Balance of Payments

Second quarter 2011

Statistiska centralbyrån Statistics Sweden

Balance of Payments

Second quarter 2011

Statistics Sweden
2011

Balance of Payments. Second quarter 2011

Statistics Sweden
2011

Producer	Statistics Sweden, Balance of Payments and Financial Markets Box 24300 SE-115 81 Stockholm +46 8 506 940 00
Inquiries	Fredrik Öhrström, +46 8 506 941 12 fredrik.ohrstrom@scb.se Jon Smedsaas, +46 8 506 947 08 jon.smedsaas@scb.se

Cover: Ateljén, SCB

URN:NBN:SE:SCB-2011-FM04BR1103ENG_pdf (pdf)

This publication will only be published on www.scb.se.

Foreword

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

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

This report comprises the results of the second quarter of 2011.

Statistics Sweden, August 2011

Folke Carlsson

Christina Ekblom

Contents

Summary

Trade in services resulted in a surplus of SEK 40.3 billion in the second quarter. This is stronger compared to the same quarter last year when the surplus in trade in services amounted to SEK 35.7 billion. During the quarter export of services amounted to SEK 128.1 billion, while import of services amounted to SEK 87.8 billion. Export of services has increased more than import of services, thus explaining the strengthening of the trade in services.

Income on portfolio investments show seasonal variation due to dividends distributed by companies, and resulted in a net outflow of SEK 14.2 billion during the second quarter. During the same quarter of 2010, the corresponding amount was SEK 9.1 billion. The increased net outflow was mainly because Swedish companies increased their dividends compared to the previous year. Dividends from foreign shares also increased but not to the same extent. Foreigners' increased holdings in Swedish shares also contributed to the increased outflow.

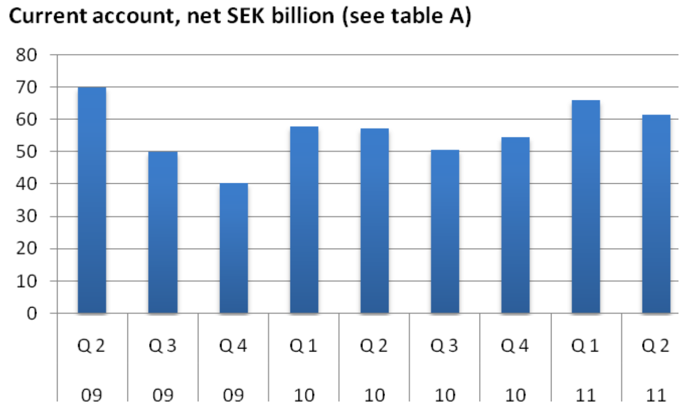
The financial account resulted in a net outflow of SEK 10.8 billion for the second quarter of 2011. Direct investments and other investments contributed to the net outflow while portfolio investments, financial derivatives and reserve assets contributed to the net inflow.

Balance of payments - second quarter 2011

The current account showed a surplus of SEK 61.3 billion during the second quarter of the year. The financial account resulted in a capital outflow of SEK 10.8 billion while the capital account generated a deficit of SEK 1.8 billion.

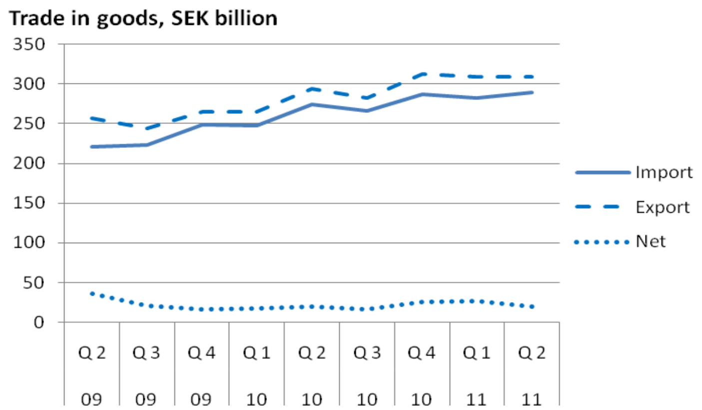
Current account

The current account resulted in a surplus of SEK 61.3 billion net for the second quarter. The strong current account is mainly due to a strong trade in services, which resulted in a surplus of SEK 40.3 billion during the quarter. Net investment income is seasonally dependent and was relatively low during the second quarter, since income on portfolio investments were negative.

