BALANCE OF PAYMENTS AND FINANCIAL MARKETS

RAPPORT 2016

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Balance of payments 2015

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Statistics Sweden
2016

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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. The international investment position is a summary of a country's total financial assets and liabilities in relation to the rest of the world.

This report covers the outcome for 2015.

Statistics Sweden, March 2016

Cecilia Hertzman

Ebba Hartzell

Statistics Sweden would like to thank

Thanks to our respondents – private individuals, enterprises, agencies and organisations – Statistics Sweden is able to produce reliable and timely statistics that meet the demands for information from society.

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Summary

The current account showed a surplus of SEK 246 billion in 2015. The surplus has thereby increased compared to 2014 when it amounted to SEK 210 billion. The surplus in trade in goods and services increased from SEK 201 billion in 2014 to SEK 228 billion in 2015. The deficit in secondary income has increased and amounted to SEK 69 billion compared to a deficit of SEK 66 billion in 2014.

Net, SEK billions	2011	2012	2013	2014	2015
1 current account	223.3	216.5	227	209.9	246.2
2 capital account	-8.2	-6.1	-9.4	-5.7	-8.3
3 financial account	292.7	57.5	121.5	131	132.1

Source: Statistics Sweden

The capital account resulted in a deficit of SEK 8 billion. The deficit has increased compared to the previous year when it amounted to SEK 6 billion.

Transactions in the financial account gave rise to a capital outflow of SEK 132 billion. Direct investments and other investments resulted in capital outflows of SEK 94 billion and SEK 117 billion respectively. Reserve assets also contributed SEK 11 billion to the capital outflow. Portfolio investments and financial derivatives gave rise to capital inflows of SEK 87 billion and SEK 3 billion respectively.

Provisional data indicate net liabilities of SEK 65 billion in the international investment position at the end of 2015. Net liabilities have thereby decreased compared to the end of 2014 when they amounted to SEK 99 billion. Net liabilities in 2015 correspond to slightly less than 2 percent of GDP. The international investment position is also published with direct investment at market value and showed net assets of SEK 134 billion.

1 Current account

The current account showed a surplus of SEK 246 billion in 2015. The surplus has increased compared to 2014 when it amounted to SEK 210 billion. The current account surplus corresponded to 6 percent of GDP.

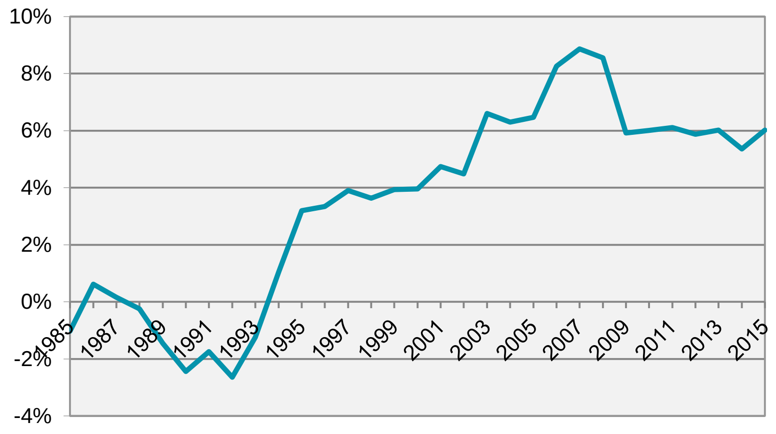
Table 1.1
Current account with sub-items

Net, SEK billion	2011	2012	2013	2014	2015
1 current account	223.3	216.5	227	209.9	246.2
1.1 trade in goods	130.9	135.9	137.1	129.4	120.6
1.2 trade in services	67	67.5	80.3	71.8	107.1
2 primary income	71.3	81.2	73	74.8	87
3 secondary income	-46	-68	-63.3	-66.1	-68.5

Source: Statistics Sweden

It is mostly trade in goods and services that has contributed to the surplus in the current account, with a surplus of SEK 228 billion. Primary income has also contributed a significant surplus while secondary income has contributed a deficit. The surplus in goods and services as well as in primary income have both increased. At the same time, the deficit in secondary income has increased somewhat. Together this has contributed to an increased surplus.

