



Statistics Sweden

Statistiska centralbyrån

# Balance of Payments

Third quarter 2011



# **Balance of Payments**

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Statistics Sweden  
2011

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## **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 third quarter of 2011.

Statistics Sweden, November 2011

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## Summary

**The surplus in the current account became even stronger during the third quarter. The larger surplus is due to a stronger trade in goods and services as well as increased investment income.**

Trade in goods and services resulted in a surplus of SEK 64.0 billion for the third quarter. Both the trade in goods and trade in services have been strengthened, mainly because of strong growth in exports. Trade in goods resulted in a surplus of SEK 26.3 billion while the trade in services resulted in a surplus of SEK 37.7 billion.

The surplus in investment income has increased and amounted to SEK 23.0 billion during the third quarter. These strong earnings are mainly because earnings on portfolio investments turned from negative to positive as a result of lower Swedish interest rates. Lower Swedish interest rates strengthen earnings on capital because interest costs to other countries decrease.

The surplus in the current account is balanced by a deficit in the financial account of SEK 56.1 billion. Similar to the previous quarter, other investments were the main contribution to the deficit. Financial derivatives, which have showed a surplus since 2010, now contributed to the deficit instead.

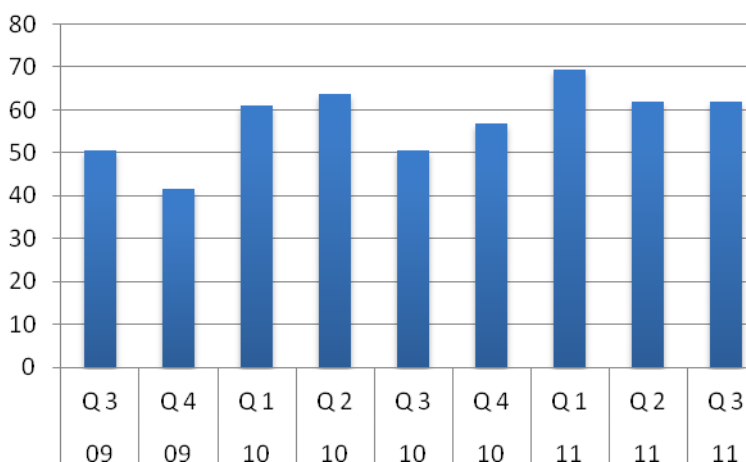
## Balance of payments, third quarter 2011

The current account showed a surplus of SEK 76.1 billion during the third quarter of the year. The financial account resulted in a capital outflow of SEK 56.1 billion while the capital account generated a net inflow of SEK 0.1 billion.

### Current account

The relatively large surplus of SEK 76.1 billion can be compared to the third quarter of 2010 when the surplus of the current account amounted to SEK 50.5 billion. This stronger current account can be explained by the surplus in trade in goods and services as well as the relatively high income.

Current account, net SEK billion (see table A)

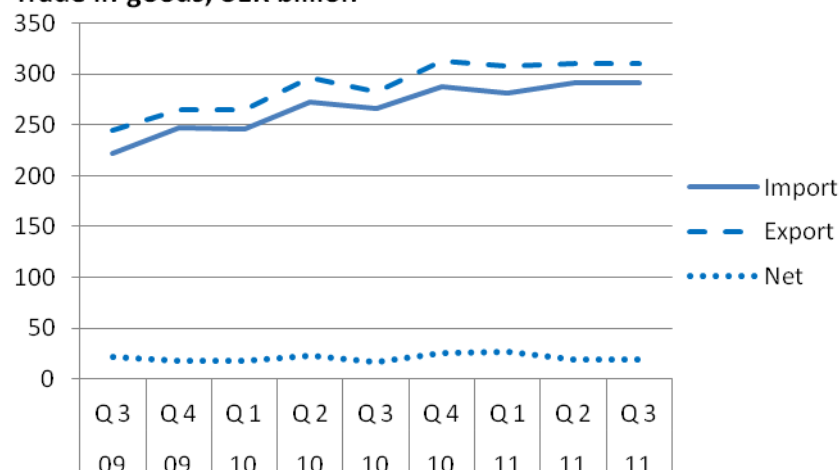


### Foreign trade in goods and services

Foreign trade in goods and services resulted in a surplus of SEK 64.0 billion during the third quarter. During the same quarter of 2010 the corresponding surplus was SEK 48.8 billion. Exports have increased more than imports, thus explaining the increased surplus.

