Balance of Payments

Fourth quarter 2012

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 summary of Sweden's real and financial transactions with the rest of the world, and is divided into the current account, the capital account and the financial account.

The report comprises the results of the fourth quarter 2012.

Statistics Sweden, March 2013

Folke Carlsson

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Summary

The current account surplus in the fourth quarter amounted to SEK 62 billion. This represents a strengthening of the current account compared to the same quarter last year, when the surplus amounted to SEK 49 billion. The increase in the current account comes mainly from a reduction in the deficit in current transfers and an increased surplus in trade in services.

During the fourth quarter, trade in services provided a surplus of SEK 39 billion. This is an increase compared with the same quarter last year when the surplus amounted to SEK 35 billion. This increase is primarily due to an increase in the export of other business services.

Current transfers generated a net outflow of SEK 15 billion during the fourth quarter. Transfer payments usually exhibit seasonal variation with larger outflows in the fourth quarter. However, the outflow in this item has decreased compared to the same period last year, when it amounted to SEK 21 billion.

The financial account showed an outflow of SEK 145 billion. Direct investments and portfolio investments were the primary contributors to the outflow. Direct investments produced a net outflow of SEK 82 billion. During the quarter, large loans were repaid to group companies abroad which resulted in large outflows within loans. Portfolio investments with other countries generated a capital outflow of SEK 75 billion. The outflow is mainly due to cross-border trade in foreign equities and mutual funds.

Balance of Payments – Fourth quarter of 2012

The fourth quarter of 2012 saw a strengthening in the current account which resulted in a surplus of SEK 62 billion. The capital account produced an outflow of SEK 2 billion and the financial account generated a net outflow of SEK 145 billion.

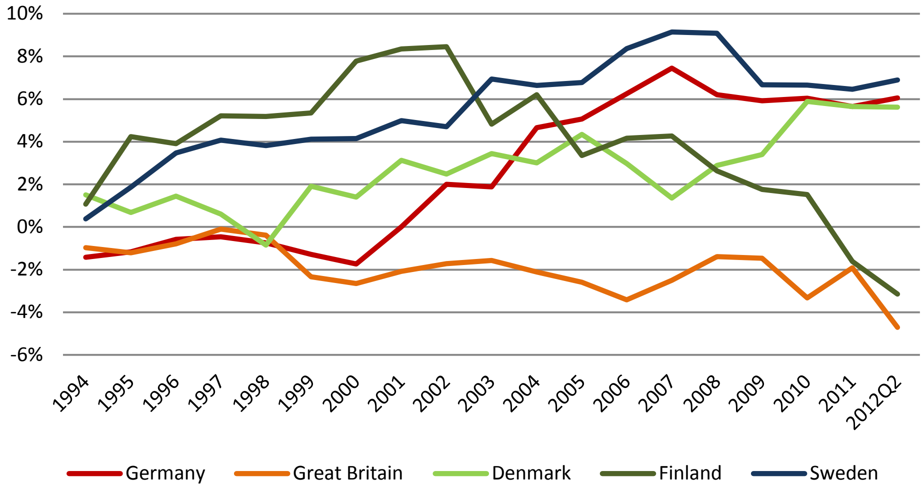
For full-year 2012, the current account gave a surplus of SEK 255 billion, while at the same time, the financial account generated an outflow of SEK 132 billion.

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 positions cannot be fully explained by balance of payments transactions.

The *current account* gives a picture of a country's real flows with the world and consists of trade in services, income and current transfers, such as EU subsidies and fees. *The capital account* consists primarily of EU subsidies/fees 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. a residual item arises as a residual of the discrepancy. Thus, the current and capital accounts show if a country is a net lender or net borrower. Since 1994, the sum of Sweden's current and capital accounts was positive and Sweden has thus belonged to the group of countries that are net savers. However, there are significant differences between the current account balances of countries as illustrated in Graph 1.

Diagram 1: Current account as percentage of GDP, 1994-2012Q2

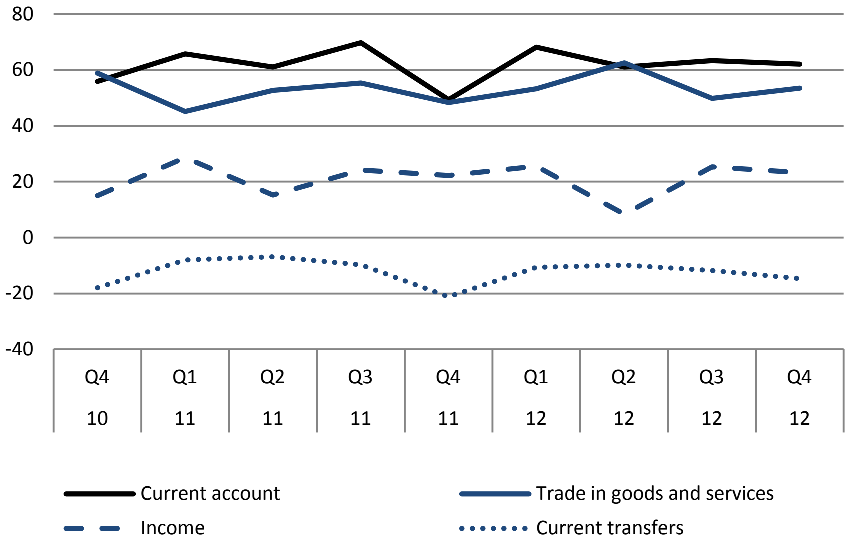


Source: Eurostat. The data are the latest available data.

