

# Balance of payments 4th quarter 2013

9.54  
-1403.93

-81.91

-1465.29

-661.00  
-150.00  
2706.20

-139.24

-114.52

-615.00  
-50.00

14989  
13585

1350

120





# Balance of payments

## 4th quarter 2013

# Balance of Payments. 4th quarter 2013

Statistics Sweden  
2014

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## **Foreword**

The balance of payments has been compiled and summarised 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 can be divided into the current account, the capital account and the financial account.

The report covers the results of the fourth quarter of 2013.

Statistics Sweden, March 2014

Folke Carlsson

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## Summary

The current account surplus amounted to SEK 49 billion in the fourth quarter and thus weakened in comparison with the same quarter in the previous year when the surplus was SEK 53 billion.

Foreign trade in goods generated a surplus of SEK 10 billion, which is a weakening by nearly SEK 5 billion compared with the same period in 2012. Both the export and import of goods decreased during the period.

Foreign trade in services had a net result of SEK 31 billion in the fourth quarter. This is in line with the same quarter in the previous year when the surplus amounted to SEK 30 billion. Among the types of services, the largest contributions to the surplus came from merchanting, computer and information services as well as royalties and license fees. Travel made a negative contribution with a deficit of just over SEK 11 billion.

The financial account produced a net outflow of SEK 31 billion during the quarter. Direct investments and other investments contributed to the capital outflows, while portfolio investments, financial derivatives and reserve assets contributed to capital inflows.



## Balance of payments, fourth quarter 2013

The fourth quarter of 2013 saw a weakening in the current account, which generated a net surplus of SEK 49 billion. The capital account produced an outflow of just over SEK 2 billion, and the financial account generated a net outflow of SEK 31 billion.

For the full year 2013, the current account produced a surplus of SEK 225 billion, while the financial account generated outflows of SEK 139 billion.

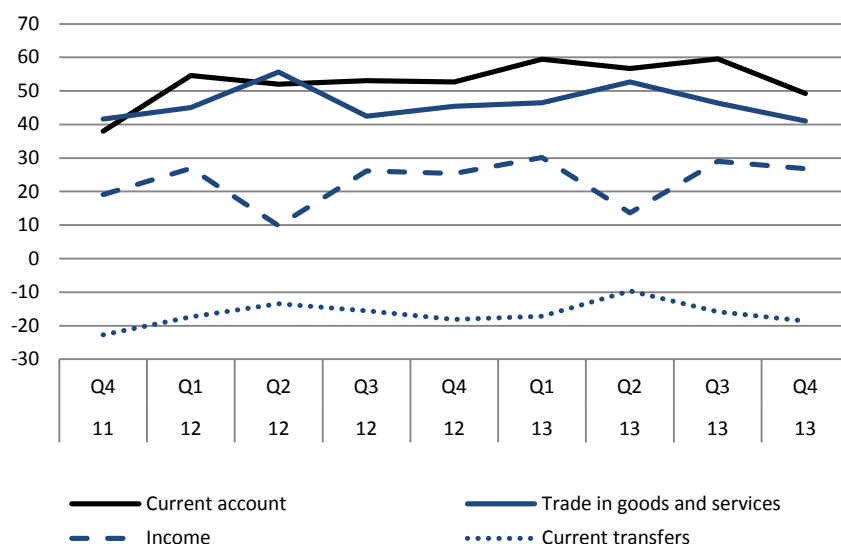
The balance of payments is comprised of the *current, capital and financial accounts* and is a compilation of a country's real and financial transactions with the rest of the world. Changes in value caused by e.g. changing market values and exchange rates are excluded, which is why changes in account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

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. errors and omissions arise as a residual. Thus, the current and capital accounts show if a country is a net lender or net borrower.

## Current account

The current account generated a surplus of SEK 49 billion in the fourth quarter. Thus, the current account was weakened in comparison with the same quarter last year when the surplus amounted to SEK 53 billion. The surplus in the trade in goods and services decreased, while the surplus in income increased.