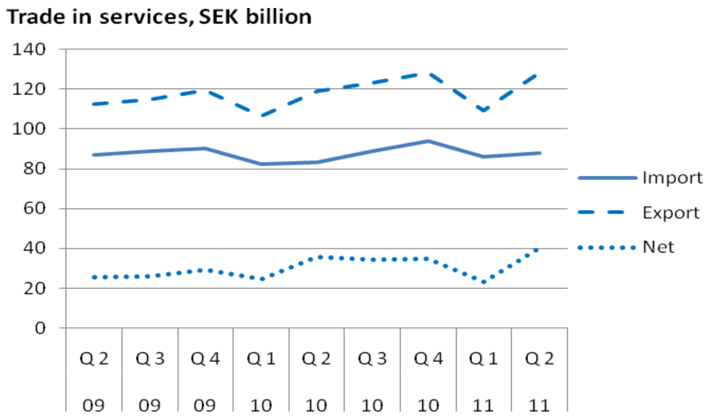


Foreign trade in goods and services

The trade in goods resulted in a net outflow of SEK 19.9 billion during the quarter. The trade in goods is thus at about the same level as in the same period as the previous year while it was weaker than in the previous quarter. Both exports of goods and imports of goods increased compared to the same quarter last year.



Trade in services resulted in a surplus of SEK 40.3 billion in the second quarter. This is stronger compared to the same quarter last year when the surplus in trade in services amounted to SEK 35.7 billion. During the quarter export of services amounted to SEK 128.1 billion, while import of services amounted to SEK 87.8 billion. Export of services has increased more than import of services, thus explaining the strengthening of the trade in services.

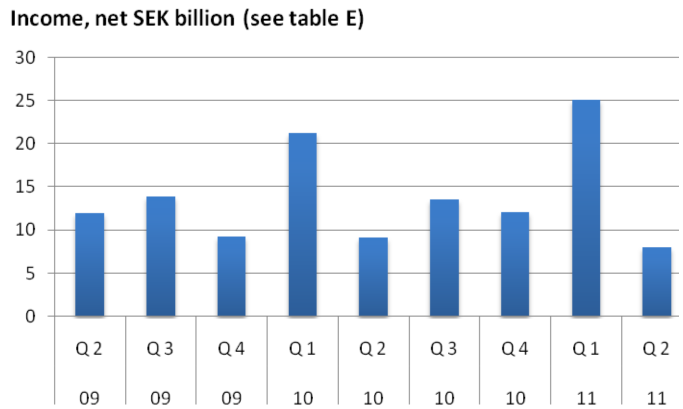


The types of services that had the largest net changes compared to the same quarter last year were travel and other business services. Travel produced a net import of SEK 5.1 billion during the second quarter, which can be compared to the net import of SEK 1.7 billion in the same quarter of 2010. Net import for the item travel means that Swedes' consumption of travel abroad exceeds foreigners' consumption of travel in Sweden.

Other business services have increased from SEK 15.4 billion during the second quarter of 2010 to SEK 23.3 billion in the second quarter of 2011. Other business services include among other things marketing, business services, technical services and intra group services. Merchanting accounts for a considerable part of the net export within other business services. Merchanting is a service that involves the mediation of goods from a foreign supplier to a foreign customer.

Income

Income consists of compensation of employees and income on invested capital. Together these resulted in a capital inflow of SEK 8.0 billion. Investment income in turn consists of income on direct investments, portfolio investments as well as other investments.

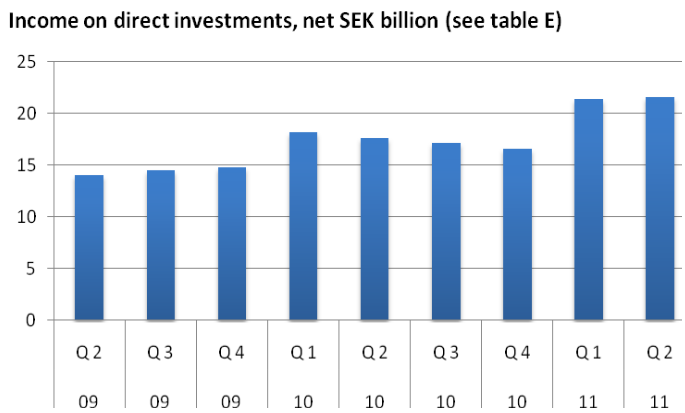


Earnings on direct investments

Earnings on direct investments contributed to a net inflow of SEK 21.5 billion to the current account during the quarter. The net inflow means that earnings on Swedish direct investments abroad exceeded earnings on foreign direct investments in Sweden.

The second quarter is a quarter when dividends are usually relatively large. This was also so in this quarter. Compared to the same quarter last year however, dividends were somewhat lower on Swedish direct investments abroad as well as foreign direct investments in Sweden.