Current account

The current account comprises *trade in goods and services*, *income* as well as *current transfers*, as illustrated in Graph 2. The graph shows that most of the surpluses are generated from trade in goods and services. Factor income primarily includes return on capital from financial assets and liabilities, as well as wages and salaries; regular transfers consist primarily of EU subsidies/fees and development assistance. The trade in goods and services and factor income contribute positively to the current account surplus, while regular transfers have a negative contribution.

Graph 2: Current account and its comprising items, billion SEK



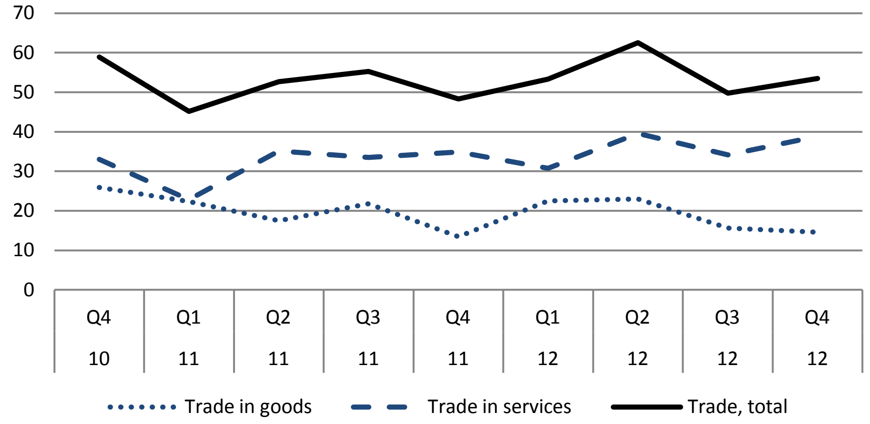
The current account surplus in the fourth quarter amounted to SEK 62 billion. This represents a strengthening of the current account compared to the same quarter last year, when the surplus amounted to SEK 49 billion. The increase in the current account comes mainly from a reduction in the deficit in current transfers, but also from an improvement in trade in services.

For full year 2012, the surplus in the current account increased slightly to SEK 255 billion, compared with a surplus of SEK 246 billion in 2011. The increase in the full-year current account came from an increased surplus in foreign trade in goods and services, while incomes weakened and the deficit in current transfers increased.

Trade in goods and services

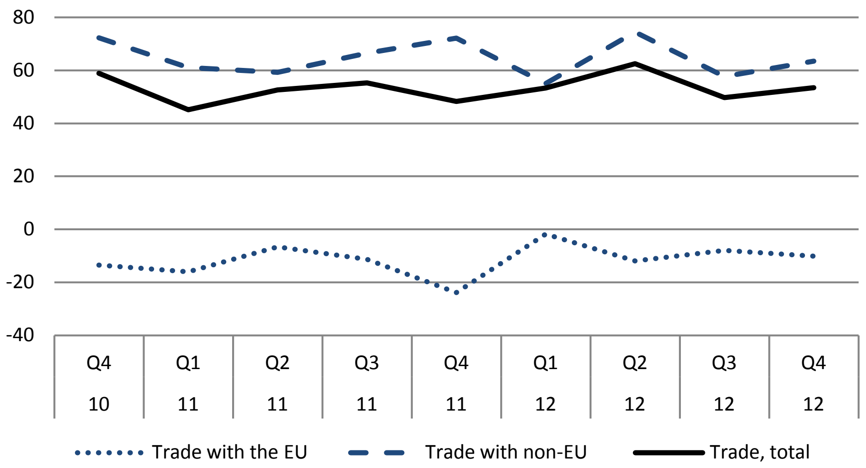
The trade in goods and services is described in terms of the *trade balance and services balance*. The trade balance is the net value of the goods imported and exported to and from Sweden and the services balance is the corresponding net value for services. Graph 3 shows that the services balance represents the larger part of the surplus in foreign trade.

Graph 3: Trade in goods and services, billion SEK



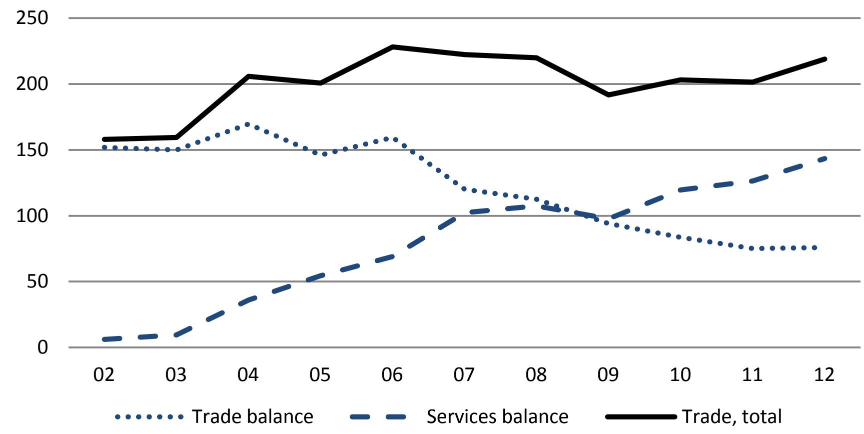
The surplus in foreign trade in goods and services totalled SEK 53 billion in the fourth quarter. The surplus for the same quarter last year was SEK 48 billion. For full-year 2012, the surplus was SEK 219 billion, which was an increase compared with 2011, when the surplus amounted to SEK 201 billion. Trade in services is the primary contributor to the increase. Graph 4 shows that the surplus in the trade in goods and services comes from countries outside the EU.

