Balance of Payments

Second quarter 2013

Statistiska centralbyrån Statistics Sweden

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Statistics Sweden
2013

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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 second quarter of 2013.

Statistics Sweden, August 2013

Folke Carlsson

Christina Ekblom

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Summary

The current account gave a surplus of SEK 47 billion in the second quarter. This represents a weakening of the current account by SEK 3 billion compared with the same period last year. The weakening is due to a reduced surplus in the trade in goods and services.

The trade in goods and services resulted in a surplus of SEK 48 billion during the second quarter, compared with a surplus of 56 billion for the same period last year. The trade in services generated a surplus of SEK 26 billion during the quarter and was therefore weaker compared to the same quarter in 2012, when it amounted to SEK 32 billion

The financial account resulted in a net outflow of SEK 118 billion during the quarter. The item other investments accounted for the largest share of the outflow and resulted in a net outflow of SEK 95 billion.

Certain items in the current account were revised in connection with the publication of the balance of payments for the second quarter. The revisions were made for the period 2006-2013 Quarter 1 and affect especially the trade in services, but also current transfers.

Balance of payments – second quarter 2013

The second quarter of 2013 saw a weakening in the current account which resulted in a surplus of SEK 47 billion. The capital account produced an outflow of SEK 1 billion and the financial account generated a net outflow of SEK 118 billion.

The balance of payments is comprised of the *current, capital* and *financial accounts* and is a compilation of a country's real and financial transactions with the rest of the world. Changes in value caused by e.g. changing market values and exchange rates are excluded, which is why changes in account positions cannot be fully explained by balance of payments transactions.

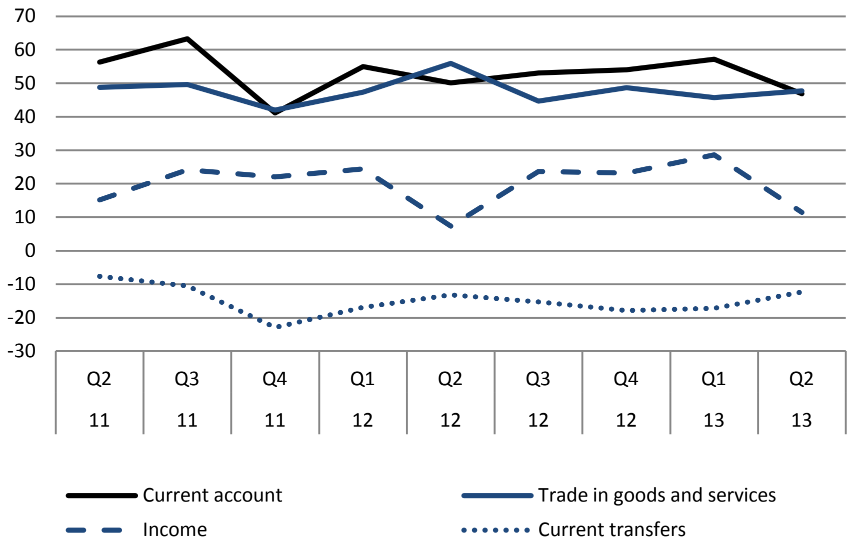
Current account gives a picture of a country's real flows with the world and consists of trade in goods and services, income and current transfers, such as EU contributions. *The capital account* consists primarily of EU contributions and development assistance for real investments and represents a very small part of the balance of payments. The *financial account* is divided into direct investments, portfolio investments, other investments, financial derivatives and reserve assets. The financial account shows how a deficit in the current and capital accounts is financed, or which investments are made in the case of a surplus.

The relationship between the current, capital and financial accounts is such that the sum of these items will be zero. However, due to measurement errors, accruals, etc. net errors and omissions arise as a residual. Thus, the current and capital accounts show if a country is a net lender or net borrower.

Current account

The current account comprises *trade in goods and services*, *income* as well as *current transfers*, as illustrated in Graph 1. The graph shows that most of the surpluses are generated from trade in goods and services. Income includes investment income from financial assets and liabilities as well as compensation of employees; while current transfers consist primarily of EU contributions and development assistance.