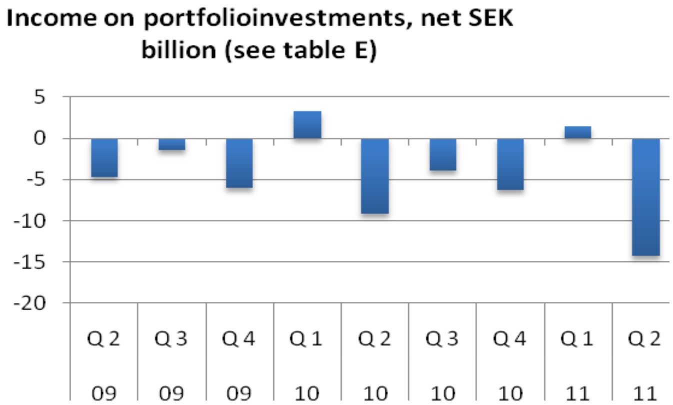
Earnings on capital for direct investment companies are preliminary up until they are replaced by the result of the annual survey in direct investments. This will occur when figures for the third quarter are published.



Earnings on portfolio investments

Earnings on portfolio investments, which show seasonal variation because of dividends distributed by Swedish companies, resulted in an outflow of SEK 14.2 billion during the second quarter. During the same quarter of 2010, the corresponding amount was SEK 9.1 billion. The increased net outflow was mainly because Swedish companies increased their dividends compared to the previous year. Dividends from foreign shares also increased but not to the same extent. Foreigners' increased holdings in Swedish shares also contributed to the increased outflow.

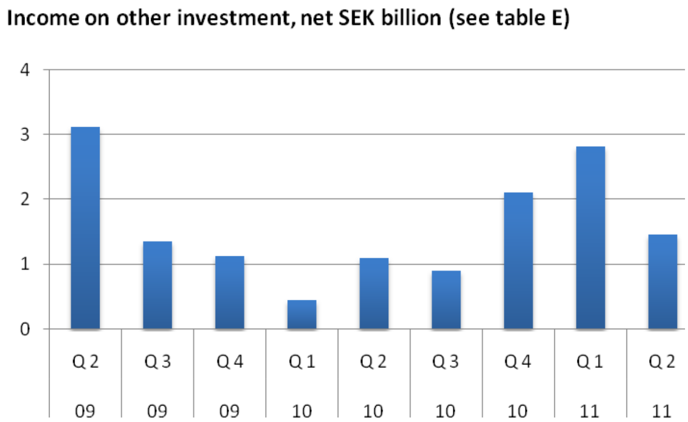
Earnings on debt securities generated a total outflow of SEK 11.8 billion net. Interest costs for Swedish debt securities amounted to SEK 23.1 billion while interest income on foreign debt securities was SEK 11.3 billion.



Earnings on other investments

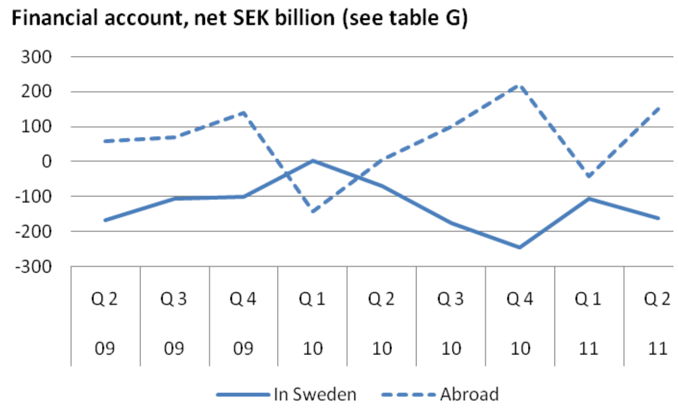
Earnings on investments resulted in a net inflow of SEK 1.5 billion during the second quarter this year.

Earnings from other investments mainly consist of earnings on loans and bank deposits. The sector that generates the largest contribution to this item is the MFI sector, which mainly consists of banks and housing credit institutions.



Financial account

The financial account resulted in a net outflow of SEK 10.8 billion for the second quarter of 2011. Direct investments and other investments contributed to the net outflow while portfolio investments, financial derivatives and the foreign exchange reserve contributed to the net inflow.