Graph 4: Trade, with the EU and with non-EU, billion SEK



However, it has not always been the case that trade in services has constituted the larger part of the surplus of trade in goods and services, as shown in Graph 5. Between 2002 and 2012, the surplus in trade in services increased from SEK 6 billion to SEK 143 billion. However, it was not until 2009 that trade in services came to constitute the larger part of the surplus in foreign trade.

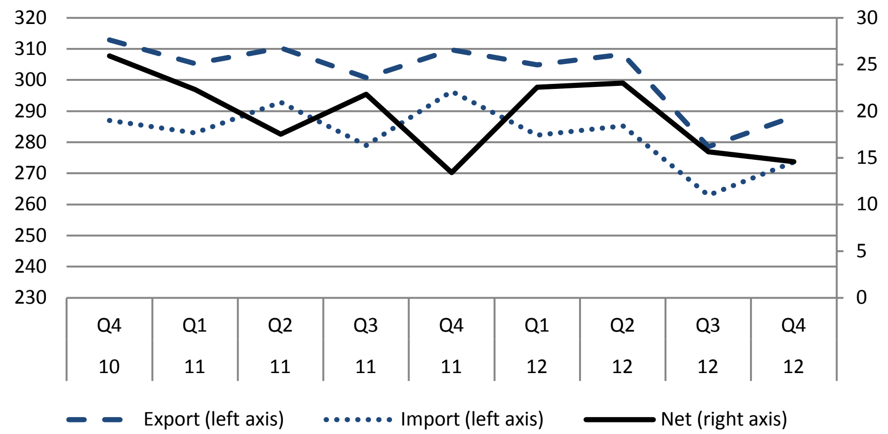
Graph 5: Trade divided on trade and services balance ,2002-2011, billion SEK



Trade in goods

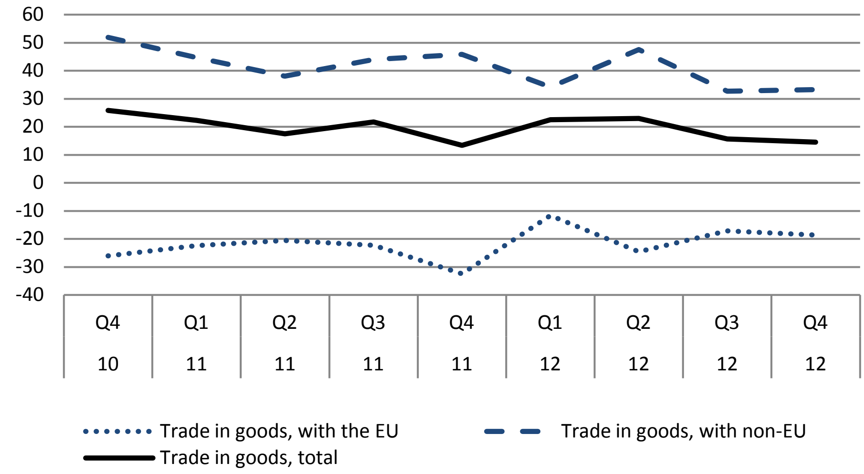
The surplus in trade in goods was in line with the same period last year and amounted to SEK 15 billion. However, both exports and imports have decreased sharply. For full-year 2012, the trade surplus amounted to SEK 76 billion, which was in line with the surplus for 2011. Both exports and imports of goods declined for the full year as well.

Graph 6: Trade balance, export, import and net, billion SEK



Trade in goods shows a deficit to the EU countries, but it shows a trade surplus with countries outside the EU. The trade deficit with the EU countries decreased due to reduced imports. At the same time, the trade surplus with countries outside the EU also decreased due to a decline in exports (Graph 7). Together, they caused the trade surplus to be in line with the same quarter last year. However, the greater part of the trade in goods continued to be with the EU countries.

Graph 7: Trade in goods, with the EU and with non-EU, billion SEK

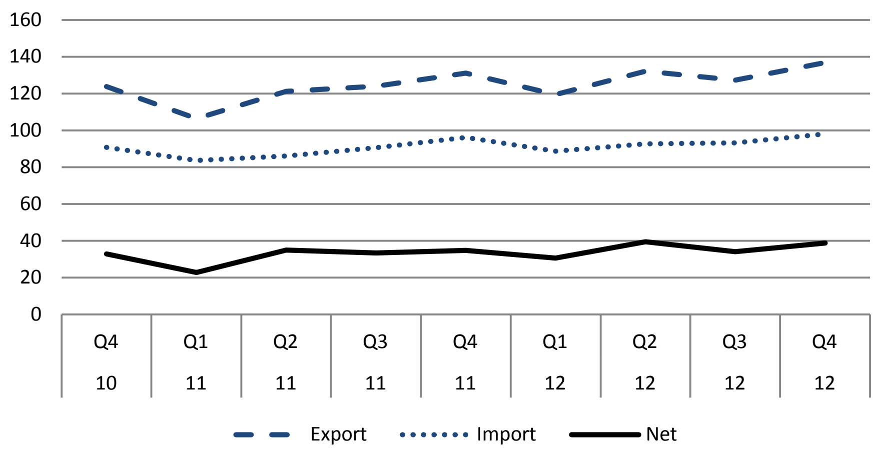


Trade in services

During the fourth quarter, trade in services provided a surplus of SEK 39 billion. This is an increase compared with the same quarter last year when the surplus amounted to SEK 35 billion. Among the types of services are other business services - computer and information services as well as licensing and royalties that showed the largest surplus. The largest change in comparison with the same period last year is the surplus in the item other business services, which increased from SEK 11 billion to 18 billion. The increase in the item is primarily due to an increase in exports.