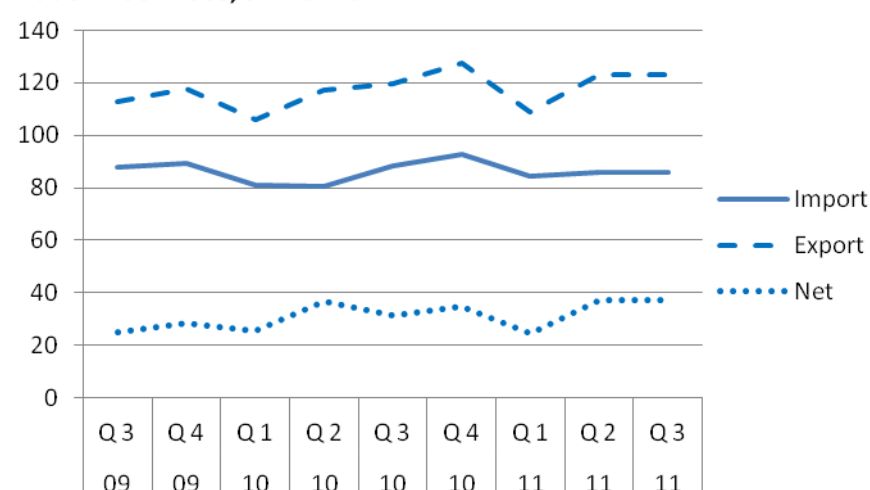
Trade in goods during the third quarter resulted in a surplus of SEK 26.3 billion. Trade in goods with countries outside of the EU resulted in a surplus of SEK 40.4 billion. At the same time, trade in goods with other EU countries resulted in a deficit of SEK 14.1 billion.

## Trade in goods, SEK billion



Trade in services resulted in a surplus of SEK 37.7 billion in the third quarter. This is stronger compared to the same quarter last year when the surplus in trade in services amounted to SEK 31.5 billion. During the quarter export of services amounted to SEK 127.7 billion, while import of services amounted to SEK 89.9 billion. This is an increase of SEK 7 and 2 percent respectively, compared to the same quarter last year. Export of services has increased more than import of services, thus explaining the strengthening of the trade in services. This surplus was seen with countries within as well as outside the EU.

## Trade in services, SEK billion

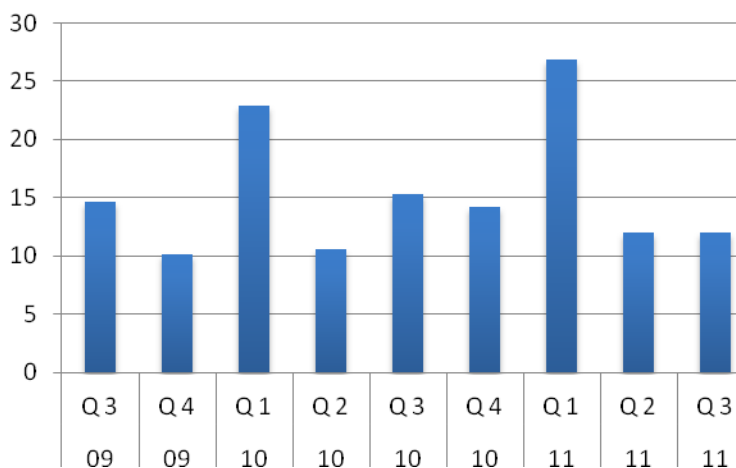


Other business services and computer/information services were the types of services that contributed the most to the surplus. The strengthening of the trade in services compared to the same quarter last year is among other things because the deficit in travel changed to a balance.

## Income

Income consists of compensation of employees and investment income. Together these resulted in a relatively large capital inflow of SEK 22.3 billion during the quarter. Income varies considerably from quarter to quarter, mainly due to the variations in earnings on portfolio investments.