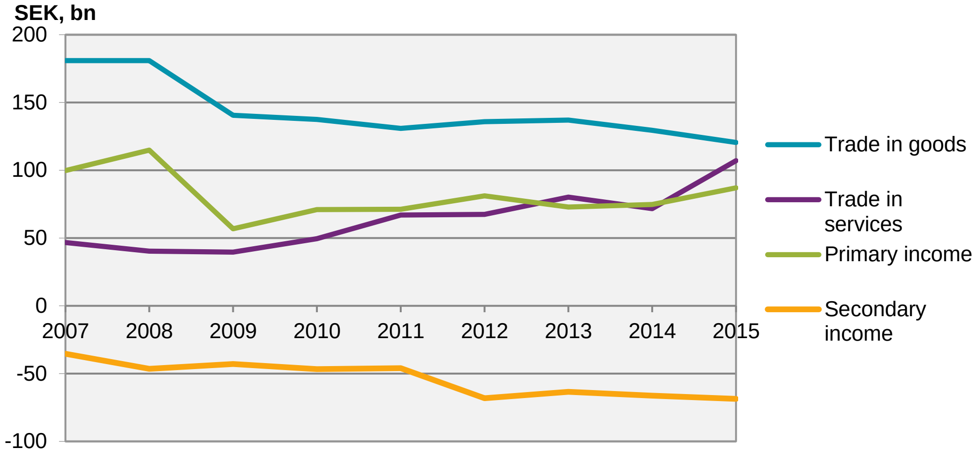
Figure 1.1
Current account, percent of GDP



Source: Statistics Sweden

In 2014 Sweden was one of the countries in Europe with the largest surplus in the current account. However, at the end of the 1980s and the beginning of the 1990s there was a considerable deficit in the current account. In the middle of the 1990s, the current account turned to a surplus when the surplus in the trade in goods increased considerably and the deficit in primary income decreased. In connection with the financial crisis in 2008, the surplus in the current account decreased when the trade in goods and primary income became weaker.

Figure 1.2
Sub-items in the current account



Source: Statistics Sweden

The surplus in the current account has been relatively stable since after the financial crisis in 2008. However, the items that have contributed to the surplus in the current account have changed over time. Trade in goods continues to contribute to the significant surplus, but the surplus has decreased over time. At the same time, the surplus in the trade in services has increased significantly.

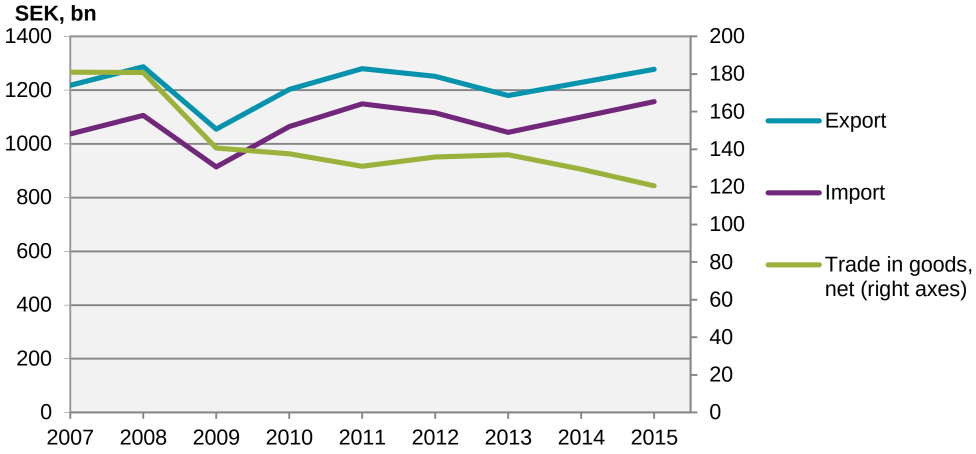
1.1 Trade in goods

Trade in goods showed a surplus of SEK 121 billion in 2015. The surplus fell compared to the previous year when it amounted to SEK 129 billion. Exports increased by 4 percent while imports increased by 5 percent. The trend in trade in goods has indicated a narrowing surplus for a long time and continued in the same direction during 2015. The surplus in trade in goods grew substantially during the second half of the 1990s and was at its highest level at the beginning of the 2000s. However, since just before the financial crisis in 2008, it has been on a downward trend.

Trade in goods with EU and non-EU countries shows slightly different patterns. Both exports and imports increased during 2015 but to differing extents, which gave an increased surplus in relation to non-EU countries while the trade deficit with EU countries decreased slightly.

Merchanting is now a part of trade in goods, and has contributed a significant surplus. Of the surplus in trade in goods in 2015, merchanting contributed with SEK 82 billion, which was at the level of the previous year. Merchanting is the sales margin that arises when Swedish enterprises buy goods abroad and sell them to another country without importing them into Sweden.