Graph 1: Current account and included items, billion SEK

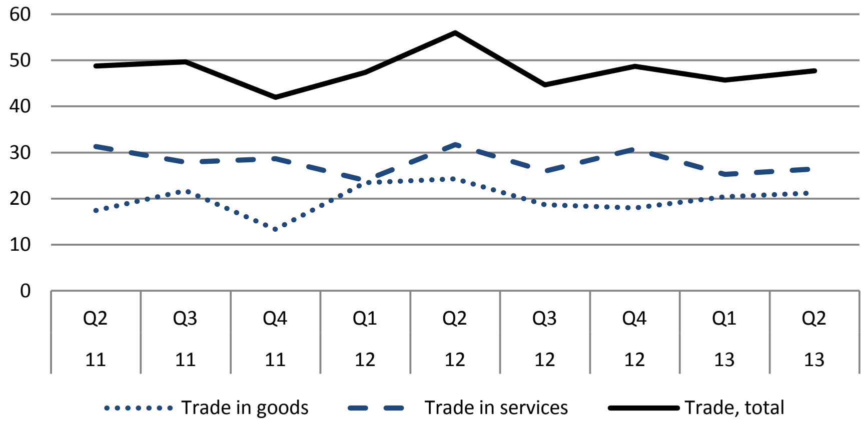


The surplus in the current account was SEK 47 billion in the second quarter. This represents a decrease compared to the same quarter last year when the surplus amounted to SEK 50 billion. The decreased surplus in the trade in goods and services has contributed to the reduced surplus in the current account, while an increased surplus in incomes and a smaller deficit in current transfers have made a positive contribution.

Trade in goods and services

The trade in goods is the net value of the goods imported and exported to and from Sweden and the trade in services is the corresponding net value for services. Graph 2 shows that the trade in services represented the larger part of the surplus in foreign trade.

Graph 2: Trade in goods and services, billion SEK

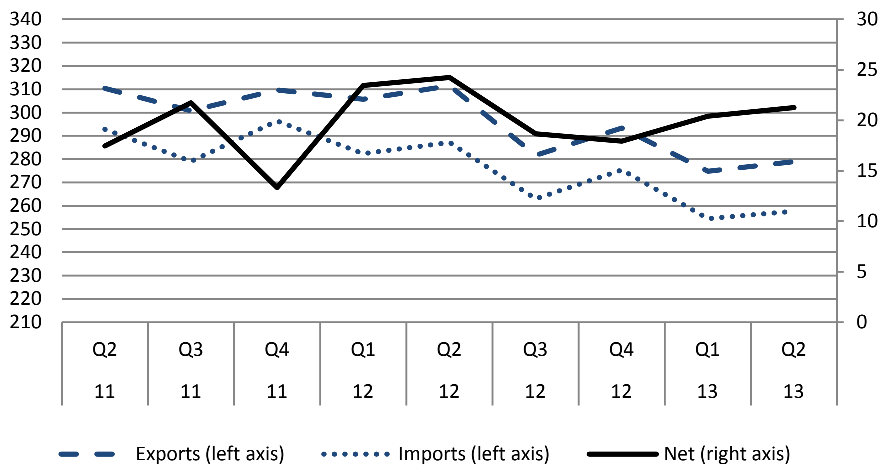


Foreign trade in goods and services generated a surplus of SEK 48 billion. The surplus for the same quarter last year was SEK 56 billion. A weaker trade in services was the primary contributor to the decreased surplus in the trade in goods and services.

Trade in goods

The surplus in the trade in goods decreased and amounted to SEK 21 billion. The surplus for the same quarter last year was SEK 24 billion. Both the export and import of goods declined significantly compared to the same quarter last year.