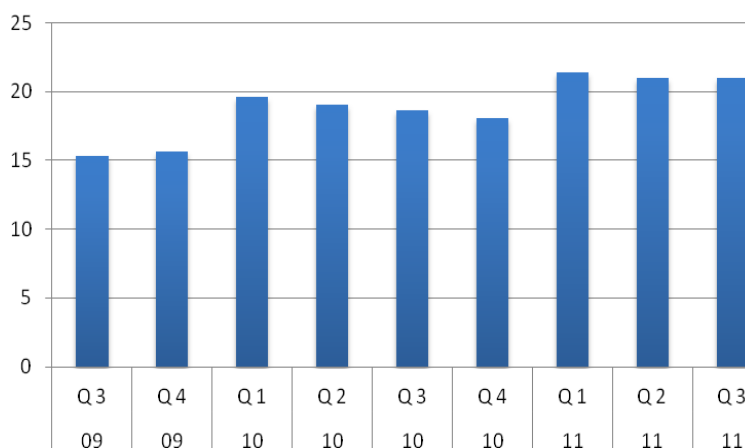
Income, net SEK billion (see table E)



## Earnings on direct investments

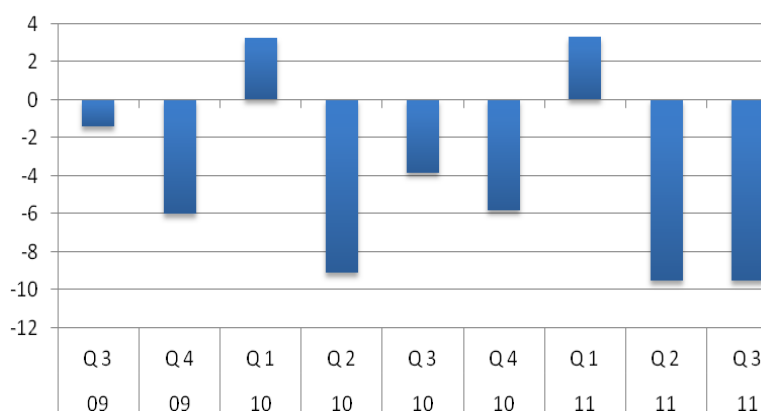
Earnings on direct investments resulted in a net inflow of SEK 20.8 billion during the first quarter. Earnings from direct investments abroad amounted to SEK 69.3 billion, while income on corresponding direct investments in Sweden totalled SEK 48.5 billion.

Dividends were relatively small, which is usually the case during the third quarter. This in turn means that large re-invested earnings are reported in the statistics. Interest on loans within multinational companies resulted in a net outflow of SEK 6.7 billion during the quarter. During the first three quarter of 2011, interest on loans within multinational companies resulted in a net outflow of SEK 19.3 billion. Earnings for 2010 that have been preliminary have now been replaced by the value of the results. This gave a further net addition of SEK 6.0 billion to the current account.

**Income on direct investments, net SEK billion (see table E)****Earnings on portfolio investments**

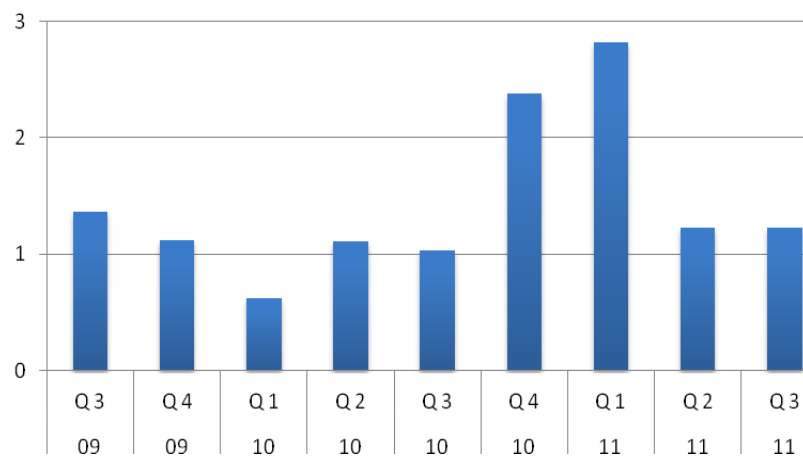
Earnings on portfolio investments resulted in a net inflow of SEK 0.4 billion during the third quarter. The same quarter last year resulted in an outflow of SEK 3.9 billion net. The difference is mainly because earnings on Swedish debt securities were lower while earnings on foreign debt securities were largely unchanged.