Figure 1.3
Trade in goods



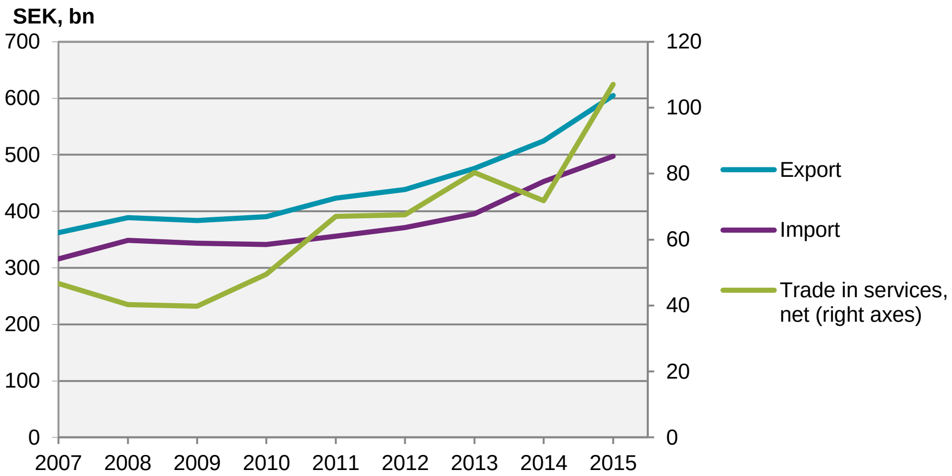
Source: Statistics Sweden

Exports of goods and imports of goods is back at about the same level as prior to the financial crisis. Both exports and imports rose up until 2008 but decreased dramatically in 2009 only to recover again in 2010 and 2011. They then gradually decreased in 2012 and 2013 but then began to increase again during 2014 and continued in 2015 when imports and exports reached the levels of previous years. Imports of goods rose more than exports, which weakened the trade in goods figures for 2015.

1.2 Trade in services

Trade in services generated a surplus of SEK 107 billion in 2015. This is a significant increase compared with 2014 when the surplus amounted to SEK 72 billion.

Figure 1.4
Trade in services



Source: Statistics Sweden

Exports of services amounted to SEK 605 billion and increased by 15 percent while imports amounted to SEK 498 and rose by 10 percent compared to 2014. Because exports of services increased more than the imports of services, the trade in services was strengthened.

Among the different types of services, transport contributed a surplus of SEK 31 billion while travel contributed a deficit of SEK 39 billion. The deficit in travel implies that expenses of Swedes when travelling abroad exceed those of foreign tourists travelling in Sweden. Telecommunication, computer and information services contributed a surplus of SEK 68 billion. Charges for the use of intellectual property also contributed a surplus of SEK 39 billion.

The main items contributing to the strengthening of the trade in services are computer services, research and development and transport. Sweden is a net importer of research and development services, and the item showed a deficit of SEK 23 billion in 2015. The deficit decreased compared to the previous year when it was unusually large and amounted to SEK 30 billion.

Exports of services to Norway amounted to SEK 82 billion in 2015, making Norway the largest counterpart country for Swedish exports of services. The United States is Sweden's largest counterpart country for imports of services.

Table 1.2
Trade in services, largest counterpart countries

Exports, SEK billions		**Imports, SEK billions**	
Norway	81.5	United States	72.0
United States	60.5	United Kingdom	61.5
United Kingdom	58.9	Germany	43.7
Germany	45.9	Denmark	39.9
Denmark	39.0	Norway	33.4
Totalt	**604.6**	**Totalt**	**497.5**