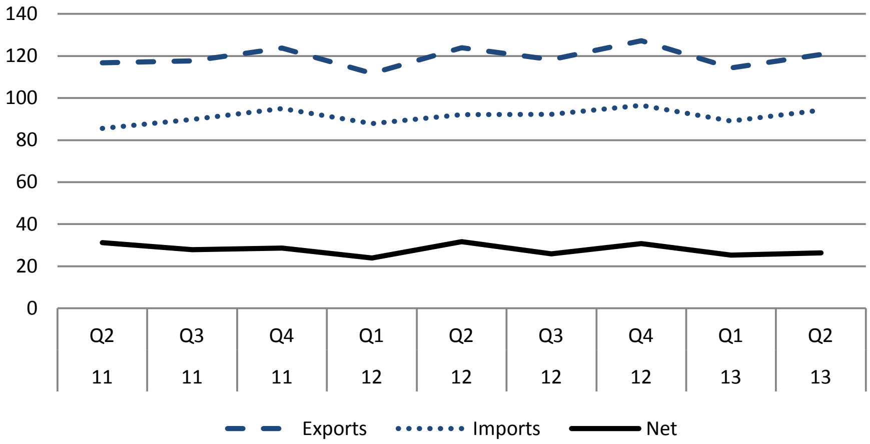
Graph 3: Trade in goods, billion SEK



The trade in services

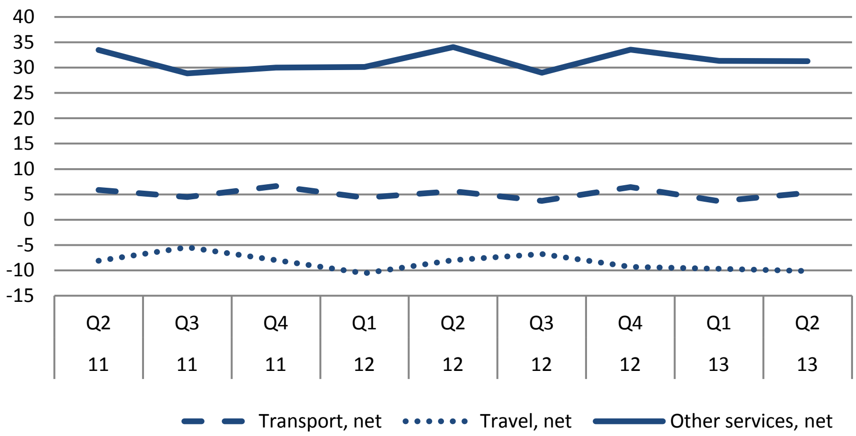
The trade in services generated a surplus of SEK 26 billion in the second quarter. This represents a decrease compared to the same quarter last year when the surplus amounted to SEK 32 billion. The export of services decreased, while the import of services increased during the quarter. Thus, both have contributed to the weakening in the trade in services. When compared to the same quarter last year, the export of services decreased after a prolonged increase.

Graph 4: Trade in services, billion SEK



Among the types of services, transports and other services contributed with a surplus while travel contributed with a deficit. Among other services, the largest surpluses came from other business services, computer and information services, as well as royalties and license fees.

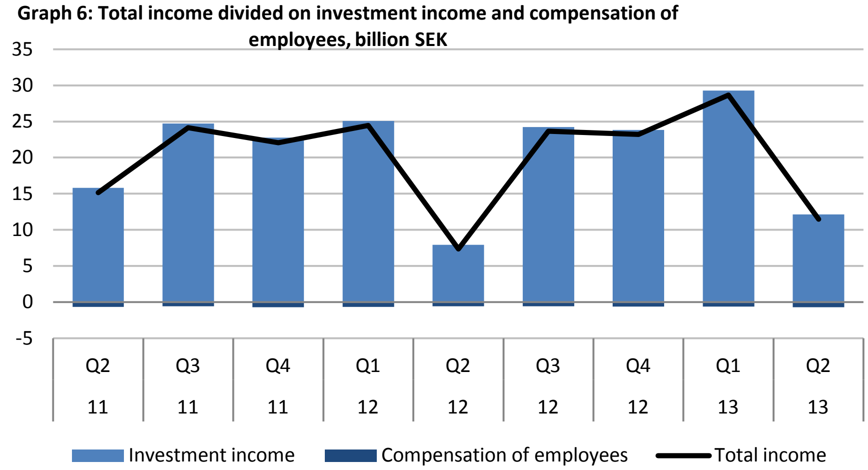
Graph 5: Trade in services, billion SEK



The travel item showed a larger deficit as imports exceeded exports. Import refers to the consumption of Swedes when travelling abroad, while export refers to the foreign consumption when travelling in Sweden. Certain revisions have been made regarding travel in connection with this publication. Mainly exports have been revised down, which has led to an increased deficit in the item travel. For more information, see the section on revisions.

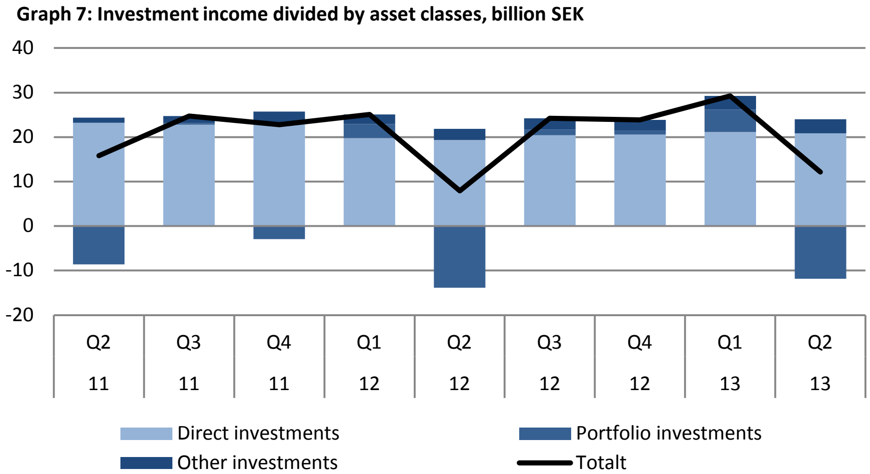
Income

Income consists of compensation of employees and investment income. The item exhibits seasonal patterns and the surplus tends to be less in the second quarter of the year as dividend payments on portfolio equities in Sweden are large. Investment income contributes the major part of income, which is also illustrated in Graph 6. During the second quarter, the surplus in income amounted to SEK 12 billion.