Dividends from foreign shares rose compared to the corresponding quarter last year. Swedish investors' increased investments in foreign shares and funds were behind the increase.

**Income on portfolio investments, net SEK billion (see table E)**

**Earnings on other investments**

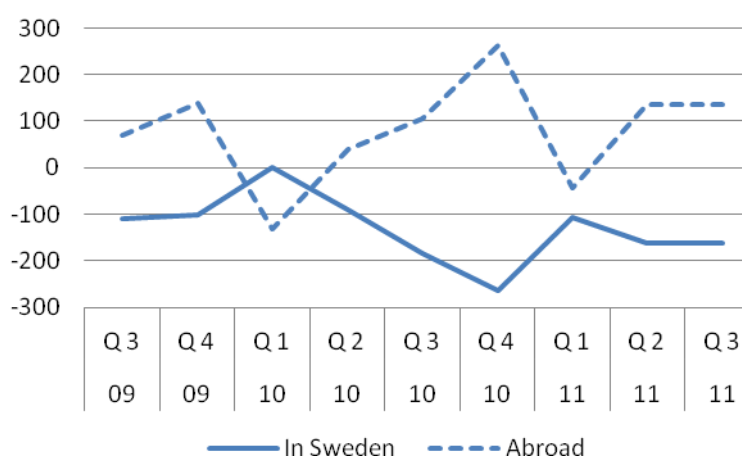
Earnings on investments resulted in a net inflow of SEK 1.8 billion during the third quarter this year. Earnings from other investments mainly consist of earnings on loans and bank deposits.

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

## Financial account

The financial account resulted in a deficit of SEK 56.1 billion for the third quarter of 2011. As in the previous quarter, other investments contributed to the deficit. Direct investment and financial derivatives also contributed, the latter-mentioned gave a deficit for the first time since the second quarter of 2009. Portfolio investments and reserve assets showed a net inflow which balanced somewhat.

Financial account, net SEK billion (see table G)

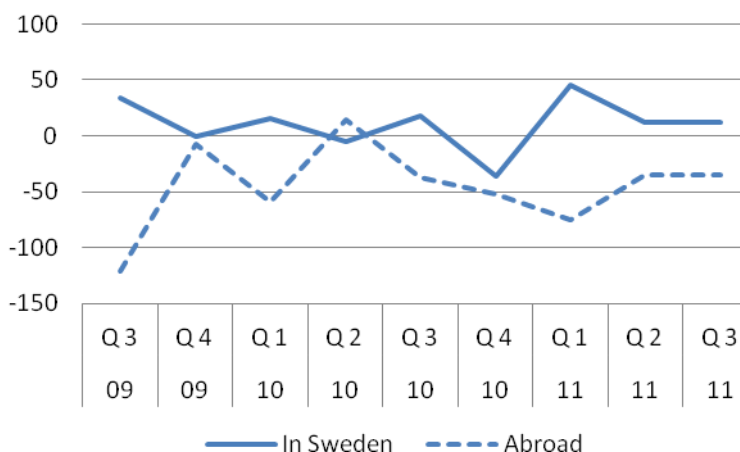


## Direct investments

Direct investments contributed to a net outflow of SEK 17.1 billion to the financial account during the quarter. Swedish direct investments abroad resulted in a net outflow of SEK 65.4 billion. Foreign direct investment in Sweden produced a net inflow of SEK 48.3 billion.

During the quarter, a number of cross-border acquisitions were made, contributing partly to the flows within equity. Capital contributions have further contributed to some of the flows within equity.

Reinvested earnings is a residual item in the statistics that refers to earnings that are not distributed to shareholders but remain in the company instead.