Source: Statistics Sweden

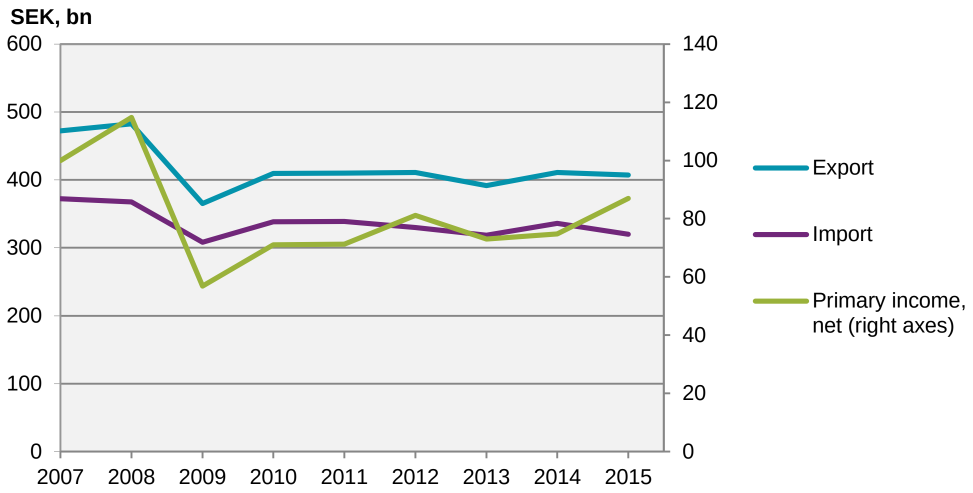
Seen over a longer period of time, both exports and imports of services have increased considerably, with the exception of the immediate aftermath of the financial crisis in 2008. Exports of services have risen from SEK 321 billion in 2006 to SEK 605 billion in 2015. Imports of services have also increased considerably, from SEK 287 billion in 2006 to SEK 498 billion in 2015. As exports have increased more than imports, it has strengthened the trade in services figures and now contributes to a significant share of the current account surplus. Among the different types of services, the surplus has increased the most in computer services.

Sweden's economy is affected by the increasing migration. This is described in more detail in the secondary income. The consumption that asylum seekers contribute is booked as foreign consumption in Sweden, which is exports of services and is included in the item for travel.

1.3 Primary income

Primary income, which refers mainly to investment income and compensation of employees, showed a surplus of SEK 87 billion in 2015. The surplus in primary income has increased compared to 2014 when it amounted to SEK 75 billion. Compensation of employees resulted in a surplus of SEK 18 billion while investment income resulted in a surplus of SEK 69 billion. The corresponding figure for the previous year was SEK 55 million. Other primary income resulted in a surplus of SEK 0.3 billion.

Figure 1.5
Primary income



Source: Statistics Sweden

The stronger investment income figures come mainly from earnings from direct investments which amounted to SEK 96 billion in 2015, compared to 2014 when the item showed a surplus of SEK 85 billion. Income from direct investments abroad amounted to SEK 255 billion, while income on corresponding foreign direct investment in Sweden totalled SEK 159 billion.

The deficit for portfolio investments dropped from SEK 37 billion in 2014 to SEK 34 billion in 2015. Income from debt securities contributed to the decrease. Borrowing from abroad in debt securities is considerably larger than investments in debt securities in foreign countries. With a lower interest rate, interest costs have decreased more than interest income.

Other investments generated positive earnings of SEK 3 billion. Income on loans and assets in banks has dropped in recent years when interest rates are lower.

Primary income was negative for a long time but changed to positive at the beginning of the 2000s. The surplus has gradually increased since then and now constitutes a major part of the current account surplus. Even if the international investment position is currently negative, investment income is positive. The composition of the international investment position shows that the asset side mostly comprises shares and equity while the liability side mostly consists of debt securities. Shares and equity usually generate higher income than interest-bearing assets, which is reflected in the fact that the primary income has been positive for a longer period while the international investment position shows a net liability.

1.4 Secondary income

The deficit in secondary income amounted to SEK 69 billion in 2015 and has increased compared to the previous year when it amounted to SEK 66 billion. The deficit in transfers to and from the EU increased. Foreign aid to other countries was at the level of 2014. The deficit in other secondary income was on a par with 2014.

Secondary income shows current transfers between Sweden and other countries. A current transfer is a transfer without receiving anything in return and affects disposable income.

Sweden's economy is affected by the increasing migration The manual for the balance of payments statistics is harmonised with the manual for the national accounts and the balance of payments is thus affected in the same way in those parts that are relevant to the balance of payments.

The key point is whether a person is counted as Swedish or foreign. According to the manual for the balance of payments, a person is counted as Swedish if that person intends to stay in Sweden for more than one year. In practice this is difficult to determine, and asylum seekers are counted as a part of the domestic population only when they have been granted asylum.

Compensation to asylum seekers is therefore booked as current transfers to abroad, as imports in other secondary income. The consumption that asylum seekers contribute is booked as foreign consumption in Sweden, which is exports of services and is included in the item for travel.