Investment income

investment income in the current account comes from Sweden's assets and liabilities abroad and is divided into *direct investments*, *portfolio investments* and *other investments*.

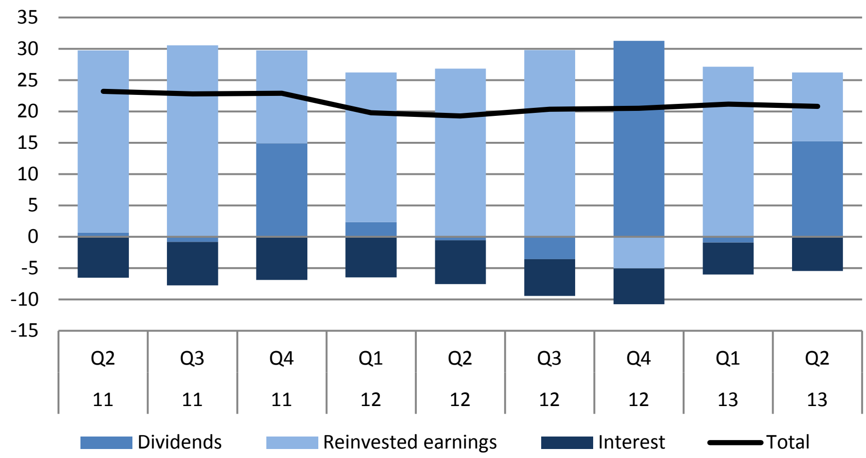


Investment income contributed a surplus of SEK 12 billion, which is higher compared with the same period last year. Direct investment income contributed an increased surplus, while the deficit in income from portfolio investments decreased.

Income from direct investments
Income from direct investments contributed a surplus of SEK 21 billion during the second quarter of 2013. Income from Swedish direct investments amounted to SEK 55 billion, while income from foreign direct investments in Sweden totalled SEK 34 billion.

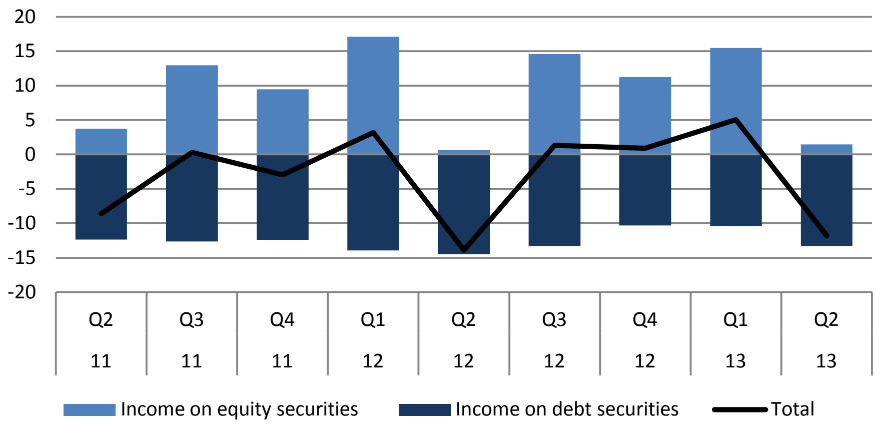
Several companies have made dividend payments during the quarter. Dividends from Swedish direct investments abroad totalled SEK 26 billion, while dividends from foreign direct investment in Sweden totalled SEK 11 billion. Interest on loans in direct investment relationships have been negative for a prolonged period and contributed to a deficit of just over SEK 5 billion.

Graph 8: Income on direct investments, billion SEK



Income from portfolio investments
Portfolio investment income consists of dividends on equities and interest on debt securities. The item is subject to seasonal variation, which is primarily due to the payment of stock dividends. Dividend payments in Swedish companies are generally realised in the second quarter, which produces greater outflows during the quarter.

Graph 9: Income on portfolio investments, billion SEK



The return on portfolio investments generated a capital deficit of SEK 12 billion in the second quarter of the year, which represents just over SEK 2 billion less for the same quarter in 2012.