**Direct investment, net SEK billion (see table G)****Portfolio investments**

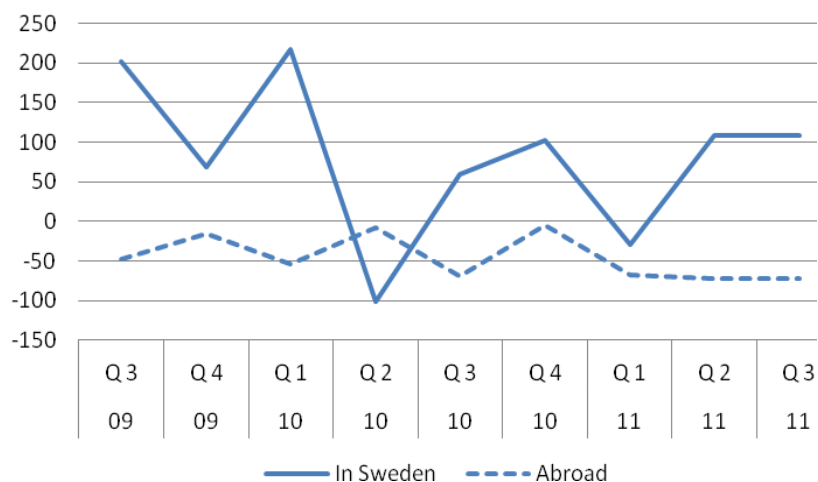
Portfolio investments resulted in a capital inflow of SEK 122.4 billion during the third quarter of 2011. The inflow is mainly explained by bonds issued by housing credit institutions abroad at the same time that Swedish banks issued money market instruments. In total, foreign investors made investments of SEK 176.5 billion in debt securities issued by Swedish banks and housing credit institutions up to now during 2011.

Foreign investors increased their holdings in Swedish shares and funds by SEK 9.2 billion during the third quarter. Nordea, Alfa Laval and H&M were the most popular investments.

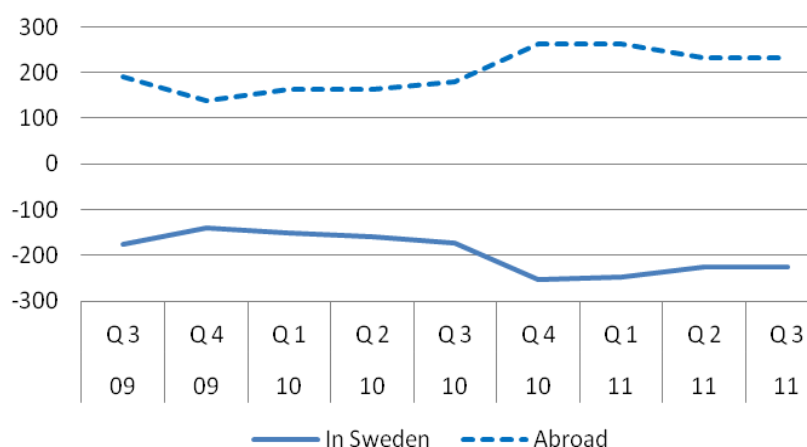
Swedish portfolio investments abroad resulted in a net inflow of SEK 36.0 billion. In contrast to the previous quarter, Swedish investors sold foreign shares and funds. In total, trade with foreign shares and funds generated a net inflow of SEK 25.1 billion. Shares from the US, Switzerland and Spain were sold the most.

During the quarter Swedish investors reduced their holdings in debt securities from issuers in Portugal, Ireland, Italy, Greece and Spain by SEK 12.3 billion net.



**Portfolio investment, net SEK million (see table G)****Financial derivatives**

During the third quarter a capital outflow was noted for the item financial derivatives of SEK 27.9 billion. Large fluctuations on financial markets were behind these flows. The Swedish krona became weaker against the TCW index at the same time that Swedish market rates plummeted and the stock market fell on a broad scale. Most of the outflows were attributed to interest swaps and currency swaps. Share-related derivatives also accounted for a considerable part of the outflows as a result of falling values of underlying assets.

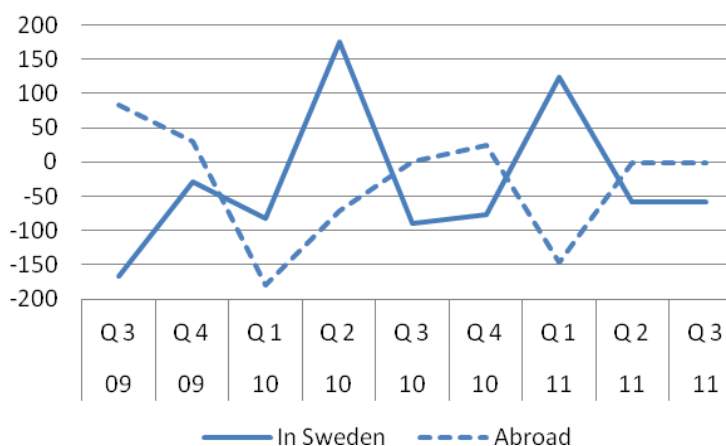
**Financial derivatives, net SEK billion (see table G)****Other investments**

Other investments produced a net outflow of SEK 136.8 billion during the third quarter of 2011. Lending resulted in a net outflow of SEK 154.9 billion while borrowing resulted in a net inflow of SEK 18.1 billion.