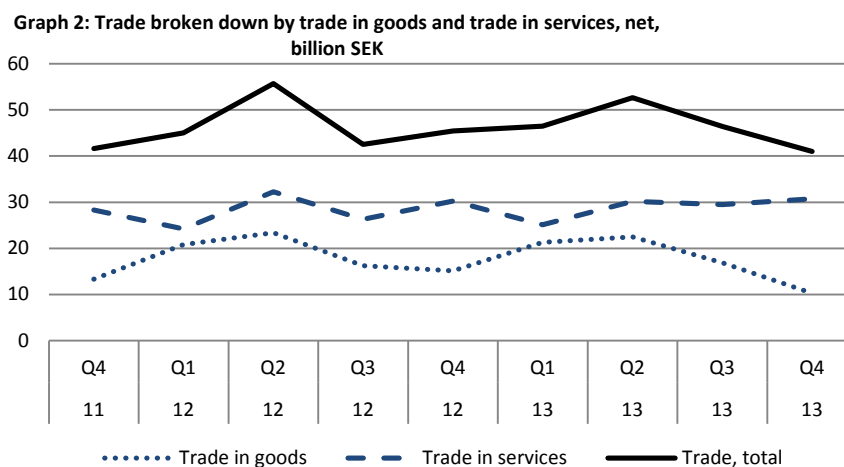
Graph 1: Current account and included items, billion SEK



For the full year 2013, the surplus in the current account was slightly strengthened and amounted to SEK 225 billion compared with a surplus of SEK 212 billion in 2012. The strengthening of the current account derived mainly from income. Thus the current account surplus has increased slightly after remaining stable from 2010 to 2012.

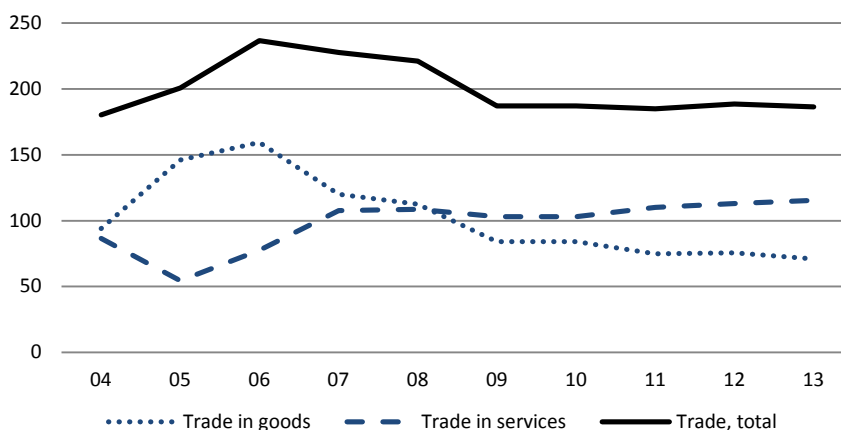
## Trade in goods and services

International trade in goods and services, which is the net of exports and imports, amounted to SEK 41 billion in the fourth quarter. The net surplus for the same quarter last year was SEK 45 billion. A smaller surplus in the trade in goods made a negative contribution, while the surplus in the trade in service was in line with the same period in the previous year. For the full year 2013, the surplus in the trade in goods and services amounted to SEK 187 billion. This is in line with 2012 when it amounted to SEK 189 billion.



The trade in services represented the larger part of the surplus in foreign trade. However, the trade in services has not always constituted the largest part of the surplus in the trade in goods and services, as illustrated in Graph 3. In recent years, the surplus in trade in services has grown while the surplus in trade in goods has decreased. It was only in 2010 that the trade in services constituted the larger share of the surplus in foreign trade for the first time.