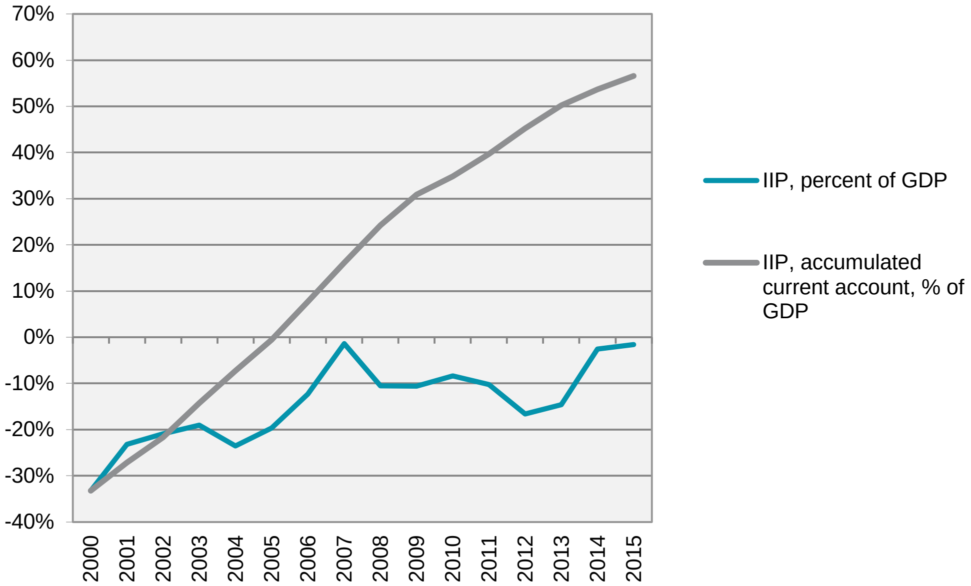
2 Capital account

The capital account recorded a deficit of just over SEK 8 billion in 2015. The deficit has thereby decreased increased compared to the previous year when it amounted to slightly less than SEK 6 billion.

3 International investment position and financial account

Preliminary data indicate net liabilities of SEK 65 billion in the international investment position at the end of 2015. The figure below shows the actual international investment position as a percentage of GDP and how the position would have developed had it followed the current account exactly. The figure shows that net liabilities in the international investment position have decreased over time but that the position has not improved in line with the current account surplus. The international investment position is also published with direct investment at market value and showed net assets of SEK 134 billion.

Figure 3.1
International investment position



Source: Statistics Sweden

Changes in the international investment position arise from both transactions in the financial account and changes in share prices, interest rates and currency exchange rates. The relationship between the opening and closing balance is summarised in the figure below.

		Other changes in financial assets and liabilities account			
Beginning of period IIP	Financial account transactions	Other changes in volume	Exchange rate changes	Other price changes	**End of period IIP**

The balance sheet total in the international investment position has increased dramatically during the 2000s with a significant gross increase in external assets and liabilities. The composition of the international investment position shows that the asset side mostly comprises shares and equity while the liability side mostly consists of debt securities and loans, which is reflected in the earnings. In addition, much of the asset side is denominated in foreign currency while the liability side is mostly denominated in SEK. Taken together, this makes the net international investment position sensitive to changes in exchange rates, interest rates and share prices.

The external exposure of domestic sectors is reported in the sector-by-sector international investment position. It shows that monetary financial institutions and non-financial corporations account for a large share of external assets and liabilities. Both have significant net external liabilities. The monetary financial institutions have borrowings from abroad in the form of issued debt securities while they simultaneously deposited significant amounts in accounts abroad within the other investment item. The non-financial enterprises have considerable direct investment abroad while other countries own significant amounts in non-financial corporations in Sweden, mostly in the form of direct investment but also in the form of portfolio investment. The social insurance sector and other financial institutions have instead significant net external assets. The Swedish state has net external liabilities, while the Riksbank has net assets in the form of reserve assets.

According to preliminary information, net liabilities in the international investment position decreased by SEK 34 billion, from SEK 99 billion in 2014 to SEK 65 billion in 2015. Net liabilities in 2015 correspond to slightly less than 2 percent of GDP.

Table 3.1
International investment position with sub-items

net (SEK billions)	2011	2012	2013	2014	2015
international investment position, total	-374.7	-612.3	-551.9	-99.3	-65.1
1 direct investment	208.2	102.7	232.3	485.2	540.5
2 portfolio investment	-1363.4	-1535.4	-1895.4	-1862.6	-2035.7
3 financial derivatives	123.8	105.2	56.5	128.1	125.1
4 other investment	310.1	375.0	634.4	660.5	814.0
5 reserve assets	346.5	340.3	420.3	489.5	491.0

Source: Statistics Sweden

Net external liabilities have decreased at the same time as the current account showed a surplus of SEK 246 billion. The surplus in the current account was not quite offset by capital outflows in the financial account, which showed a capital outflow of SEK 132 billion. This gave rise to a significantly negative net errors and omissions item. Net errors and omissions occur when a surplus/deficit in the current account together with the capital account is not offset by equally large capital outflows in the financial account.