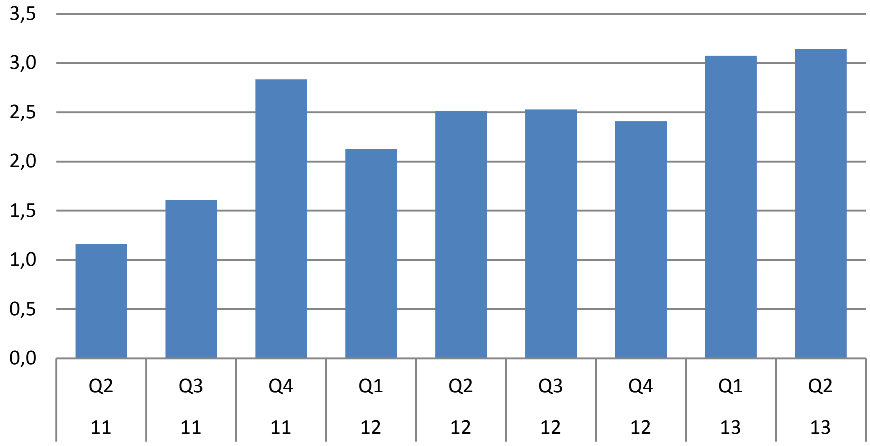
Dividends which include both dividend payments and income from mutual funds increased marginally compared with the same quarter in 2012.

The outflow of interest from fixed-income securities decreased by SEK 1 billion compared with the corresponding period in 2012. This is primarily due to a decline in interest rates on Swedish securities.

Income from other investments
Income from other investments consists of the return on loans and deposits, and therefore correlates with the development of Sweden's positions on other investments.

Net income on other investments during the second quarter amounted to SEK 3 billion. Other investment income abroad resulted in an inflow of nearly SEK 7 billion, while other investment income in Sweden gave an outflow of just over SEK 3 billion.

Graph 10: Income on other investments, billion SEK



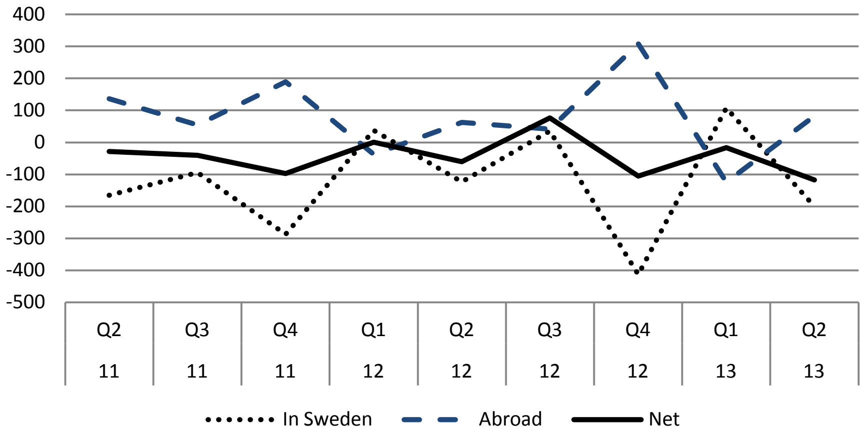
Current transfers
Current transfers include transfers of real or financial assets without a similar consideration in return. This item primarily *includes EU contributions* and *development assistance* and resulted in an outflow of SEK 12 billion in the second quarter. The outflow consists mainly of transactions with the EU. Current transfers have been revised in connection with the publishing. For more information, see the section on revisions.

The capital account
The capital account consists mainly of *EU contributions* and *development assistance* for investments, but also includes *"transfer of rights"* (patents, copyrights, etc.). The capital account generated a net outflow of just over SEK 1 billion in the second quarter.

Financial account

The financial account consists of *direct investments, portfolio investments, other investments, financial derivatives* and *reserve assets* and gave rise to net outflows of SEK 118 billion during the second quarter of the year. The item other investments accounted for the largest part of the capital outflow. The items direct investments, portfolio investments and reserve assets generated net outflows during the quarter.