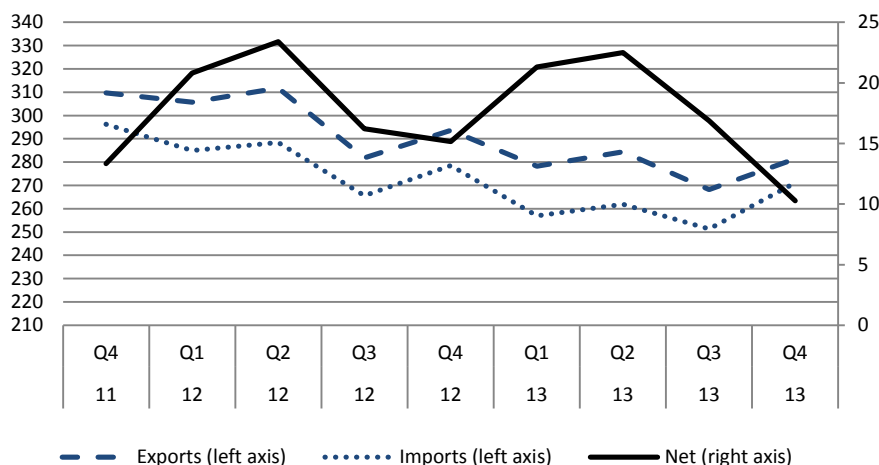
**Graph 3: Trade broken down by trade in goods and trade in services, 2004-2013, net, billion SEK**



## Trade in goods

The surplus in the trade in goods decreased and amounted to SEK 10 billion in the fourth quarter. The surplus for the same period last year was SEK 15 billion. Both exports and imports decreased in comparison with the fourth quarter 2012. For the full year, the surplus in trade in goods decreased from SEK 76 billion in 2012 to SEK 71 billion in 2013.

Graph 4: Trade in goods, Exports and imports, billion SEK



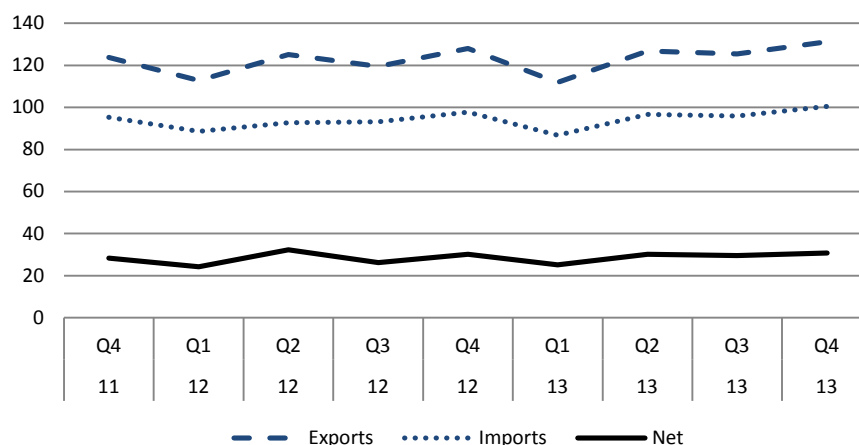
## Trade in services

Foreign trade in services had a net result of SEK 31 billion in the fourth quarter. This is in line with the same quarter last year when the net result amounted to SEK 30 billion. Among the types of services, the largest contributions to the surplus came from merchanting, computer and information services as well as royalties and license fees. Travel made a negative contribution with a deficit of just over SEK 11 billion.

For the full year 2013, the surplus in trade in services with other countries amounted to SEK 116 billion. This is slightly higher compared with the previous year when the surplus was SEK 113 billion. Both imports and exports of services increased. However, exports of services increased slightly more than imports. For the full year 2013, the surplus came primarily from merchanting while the deficit in travel increased.

The travel item shows a deficit, which means that imports exceed exports. Imports refer to the consumption of Swedes when travelling abroad, while exports refer to foreign consumption when travelling in Sweden.