The surplus in trade in services also increased on an annual basis. The surplus in 2012 amounted to SEK 143 billion, compared with SEK 126 billion in 2011.

Graph 8: Services balance, export, import och net, billion SEK

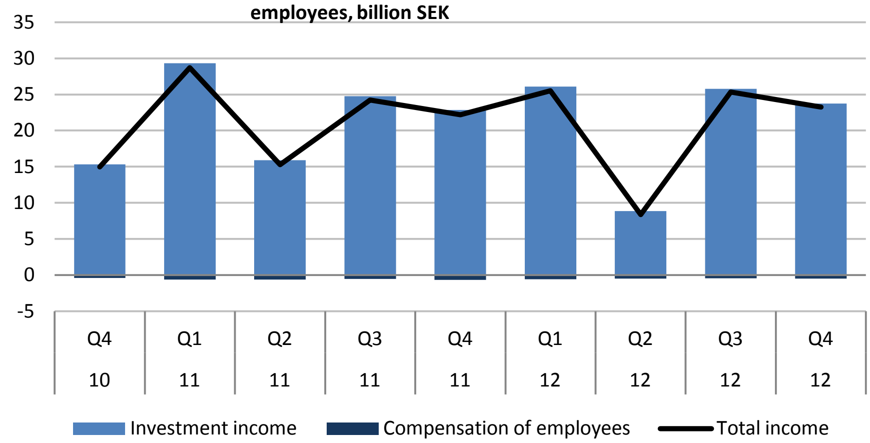


Unlike trade in goods, trade in services generates a surplus in relation to the EU countries as well as to other countries. The surplus in trade in services has grown significantly over the past 10 years. The explanation for this growth is that the export of services has more than doubled, while the import of services has increased by more than 50 percent. The types of services with the greatest contribution to an increase in the current account surplus are other business services, computer and information services, as well as licenses and royalties.

Income

Income consists of *income on foreign assets and liabilities* as well as *compensation of employees*. Compensation of employees constitutes a very small part of incomes as illustrated by Graph 9. During the fourth quarter of 2012, the inflow income increased slightly compared with the same quarter of 2011 and amounted to SEK 23 billion.

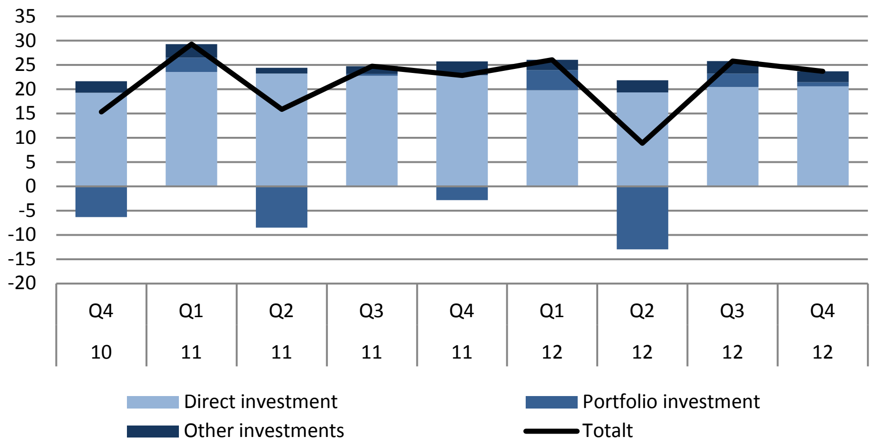
Graph 9: Total income divided on investment income and compensation of employees, billion SEK



Investment income

Investment income in the current account comes from Sweden's international investment position and is divided into *direct investments*, *portfolio investments* and *other investments*.

Graph 10: Investment income divided into asset classes, billion SEK



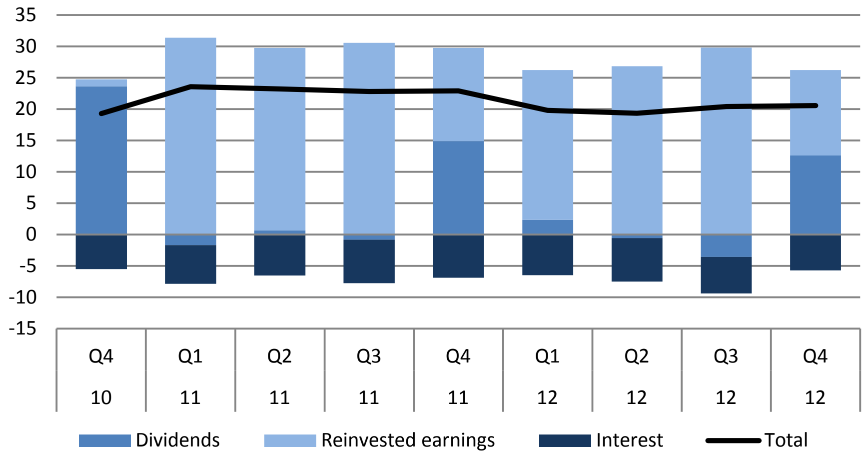
The larger part of investment income is generated by direct investments that are relatively stable over time. In contrast, income from portfolio investments has seasonal variations with major outflows in the second quarter.