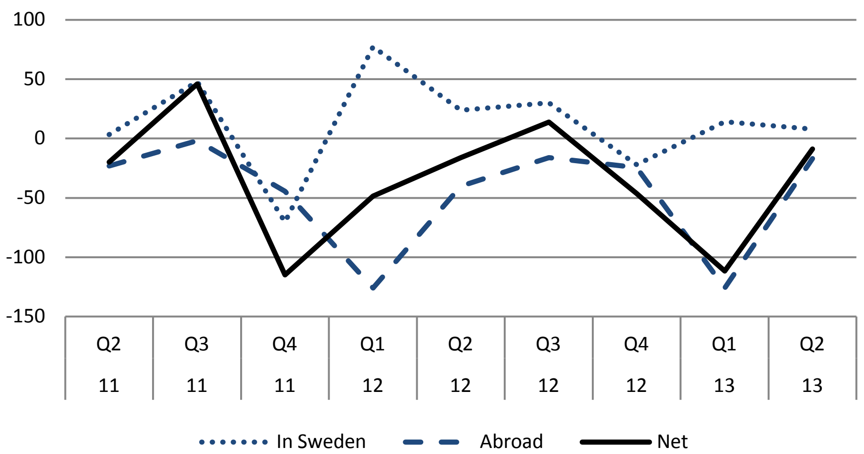
Graph 11: Financial account, billion SEK



Direct investments

Total direct investment in the second quarter produced a net outflow of SEK 9 billion. Swedish direct investments abroad resulted in a net outflow of SEK 17 billion, while foreign direct investments in Sweden resulted in a net inflow of SEK 8 billion. There were not many major transactions during the quarter.

Graph 12: Direct investments, billion SEK

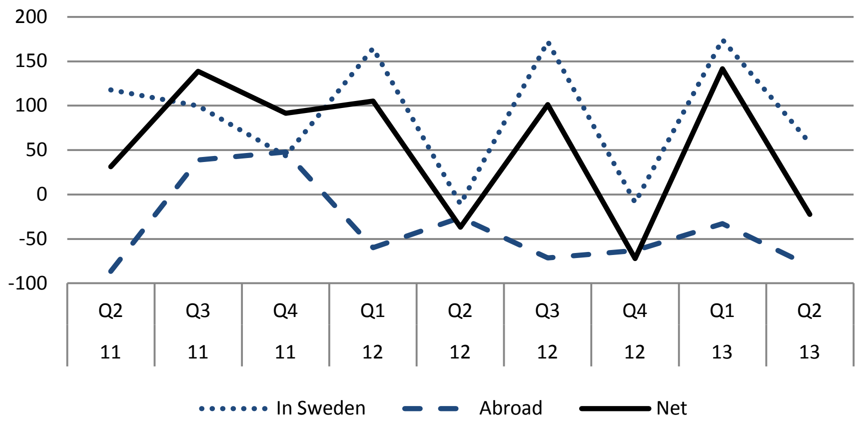


Portfolio investments

Portfolio investments consist of equities, mutual funds and fixed income securities. An equities holding is recognised as a portfolio investment if ownership is less than 10 percent of the share capital or voting rights. If ownership is higher than 10 percent, it is defined as a direct investment.

Portfolio investments abroad resulted in a net capital outflow of SEK 22 billion during the second quarter of the year. Swedish investors purchased foreign shares and funds for SEK 70 billion. Swedish investors also purchased foreign fixed-income securities and Swedish equities during the quarter. In contrast, trade in Swedish fixed-income securities generated a capital inflow of SEK 61 billion.

Graph 13: Portfolio investments, billion SEK



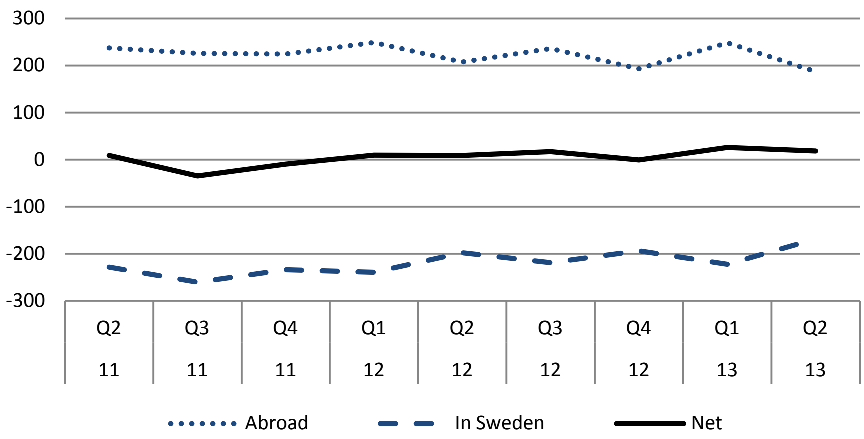
After the financial crisis of 2008, portfolio investment on an annual basis generated inflows in the financial account. The outflow in 2008 was primarily attributable to Swedish banks that had made net amortisation on their foreign debts due to the financial crisis. The issues of banks, mortgage institutions and non-financial companies subsequently became the main reason for the generated inflows.