Graph 5: Trade in services, billion SEK

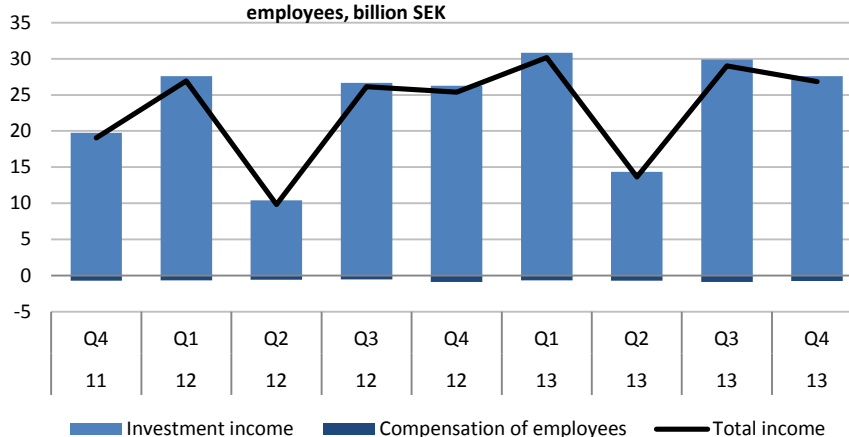


## Income

Income consists of the compensation of employees and investment income. Investment income contributed the major part of income, which is illustrated in Graph 6. Income made a positive contribution of SEK 27 billion in the fourth quarter, which is slightly more than for the same quarter in the previous year.

The surplus in income contributed to the positive current account. In 2013, the surplus in income amounted to SEK 100 billion, which is an increase compared with 2012, when it amounted to SEK 88 billion. The increased surplus derives mainly from portfolio investments. The returns from portfolio investments have changed from a deficit to a surplus. This is partly due to the decrease in interest on the deficit and partly due to the increase in dividends in the surplus.

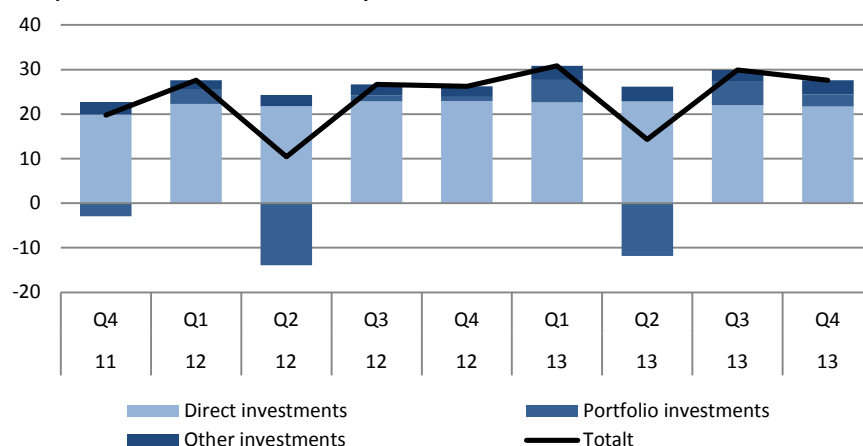
Graph 6: Total income divided on investment income and compensation of employees, billion SEK



## Investment income

Investment income in the current account is the return on Sweden's assets and liabilities abroad and is divided into direct investments, portfolio investments and other investments.

Graph 7: Investment income divided by asset classes, billion SEK



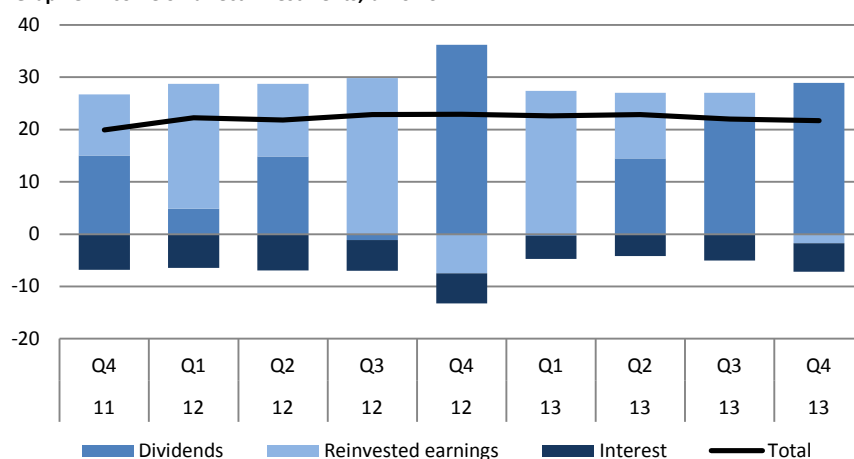
The larger part of investment is generated from direct investments that are relatively stable over time. Income from portfolio investments, however, is seasonally variable. The surplus from investment income in the fourth quarter amounted to SEK 28 billion, which is slightly higher than for the same quarter in the previous year.