2015 has been characterised by low interest rates. The development of the Swedish krona has been mixed, becoming stronger against the euro but weaker against the dollar. The stock market development has varied with considerable fluctuations during the year. Together with the financial transactions, this has resulted in assets and liabilities at the level of the previous year, and the net value of the international investment position has not changed significantly.

Table 3.2
Financial account with sub-items

net (SEK billions)	2011	2012	2013	2014	2015
financial account, total	292.7	57.5	121.5	131.0	132.1
1 direct investment	110.0	85.5	164.2	34.3	93.9
2 portfolio investment	-188.8	-111.3	-315.3	162.4	87.1
3 financial derivatives	19.6	-32.2	-63.7	-21.4	-2.8
4 other investment	347.4	116.1	240.9	-45.3	117.1

Source: Statistics Sweden

3.1 Direct investment

In total, direct investment transactions gave a capital outflow of SEK 94 billion in 2015. Swedish direct investment abroad increased by SEK 200 billion, while foreign direct investment in Sweden increased by SEK 106 billion.

Transactions in Swedish direct investment abroad came mostly from profits reinvested in foreign companies. Reinvestment in earnings amounted to SEK 148 billion. Equity and loan transactions have also contributed to an increase of SEK 33 billion and SEK 19 billion respectively.

Within foreign direct investment in Sweden, transactions in equity and reinvestments of earnings have contributed to a rise of SEK 83 billion and SEK 106 billion respectively, while loans have made a negative contribution of SEK 82 billion.

The balances show that Swedish direct investment abroad amounted to SEK 2 920 billion at the end of 2015 while foreign direct investment in Sweden totalled SEK 2379 billion. Taken together, this gives net assets within direct investment of SEK 541 billion for 2015.

As a supplement, direct investment calculated at market value is presented. Direct investment at market value gives net assets of SEK 740 billion for 2015. When reported in terms of direct investment at market value, the international investment position switches from negative to positive.

Most direct investment is to be found in the non-financial corporation sector. Monetary financial institutions also have significant direct investment.

3.2 Portfolio investment

Portfolio investment transactions gave a capital inflow of SEK 87 billion in 2015. The largest part of this inflow is from Swedish investors who sold foreign portfolio investments. It is mainly foreign shares and investment funds that have been sold as well as foreign long-term debt securities, while short-term debt securities have been purchased. Swedish investors' sales of shares and investment funds amounted to SEK 78 billion during the year. Foreign long-term debt securities have been sold for nearly SEK 18 billion, while short-term debt securities have been purchased by Swedish investors for SEK 12 billion. Foreign investors increased their holdings in Swedish long-term debt securities for SEK 112 billion during the year, of which debt securities issued by the government accounted for slightly more than SEK 66 billion. Bank bonds were also sought after and were purchased for SEK 43 billion. At the same time, Swedish short-term debt securities were sold for SEK 124 billion, of which bank bonds were sold for SEK 92 billion. Swedish equities and investment fund shares were purchased for SEK 16 billion net in 2015.

All in all, Sweden has net external liabilities in portfolio investment of SEK 2 036 billion. Swedish portfolio investment abroad amounted to SEK 4 316 billion at the end of 2015 while the value of foreign portfolio investment in Sweden totalled SEK 6 352 billion.

Net liabilities in portfolio investment have increased dramatically in recent years, mainly due to increased net liabilities in debt securities generated by increased borrowings from abroad. The net liability to other countries increased by SEK 173 billion in 2015. The increase is partly due to the decrease in net assets in shares and investment funds by SEK 114 billion, and partly due to the increase in net liabilities of debt securities by SEK 59 billion.

During the year, Swedish assets in foreign shares and investment funds have increased by SEK 79 billion, from SEK 3 109 billion to 3 189 billion. Holdings in foreign investment funds have been the primary reason for the increase during the year, from SEK 1 035 billion to 1 100 billion. The sector other financial institutions was the main sector that increased its holdings in foreign shares and investment funds from SEK 1 963 billion to 2 027 billion.

Foreign investors also increased their holdings in Swedish shares and investment funds by SEK 194 billion. Liabilities in shares and investment funds that now amount to SEK 2 228 billion, increased more than assets, resulting in a decrease in net assets of shares and investment funds.