Financial derivatives

Financial derivatives consist primarily of swap contracts in interest rates and foreign exchange; the foremost holders are the major Swedish banks. Positive market valued contracts with foreign counterparties are defined as an asset, and a negative market valued contract is similarly defined as a debt contract.

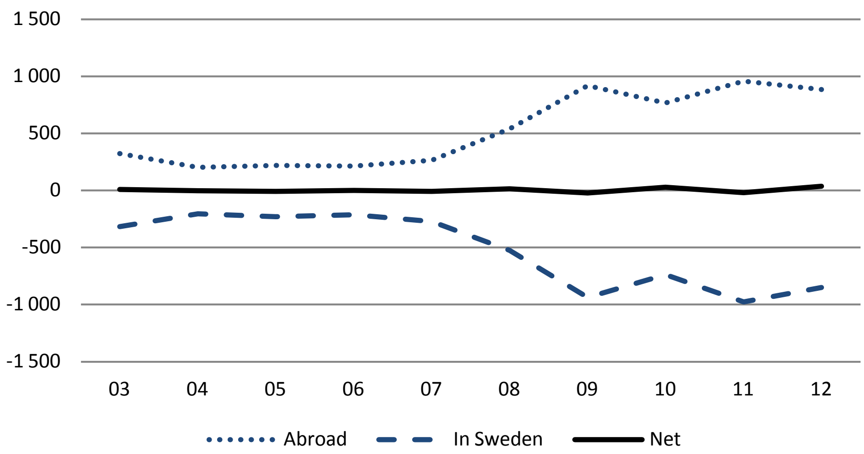
Financial derivatives generated net inflows of SEK 18 billion in the second quarter. The largest part of the net inflow was generated by various types of swap contracts.

Graph 14: Financial derivatives, billion SEK



As a result of the global financial crisis, the market values of debt and asset contracts increased, which have generated larger flows in financial derivatives in recent years. The values of positions in financial derivatives are shown in Graph 15.

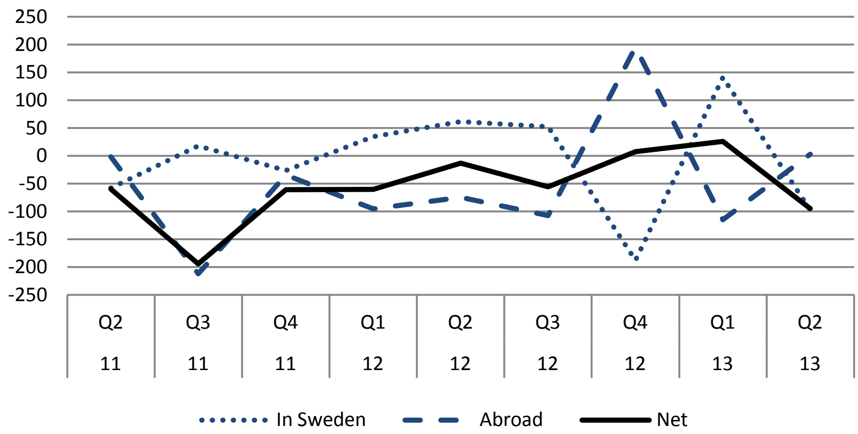
Graph 15: Financial derivatives, billion SEK



Other investments

Other investments mainly consist of loans by the bank sector to and from other countries, excluding loans of securities. These include promissory note loans, deposits and repos.

Graph 16: Other investments, billion SEK



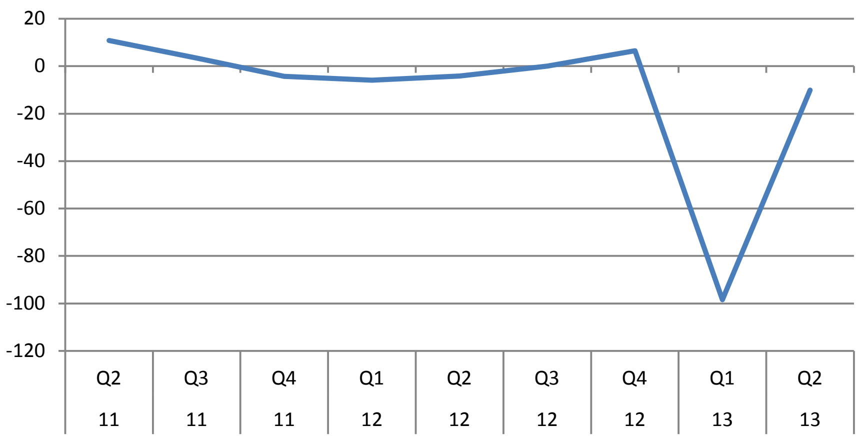
In the second quarter, other investment generated a net outflow of SEK 95 billion, mainly consisting of decreased borrowing from abroad. Lending produced a total net inflow of SEK 3 billion while borrowing from other countries generated a net outflow of SEK 98 billion. The bank sector accounted for most of the net outflow during the quarter. Non-financial companies increased their assets in banks abroad, which also contributed to the net outflow.