Direct investment income

Income from direct investments must illustrate operating profits in the companies[1] and are either distributed to the owners or are reinvested in the company. Part of the income consists of interest on loans. Graph 11 shows how all items affect the outcome of direct investments.

Income from direct investments amounted to SEK 21 billion during the fourth quarter. Income from Swedish direct investments abroad amounted to SEK 55 billion, while income on corresponding foreign direct investment in Sweden totalled SEK 35 billion. Income for full-year 2012 was slightly lower than in 2011 for both Swedish direct investment abroad and foreign direct investment in Sweden.

Graph 11: Income on direct investments, billion SEK

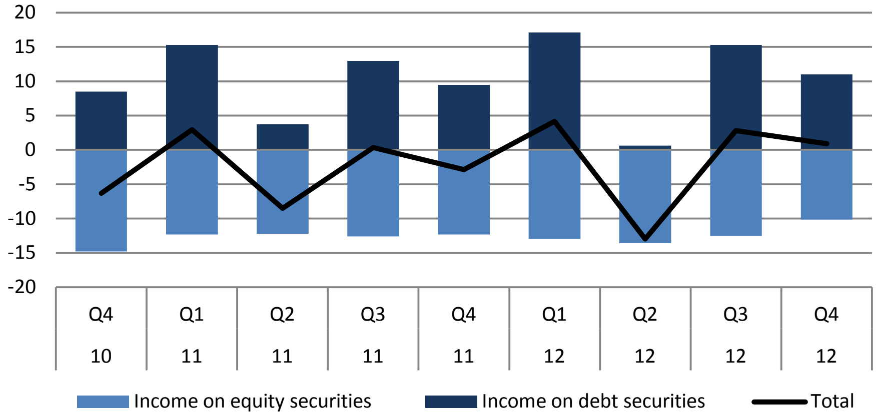


Portfolio investment income

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

[1] Income is intended to measure operating profit and is calculated as profit/loss after financial items minus tax, where the profit/loss after financial items is purged for write-downs (net, including credit losses), capital gains and capital losses.

Graph 12: Income on portfolio investments, billion SEK



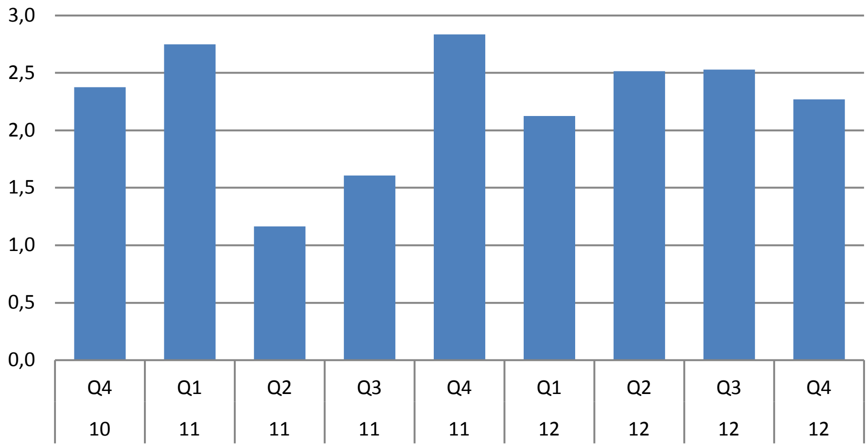
Income from portfolio investments generated a capital inflow of close to SEK 1 billion in the fourth quarter of last year, which can be compared with an outflow of SEK 3 billion for the same quarter in 2011. This is mainly due to a decline in interest rates on Swedish securities.

Explanations for the decline in outflow rates include lower global interest rates due to the deteriorating economic situation, and foreign ownership of Swedish fixed income securities is greater than the corresponding Swedish holdings abroad are.

Other investment income

Income from other investments consists of the return on loans and deposits, and therefore correlates with the development of Sweden's position on other investments. Since the stock of assets is greater than the stock of liabilities, the income makes a positive contribution to other investments in the current account. Net income on other investments during the fourth quarter amounted to just over SEK 2 billion. For full-year 2012, income amounted to just over SEK 9 billion, which is an increase from the previous year when income was just over SEK 8 billion.

Graph 13: Income on other investments, billion SEK



Current transfers

Current transfer payments include transfers of real or financial assets without anything similar in return, i.e. they consist mainly of donations and subsidies. This item primarily *includes EU subsidies* and *development assistance* and resulted in an outflow of SEK 15 billion in the fourth quarter. Transfer payments usually exhibit seasonal variation with larger outflows in the fourth quarter. However, the outflow in this item has decreased compared to the same period last year, when it amounted to SEK 21 billion. Sweden is a net provider of this type of subsidy, which is why regular transfer payments have generated outflows every year since the published time series started in 1950.