Foreign holdings in Swedish debt securities were stable compared to the previous year, despite relatively large transactions. Foreign holdings amount to SEK 4 124 billion, which is a decrease of SEK 13 billion compared to the previous year. In addition to transactions, holdings are also affected by currency fluctuations and market evaluations.

Swedish assets in foreign debt securities also decreased compared to the previous year by SEK 71 billion. Swedish investors have decreased their holdings of long-term debt securities by SEK 92 billion, while they have increased their holdings in short-term debt securities by slightly more than SEK 20 billion compared to 2014.

3.3 Financial derivatives

Transactions in financial derivatives gave rise to a capital inflow of slightly less than SEK 3 billion in 2015. Transactions in financial derivatives consist primarily of swap contracts in interest rates and foreign exchange; the foremost holders are the major Swedish banks. Financial derivatives are mainly used to safeguard investment.

At the end of 2015, financial derivatives showed net external assets of SEK 125 billion. The value of assets amounted to SEK 518 billion and exceeded the value of liabilities, which amounted to SEK 392 billion. Positive market valued contracts with foreign counterparties are defined as assets, and negative market valued contracts are similarly defined as liabilities. Fluctuations in interest rates and exchange rates in recent years have led to higher balances in financial derivatives.

3.4 Other investment

Other investment transactions, which mainly consist of loans and deposits, gave a capital outflow of SEK 117 billion in 2015. Transactions reduced Swedish assets in other investment abroad by SEK 42 billion. Transactions on the liability side in other investment gave rise to a decrease of SEK 160 billion in 2015. The main contributors to the capital outflow were transactions with currency and deposits.

At the end of 2015, the balance in other investment showed a net asset of SEK 814 billion, which is an increase of SEK 154 billion compared to the same quarter of the previous year. The value of Swedish investment abroad amounted to SEK 2 837 billion while foreign-owned investment in Sweden amounted to SEK 2 023 billion. Seen over a longer period of time, other investment has switched from net liability to net asset. At the end of 2008, other investment had net liabilities abroad of SEK 533 billion, which has now turned into significant net assets.

3.5 Reserve assets

Reserve assets are the Riksbank's reserves of gold, securities and other assets in foreign currencies. Their main purpose is to provide temporary liquidity assistance 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 capital outflow of SEK 11 billion in 2015.

At the end of 2015, the reserve assets amounted to SEK 491 billion. They have increased slightly compared with the end of 2014 when they amounted to SEK 490 billion. The Swedish krona has become weaker against the USD and has developed somewhat stronger against the EUR during 2015, which has meant that the currency influence has been relatively small in that about 70 percent of the reserve assets consist of EUR and USD. In recent years, the Riksbank has strengthened its reserve assets significantly, particularly in 2009 and 2013.

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 9 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.

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 upon the publishing of 2015 quarter 4.

The balance of payments has been revised from Quarter 1 2011 to Quarter 3 2015. During the period, the current account and the financial account were revised downwards by SEK 99 billion and 123 billion net respectively. The international investment position has also been revised for the period, mainly within portfolio investments and holdings of foreign debt securities.

A large part of the revisions occur after a review of methods for calculations of income. The items that are affected are mainly income on debt securities and portfolio shares. The information is based on model estimations where, among other things, an adjustment has been made to improve the presentation of interest rate changes. In addition to the review on methods, a small number of major revisions have come from respondents concerning other items within both the balance of payments and the international investment position.

Facts about the statistics

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 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*.

The current account shows flows of goods, services, primary income, and secondary income between residents and nonresidents. Primary income refers mainly to investment income and compensation of employees. Secondary income shows current transfers between residents and non-residents. A current transfer is a transfer without receiving anything in return and affects disposable income.

The value of the current account balance equals the saving-investment gap for the economy. Thus, the current account balance is related to understanding domestic transactions.

The financial account shows net acquisition and disposal of financial assets and liabilities. The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account. In other words, the financial account measures how the net lending to or borrowing from nonresidents is financed. The financial account plus the other changes account explain the change in the IIP (International Investment Position) between beginning- and end-periods.

The international accounts correspond to the rest of the world accounts in the SNA (system of national accounts). The major accounts can be expressed as accounting identities. Because these are identities, no causation should be inferred. The goods and services account shows the balance between supply and use:

Supply = Output + M (1)
= Use = C + G + I + X + IC,

where
M = imports of goods and services
C = household consumption
G = government consumption
I = gross capital formation[1]
X = exports of goods and services
IC = intermediate consumption

Because GDP is equal to gross output less intermediate consumption, identity (1) can be rearranged as:
GDP = C + G + I + X – M, (2)

that is, the expenditure approach to GDP, where GDP = gross domestic product.