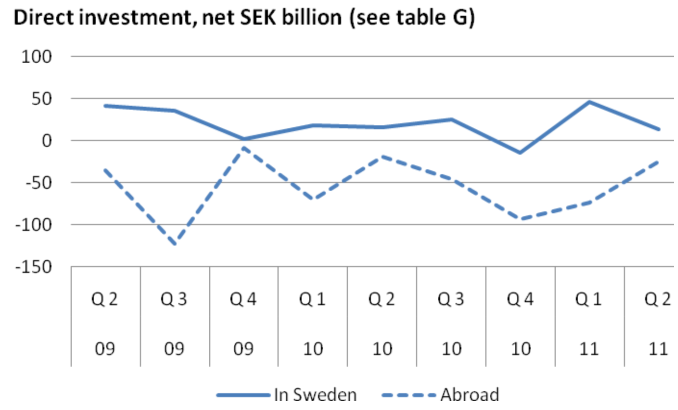


Direct investments

Direct investments resulted in a net outflow of SEK 10.9 billion during the second quarter of 2011. Swedish direct investments abroad resulted in a net outflow of SEK 24.7 billion. The outflow for this item implies an increase in Swedish direct investments abroad. Foreign direct investment in Sweden produced a net inflow of SEK 13.8 billion. The inflow for this item implies an increase in foreign direct investments in Sweden.

A number of large transactions have been made during the quarter, mainly within groups. However, several of the transactions cancel each other out which explains the relatively small net flows. Instead the net flows are mainly due to reinvested earnings.

At the end of the first half of 2011, the book value of Swedish direct investments abroad amounted to SEK 2 273 billion, while foreign direct investment in Sweden totalled SEK 2 346 billion.



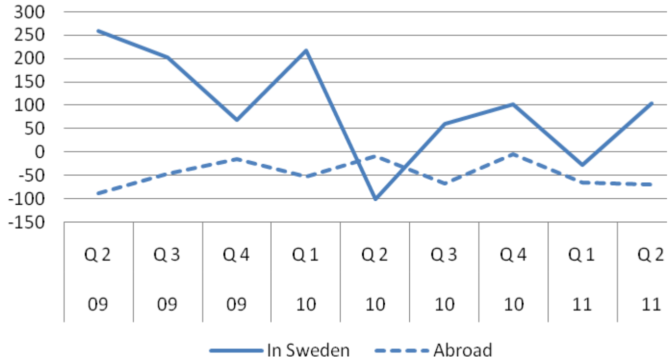
Portfolio investments

Portfolio investments resulted in a capital inflow of SEK 34.0 billion during the second quarter of 2011. The corresponding figure for the previous quarter was a net outflow SEK 94.8 billion. The inflow is mainly from foreigners' investments in Swedish government and bank securities, which is in contrast to last quarter when holdings in these decreased.

Swedish portfolio investments abroad resulted in a net outflow of SEK 69.8 billion. Above all, Swedish investors showed significant interest for foreign shares and funds, and the net outflow for these securities amounted to SEK 43.5 billion. Interest was considerable for American, Swiss and British shares and Irish investment funds.

Foreign portfolio investments in Sweden produced a net inflow of SEK 103.8 billion. This inflow comprises net purchases by other countries of Swedish government securities as well as increased borrowing abroad by Swedish banks. The banks mainly issued currency denominated money market instruments, but also increased their borrowing in bonds.

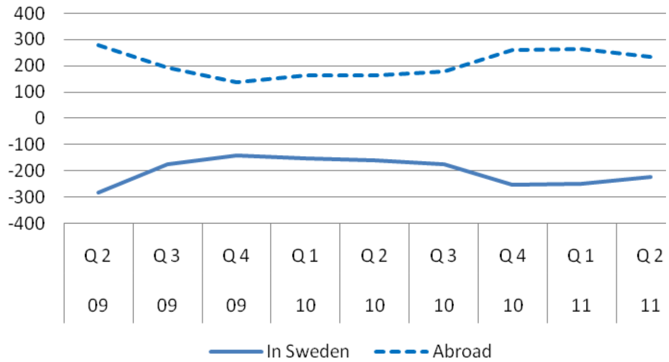
Portfolio investment, net SEK million (see table G)



Financial derivatives

During the second quarter a capital inflow was noted for the item financial derivatives of about SEK 9 billion. 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.

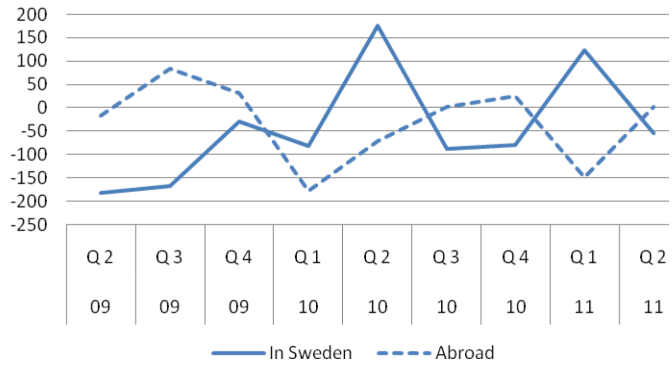
Financial derivatives, net SEK billion (see table G)



Other investments

During the second quarter of 2011, the outflow amounted to SEK 53.8 billion for the item other investments. Other investments is an item that includes all types of financial assets and liabilities that are not accounted for under direct investments, portfolio investments, derivatives or the reserve assets of the Riksbank. The item often shows large net flows. This is also an item that seldom shows any particular trend or follows a specific economic trend but instead reflects mainly short-term loans and deposits between Swedish banks and foreign countries.