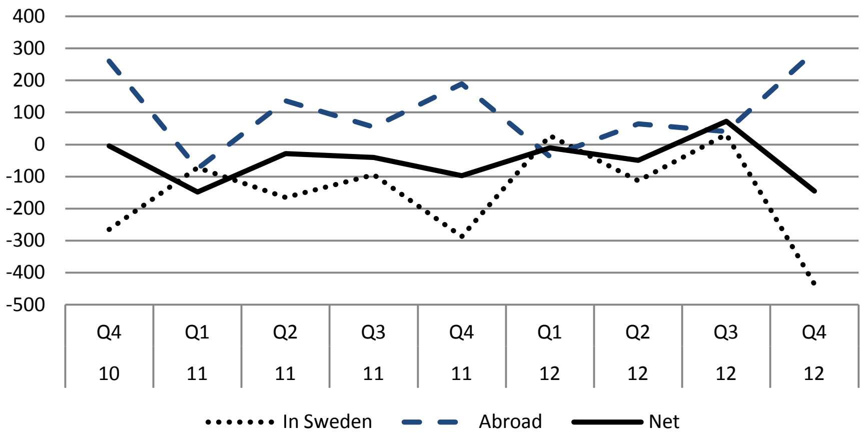
The capital account

The capital account consists mainly of *EU subsidies* and *development assistance* for investments (compare with regular transfer payments) but also includes *"transfer of rights"* (patents, copyrights, etc.). The capital account generates fewer flows than current transfers and the item has also given rise to inflows in some years. The capital account had a net outflow of SEK 2 billion in the fourth quarter.

Financial account

The financial account consists of *direct investments, portfolio investments, other investments, financial derivatives* and *reserve assets* and gave rise to outflows of SEK 145 billion during the last quarter. Direct and portfolio investments were the main contributors to the outflow.

Graph 14: Financial account, billion SEK



In 2012, the financial account showed net outflows totalling SEK 132 billion. In 2011, the financial account showed net outflows of SEK 314 billion. Other investments and direct investments were the source of most of the outflows in 2012 and 2011, while portfolio investments showed significant net inflows.

For the full year, other investments continue to generate large outflows on the asset side, while portfolio investments continue to produce large inflows on the liability side.

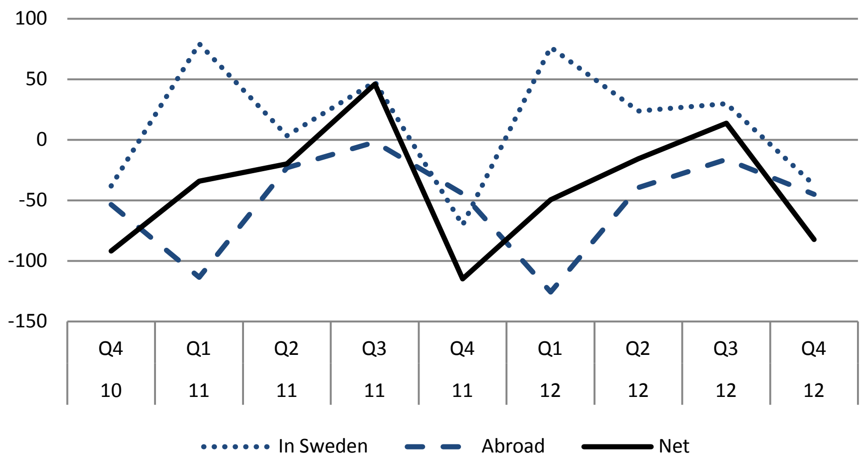
Direct investments

The definition of direct investments is based on the concept of "direct investment relationship", which means that there is a direct or indirect ownership between the two companies consisting of at least 10 percent of the share capital or voting rights. Ownership of share capital of a smaller proportion is defined instead as portfolio investment.

Total direct investment in the fourth quarter produced a net outflow of SEK 82 billion. Swedish direct investment abroad increased by SEK 45 billion while foreign investment in Sweden fell by SEK 37 billion.

Many transactions are usually carried out in the fourth quarter, especially intra-group transactions, which was also the case in the fourth quarter. During the quarter, large loans were repaid to group companies abroad which resulted in large outflows in loans. This is probably due in large part to additional restrictions on interest deduction that came into force in 2013. Since loans are often settled against shareholders' equity, this also produces large inflows of equity.

Graph 15: Direct investments, billion SEK



For full-year 2012, Swedish companies invested SEK 227 billion in direct investment abroad. At the same time, foreign investors invested SEK 93 billion in Sweden. This can be compared with full-year 2011, when Swedish companies invested SEK 183 billion abroad while foreign investors invested SEK 60 billion in Sweden.

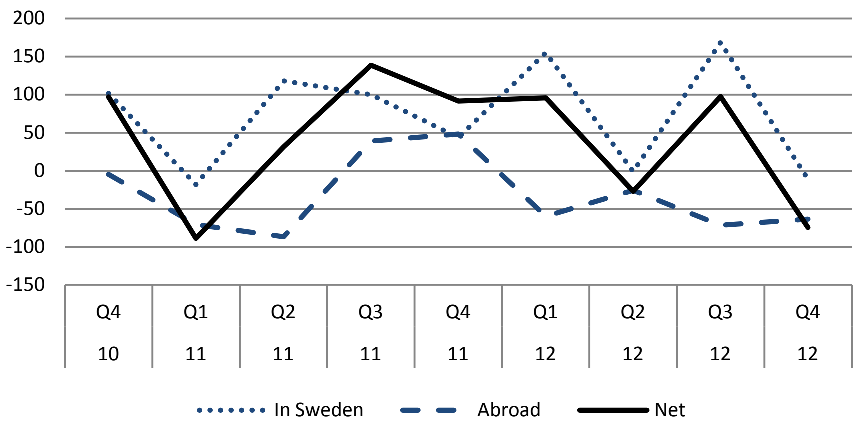
Changes in foreign direct investment in Sweden have traditionally been considered to reflect changes in the extent of foreign-owned operations in Sweden, while changes in Swedish direct investments abroad have been considered to express changes in the extent of Swedish operations abroad. However, international groups increasingly minimize costs at the group level through a global approach that takes advantage of tax and financial advantages in different countries. As a result, some of the capital flows that take place in direct investments comprise a capital flow through the country and do not reflect a change in the extent of foreign-owned operations.