The bank sector accounted for most of the net outflow during the quarter. Non-financial corporations reduced their borrowing abroad, which also contributed to the net outflow. The largest net outflows during the quarter were to Finland, Denmark and Germany.

Other investments mainly consist of loans of the bank sector to and from other countries, excluding loans of securities. Among other things, these include promissory note loans, deposits and repurchases.

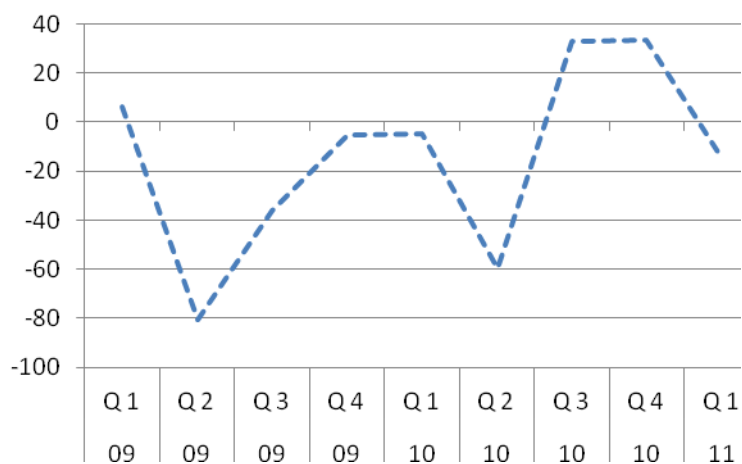
#### Other investment, net SEK billion (see table G)



#### Reserve assets

Foreign direct investment in Sweden produced a net inflow of SEK 3.4 billion during the third quarter of 2011. The outflow is due to decreased holdings of foreign bank assets and debt securities.

#### Reserve assets, net SEK billion (see table G)



# 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 compilation 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. 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 investments, portfolio investments, financial derivatives, return on other investments and reserve assets. 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 ( $X_t - M_t$ ):

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

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

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<sup>1</sup> Denna relation kallas för en identitet eftersom den definitionsmässigt måste vara uppfylld i varje enskild tidsperiod.

Sweden) it is possible to rewrite (1) in terms of gross national income,  $BNI_t$ :<sup>2</sup>

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

Rewriting (2) gives:

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

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,  $BNI_t - T_t - C_t$ .<sup>3</sup>

According to (3) the following applies:

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

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 in goods.

$X_t - M_t + F_t$  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.<sup>4</sup> 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.<sup>5</sup>

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:

<sup>2</sup> Dessa faktorinkomster kallas numera ofta för primära inkomster. Nettofaktorinkomsterna består av löner, kapitalavkastning och löpande transfereringar.

<sup>3</sup> Detta innebär alltså att det nationella sparandet är identiskt med summan av den offentliga sektorns sparande och hushållens sparande.

<sup>4</sup> Nettofaktorinkomsterna antas vara konstanta på kort sikt.

<sup>5</sup> Denna relation innebär i själva verket att den offentliga sektorns budgetbalans under vissa tidsperioder kommer att samvariera med handelsbalansen.

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

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):

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

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.<sup>6</sup>

### 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. The net total of assets and liabilities is thus a measure of a country's wealth relative to other countries. 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.<sup>7</sup>

<sup>6</sup> Eftersom en rad olika källor används för att mäta posterna i betalningsbalansen uppstår såväl mätfel som periodiseringsfel och därför ingår också en residual i form av en restpost.

<sup>7</sup> I vissa fall används det bokförda värdet istället för marknadsvärdet p.g.a. att underlaget för beräkning av marknadsvärdet är otillräckligt.

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.

<b>Changes in the international investment position depending on</b>					
<b>Opening balance</b>	Transactions	Price changes	Exchange rate changes	Other corrections	<b>Closing balance</b>



