, net revisions of SEK -27 billion occurred in the current account and of SEK 17 billion in the financial account.

International investment position, net

At the end of June 2012, preliminary data show that Sweden continues to have a net debt to other countries. The debt amounted to SEK 434 billion and increased somewhat compared to the same estimate for the end of 2011.

Three main factors influence the development of the total assets and liabilities with other countries. First of all, the size of the surplus or debt in the current account makes a difference. Another factor is the development of the Swedish krona (SEK) against other currencies. As the stock of assets and liabilities increases, fluctuations in the exchange rate have a greater impact. The third important factor is changes in the price of different types of assets, mainly share prices but also changes in interest rates.

The current account has continued to contribute a major surplus during 2012. The outflow in the financial account also indicates that the net debt to other countries should decrease. The net debt to other countries has continued to rise, however. Other factors that influence the international investment position are the exchange rate and the effect of interest rate and share price changes on different types of assets. It is more difficult to assess how these have influenced the international investment position over the last six months.

It is important to point out that data on Sweden's assets and liabilities abroad are preliminary and will most likely be revised when the statistics are updated with more definitive figures.

Definitions and explanations

The international investment position is a summary of all domestic sectors' total assets and liabilities abroad. 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 compiled 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, including regular transactions in goods and services, earnings from 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 spending, 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 ($X_t - M_t$):

$$BNP_t = C_t + I_t + G_t + X_t - M_t. \tag{1}$$[1]

By adding together the net factor income, 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

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

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

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

Rewriting (2) gives:

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

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:

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

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 balance. $X_t - M_t + F_t$ is the current account. Equation (4) thus shows that there is a simple connection between net investment and the trade balance. 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 factor income is often referred to as primary income. Net factor income consists of salaries, 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 factor 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 trade balance 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 $r_t A_t$ is 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):

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

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the trade balance and net factor 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 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,

[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**