Portfolio investments

Portfolio investments consist of equities, mutual funds and fixed income securities. An equities holding is recognized as a portfolio investment if ownership is less than 10 percent of the share capital or voting rights (compare with direct investments).

Portfolio investments generated a capital outflow of SEK 75 billion during the last quarter of the year. The outflow is mainly due to cross-border trade in foreign shares and mutual funds.

Graph 16: Portfolio investments, billion SEK



After the financial crisis of 2008, portfolio investments considered on an annualised 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.

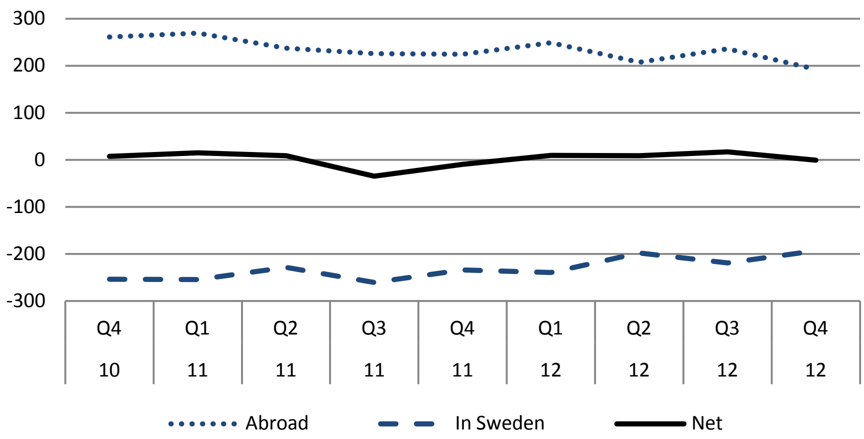
In 2012, portfolio investments inflows totalled SEK 91 billion, which is significantly less compared with 2011. The inflow was due to foreign investors who bought Swedish fixed income securities in 2012. At the same time, the purchases of Swedish investors of equities and mutual funds abroad contributed to outflows.

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 counterparts are defined as an asset and a negative market value is similarly defined as a debt contract.

Financial derivatives generated a smaller net outflow in the fourth quarter since inflows were at the same level as the outflows. For full-year 2012, derivative payments provided a net inflow of SEK 36 billion compared with 2011, when derivative payments gave a net outflow of SEK 20 billion. As before, the swap contracts accounted for most of the flows.

Graph 17: Financial derivatives, billion SEK

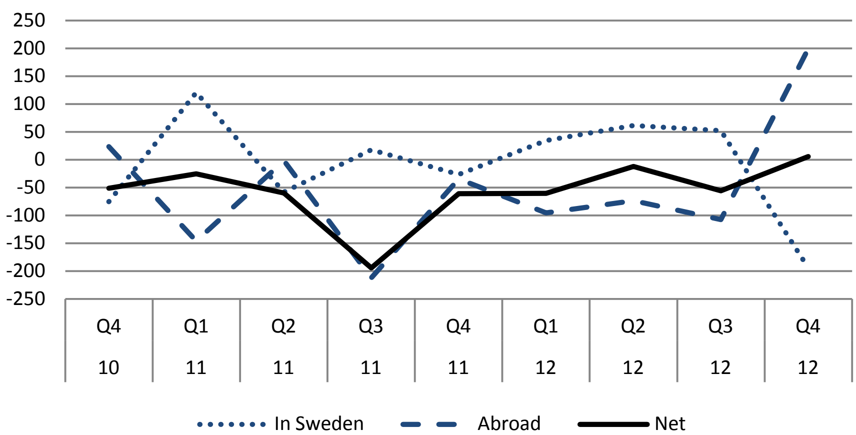


As a result of the global financial crisis, the market values of debt and asset contracts increased which have generated larger flows in financial derivatives in recent years.

Other investments

Other investment mainly consists of loans by the bank sector to and from other countries, excluding loans of securities as these are included in portfolio investments. These include promissory note loans, deposits and repurchases.

Graph 18: Other investments, billion SEK

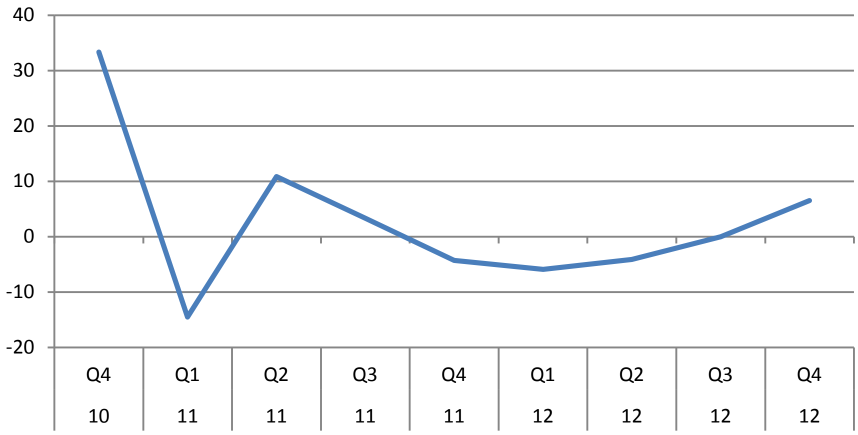


During the quarter, other investments accounted for a net inflow of SEK 6 billion. For full-year 2012, other investments resulted in a net outflow of SEK 122 billion. This was due to an increase in lending by SEK 77 billion, while borrowing decreased by SEK 46 billion. As previously, banks and mortgage institutions were primarily responsible for the flows.