[1] Often called investment in economic analysis. The SNA uses the term "capital formation" to mean investment in nonfinancial assets so as to make a clear distinction from investment in financial assets.

The definition of gross national disposable income (GNDY) is GDP plus net primary and secondary income from abroad, so
$GNDY = C + G + I + X - M + BPI + BSI,$ (3)
where
BPI = balance on primary income
BSI = balance on secondary income (net current transfers)

The current account balance is:
$CAB = X - M + BPI + BSI$ (4)
where
CAB = current account balance

From equations (3) and (4), the current account balance can also be seen equivalently as the gap between disposable income and expenditure:
$CAB = GNDY - C - G - I.$ (5)

Or equivalently:
$GNDY = C + G + I + CAB.$ (6)

As defined in the SNA use of income account:
$S = GNDY - C - G,$ (7)
where
S = gross saving.

Substituting identity (3) in (7),
$S = I + CAB,$ (8)
which can be rearranged as:
$S - I = CAB.$ (9)

That is, the current account balance is the gap between saving and investment.

Thus, the current account balance mirrors the saving and investment behaviour of the economy. In analysing changes in the current account balance of an economy, it is therefore important to understand the manner in which these changes reflect movements in saving and investment.

The interrelationship of the current account balance with saving and investment can be seen in greater detail by distinguishing between the private and government sectors. Private saving and investment (S_p and I_p) and government saving and investment (S_g and I_g) are identified as:
$S - I = S_p + S_g - I_p - I_g.$ (10)
Use of the saving-investment gap identity for the current account in identity (9) then gives:
$CAB = (S_p - I_p) + (S_g - I_g).$ (11)

In a closed economy, the level of investment is thus determined by the total savings in the economy. In an open economy, global financial markets enable international capital to flow between countries and allows for investments to differ from savings. The balance of payments contains information on these flows.

The connection between the balance of payments and the international investment position

The basic principle of double-entry bookkeeping used in constructing the balance of payments implies that the sum of all international transactions—current, capital, and financial—is in principle equal to zero.[2] Accordingly, the financial account shows how the sum of the current account and capital account balances is financed.

This balance between financial and other entries can be expressed as:
NLB = CAB + KAB = NFA, (12)
where
NLB = net lending/net borrowing
KAB = the capital account balance
NFA = net financial account entries

In words, this identity shows that net lending/net borrowing (from the sum of the current account balance and capital account balance) is conceptually equal to net lending/net borrowing from the financial account.

Thus the net provision of resources to or from the rest of the world, as measured by the current and capital account balances, must—by definition—be matched by a change in net claims on the rest of the world. For example, a surplus on the current and capital accounts is reflected in an increase in net claims. Alternatively, a deficit on the current and capital accounts implies that the net acquisition of resources from the rest of the world must be paid for by either liquidating foreign assets or increasing liabilities to nonresidents.

The international investment position (IIP) is a statistical statement that shows at a point in time the value and composition of
(a) financial assets of residents of an economy that are claims on nonresidents and gold bullion held as reserve assets, and
(b) liabilities of residents of an economy to nonresidents.
The difference between an economy's external financial assets and liabilities is the economy's net IIP, which may be positive or negative.

Changes between opening balance and closing balance in the international investment position are illustrated in the figure below. Changes in the net external position are due to transactions in the financial account and other changes in financial assets and liabilities. Other changes in financial assets and liabilities are exchange rate changes and other price changes such as asset price volatility, and other changes in volume. Other changes in volume are changes in the value of assets and liabilities that are neither due to transactions or revaluations, for example cancellations and write-offs.

[2] In practice, they may not balance owing to errors and omissions.

	Beginning of period IIP	Financial account transactions	Other changes in financial assets and liabilities account: Other changes in volume	Exchange rate changes	Other price changes	End of period IIP
Assets						
Liabilities						
Net IIP						

Possible dimensions for the classification of the IIP are functional category (direct investment, portfolio investment, financial derivatives, other investment and reserve assets), financial instrument, institutional sector of the resident party, maturity, currency and interest rate structure. This allows for analysis of the IIP from several perspectives.

All officiell statistik finns på: **www.scb.se**
Statistikservice: tfn 08-506 948 01

All official statistics can be found at: **www.scb.se**
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