Reserve assets

Sweden's reserve assets consist of the Swedish Riksbank's gold reserves and securities in foreign currencies. Their main purpose is to provide temporary liquidity support to insolvent banks, fulfil Sweden’s obligations vis-a-vis the International Monetary Fund (IMF) and, if necessary, intervene on the foreign exchange market.

The reserve assets generated a net outflow of SEK 10 billion during the second quarter. The outflow is primarily due to increased holdings of foreign bank assets and fixed-income securities. At the end of June reserve assets amounted to SEK 440 billion.

Graph 17: Reserve assets, billion SEK



Revisions

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

- When Quarter 1 is published, the previous four quarters are revised.
- When Quarter 2 is published, the previous 13 quarters are revised.
- When Quarter 3 is published, the previous 10 quarters are revised.
- When Quarter 4 is published, the previous 11 quarters are revised.

Certain items in the current account were revised in connection with the calculation of the balance of payments for the second quarter. The revisions made for the period 2006-2013 Quarter 1 and affect especially the trade in services, but also transfers.

The balance of payments has been revised from 1999 Quarter 1 up to and including 2013 Quarter 1. During the revised period, revisions of SEK -83 billion net were made in the current account and SEK 47 billion net in the financial account. Detailed figures of the revisions are available in time series tables.

Swedish assets and liabilities abroad, net

At the end of June 2012, preliminary data show that Sweden continues to have a net debt to other countries. Debt amounted to SEK 194 billion and decreased compared to estimates for the end of 2012 when it amounted to 469 billion.

Three main factors influence the development of the total assets and debts with other countries. Firstly, transactions in the financial account have an effect corresponding to the size of the surplus or deficit on the current account. Another factor is the development of the Swedish krona against other currencies. In line with the increasing stock of foreign assets and debts, fluctuations in the exchange rate have a greater impact. A third important factor is the price changes of different types of assets, primarily equity prices and interest rates.

The current account has continued to contribute a surplus during 2013. Outflows in the financial account also indicate that net debt to other countries should decrease, which it did. However, net debt has fallen by much larger amounts, which may be due to the exchange rate as well as the impact of changes in interest rates and equity prices on various asset classes. However, it is more difficult to assess how much impact these factors have had on the international investment position over the last six months.

The trend continues of increasing net assets in the form of other investments while the net debt in portfolio investments increases. Reserve assets have also increased following the strengthening by the Riksbank.

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 compilation 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 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. Put in simple terms, it is a compilation of a country's real and financial transactions with the rest of the world. The main aggregates in the balance of payments are *the current account*, *the capital account*, and the *financial account.*

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 expenditures, 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 ($X_t - M_t$):

$$BNP_t = C_t + I_t + G_t + X_t - M_t. \qquad (1)$$ [1]

By adding together the net income, F_t, i.e. Swedish income earned abroad (Swedish wage-earners' remuneration abroad and earnings on foreign capital abroad) minus foreign income earned in Sweden (foreign wage-earners' remuneration in Sweden and earnings on foreign capital in Sweden) it is possible to rewrite (1) in terms of gross national income, BNI_t:[2]

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

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

[2] This income is often referred to as primary income. Net income consists of compensation of employees, investment income and current transfers.

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 trade in goods and services $X_t - M_t + F_t$ is the current account. Equation (4) thus shows that there is a simple connection between net investments and trade in goods and services. 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 deficit in the trade in goods and services 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 into consolidated public sector savings and household savings, domestic investment can be divided 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:

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

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

[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's budget balance will co-vary with the trade in goods and services during certain periods of time.

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 noted earlier, the current account, which consists of the sum of trade in goods and net factor incomes. 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 would 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 with 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 outflow of 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 exactly like the financial account, into direct investment, portfolio investment, financial derivatives, other investment, and the reserve assets.[7]

[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.

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, write-downs of claims (an example of other corrections in the graph). 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**

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