Reserve assets

The main purpose of reserve assets is to enable the Riksbank to meet its commitments through the use these funds. This means providing temporary liquidity support to insolvent banks, fulfilling Sweden's part in the International Monetary Fund (IMF) and, if necessary, intervening on the foreign exchange market. In the fourth quarter of 2012, foreign exchange reserves generated inflows of SEK 7 billion, which is explained by a decrease in holdings of foreign securities. Foreign exchange reserves decreased slightly and totalled SEK 340 billion at year-end 2012.

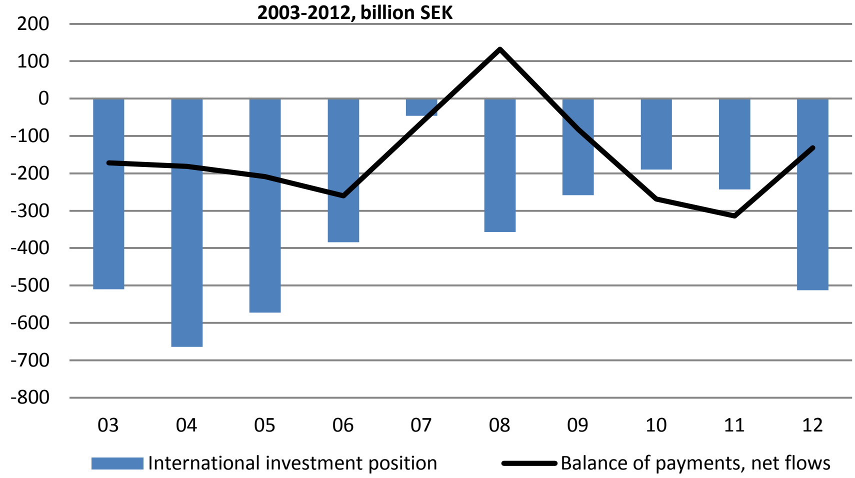
Graph 19: Reserved Assets, billion SEK



Sweden's net international assets and liabilities

At year-end 2012, preliminary figures on Sweden's international investment position showed a net liability of SEK 512 billion. Compared with 2011, the liability has decreased by approximately SEK 269 billion. Swedish liabilities abroad have increased more than Swedish assets abroad, which led to a weakening of the international investment position.

Graph 20: International investment position and balance of payments net 2003-2012, billion SEK



The international investment position is influenced by transactions in the financial account. In addition, the investment position is influenced by currency fluctuations and changes in share prices and interest rates.

The increase in net debt in the international investment position comes primarily from an increased liability in portfolio investments, where the value of foreign investments in portfolio equities in Sweden has mainly increased. The increase in the value of foreign investments in portfolio equities in Sweden is primarily due to changes in value when the stock market rose in 2012. At the same time, Swedes borrowed significant amounts in fixed income securities, which also contributed to the increase in Swedish debt in portfolio investments abroad. On the asset side, Swedish investors have invested significant amounts in foreign equities. However, Swedish assets abroad have not increased correspondingly, partly due to the strengthening of the krona in 2012.

The international investment position is a summary of a country's total financial assets and liabilities in relation to the rest of the world. Thus it is a measure of a country's wealth compared to other countries. To supplement this information, a summary of Sweden's international investment position is presented, where a market value has been calculated. For 2012, the full market value calculation shows that Sweden has a net claim on the rest of the world amounting to SEK 202 billion.

It is important to note that several sub-items in the international investment position for 2012, such as direct investments and portfolio equities, are estimates. A more definitive value is reported when the annual survey of portfolio investment and direct investment is completed. Thus it is important to interpret the figures with a certain amount of caution.

Definitions and explanations
The international investment position is a compilation of total assets and liabilities abroad held by all domestic sectors. 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.

Revisions

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

- When Quarter 1 is published, the previous 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.

As an exception, additional periods are revised if there have been changes in methodology or new data have been added that materially alter the picture of the balance of payments.

The balance of payments has been revised from Quarter 1 2010 to Quarter 3 2012. During the revised period, revisions of SEK -8 billion net were made in the current account and SEK 33 billion net in the financial account.

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, 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 balance of payments main aggregates are *current account*, *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 expenditure, 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 ($X_t - M_t$):

$$BNP_t = C_t + I_t + G_t + X_t - M_t. \quad (1)$$[2]

By adding together the net factor 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 Sweden) it is possible to rewrite (1) in terms of gross national income, BNI_t:[3]

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

Rewriting (2) gives:

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

[3] This factor income is often called primary income. Net factor income consists of compensation of employees and investment income.

$$BNI_t - C_t - G_t = S_t = I_t + X_t - M_t + F_t, \tag{3}$$

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, $BNI_t - T_t - C_t$.[4]

According to (3) the following applies:

$$S_t - I_t = X_t - M_t + F_t. \tag{4}$$

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 called 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.[5] 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.[6]

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 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 expenditures are 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:

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

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

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

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

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 factor incomes. The term $(A_t - A_{t+1})$ on the right side shows how the net external assets change over time. 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.[7]

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 may 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 example, 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 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 are reported at market value and can be divided up exactly like the financial account, into direct investment, portfolio investment, financial derivatives, other investment and the reserve assets.[8]

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

[8] 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 figure). 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**