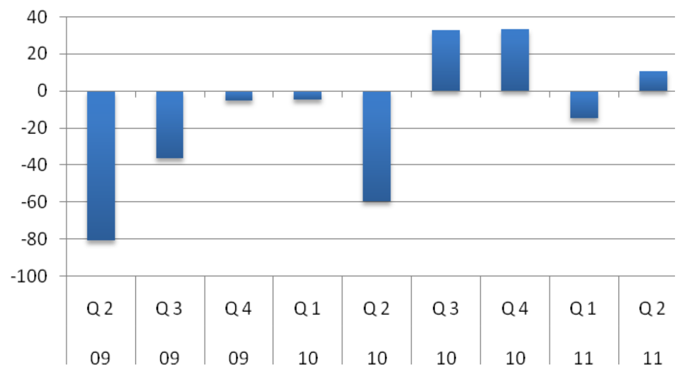
Other investment, net SEK billion (see table G)



Reserve assets

Transactions in the reserve assets contributed to a net inflow of SEK 10.9 billion during the quarter. The net inflow is mainly due to a decrease in bank assets and securities abroad. At the end of June reserve assets amounted to SEK 321 billion.

Reserve assets, net SEK billion (see table G)



International investment position, net

At the end of June 2011 preliminary information shows that Sweden continues to have a net debt to other countries. The debt amounted to SEK 430 billion and decreased somewhat compared to the same calculation for the end of 2010.

Three main factors influence the development of the total assets and debts with other countries. First of all, the size influences the surplus or debt in 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 these debts, fluctuations in the exchange rate have a greater impact. The third important factor is the price changes on different financial types of assets, mainly share prices but also changes in interest rates.

The continued strong current account with a surplus of roughly SEK 125 billion thus contributed positively to the decreased debt during the first half of 2011. It is more difficult to calculate the influence of fluctuations in exchange rates, interest rates and the share prices on the different types of assets. However, the statistics indicate that changes in these factors involved somewhat of an increase in debt. Nevertheless it is important to point out that information on Sweden's assets and liabilities abroad is 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 measurement of Sweden's wealth in relation to other countries. This should not be confused with the national debt, which is the total deficit and surplus in the central government budget over time.

What is the balance of payments?

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

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

The balance of payments can be divided into the following:

- The current account, including regular transactions in goods and services, return on financial assets and debts, and regular transfers such as EU subsidies and fees.
- The capital account, which covers EU subsidies and foreign aid for real investment as well as the purchase and sale of rights, such as patents.
- The financial account, which is divided into direct investments, portfolio investments, financial derivatives, other investments and the foreign exchange reserve. The financial account shows changes in external financial assets and liabilities.

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 households' consumption, C_t, private investment, I_t, and public sector fees G_t, or to be delivered abroad in the form of exports of goods and services, X_t. Domestic demand can also be satisfied by the import of goods and services, M_t. The National Income Identity shows that a country's production during an individual year is equal to the sum of domestic demand ($C_t + I_t + G_t$) and net sales of goods and services to the rest of the world ($X_t - M_t$):

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

By adding together the net incomes, F_t, i.e. Swedish 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

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

Sweden) it is possible to rewrite (1) in terms of gross national income, BNI_t:[2]

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

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 households' 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 trade account. $X_t - M_t + F_t$ is called the current account. Equation (4) thus shows that there is a simple connection between net investments and trade in goods. 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 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 households' 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 the consolidated public sector's savings and households' savings, domestic investments can be divided up into public sector investment and private investment. This division indicates that if the public sector's 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 on the current account. A growing deficit in the current account can thus be a sign among many that the central government's expenditure is greater than its 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:

---

[2] These incomes are often called primary incomes. Net incomes consist of wages, capital earnings and current transfers.

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

[4] Net incomes are assumed to be constant in the short term.

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

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

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

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

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the sum of trade in goods and net 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 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 reports in the form of stock data on all domestic sector assets and liabilities abroad. Stock data is 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]

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

[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 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**