#### Income from direct investments

Income from direct investment generated a surplus of SEK 22 billion in the fourth quarter. Income from Swedish direct investments abroad amounted to SEK 57 billion, while income from foreign direct investment in Sweden totalled SEK 35 billion. Income for the full year 2013 was slightly lower than for 2012 for Swedish direct investments abroad as well as foreign direct investments in Sweden.

Dividends received from abroad in the quarter amounted to nearly SEK 40 billion, while dividends paid to other countries amounted to nearly SEK 11 billion. Interest rates on loans in direct investment relationships made a negative contribution with a net outflow of SEK 5 billion.

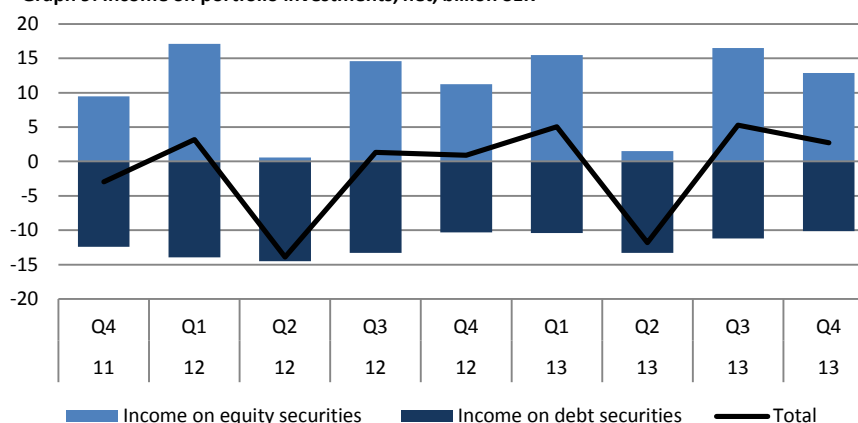
Graph 8: Income on direct investments, billion SEK



### Income from portfolio investments

Income from portfolio investments consists of dividends from equities and mutual funds as well as interest on debt securities. The item is subject to seasonal variation, which is primarily due to dividend payments of equities. Dividend payments in Swedish companies are generally realised in the second quarter, which results in greater outflows during that quarter. This is in contrast to foreign companies, which have a more even distribution of dividend payments during the year.

Graph 9: Income on portfolio investments, net, billion SEK



Income from portfolio investments generated a capital surplus of SEK 3 billion in the fourth quarter, which is nearly SEK 2 billion more than in the same quarter of 2012.

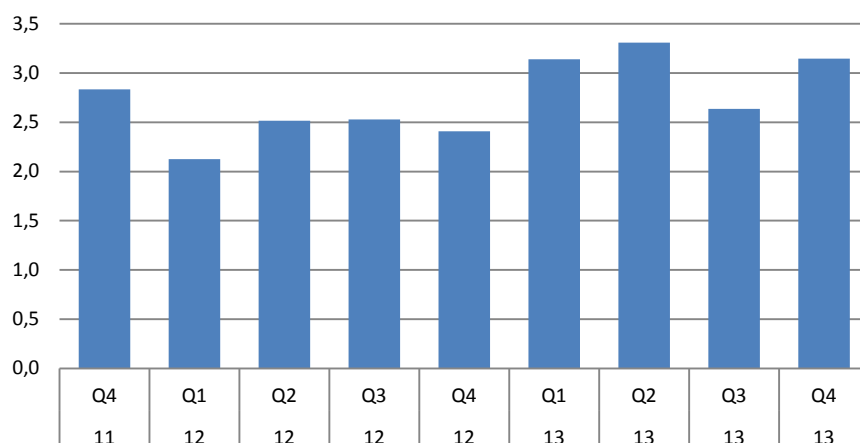
Dividend payments, which include dividends from mutual funds increased by nearly SEK 2 billion compared with the corresponding quarter in 2012. This is partly due to the increase in dividends from abroad and partly due to the decrease in dividends paid out to other countries. During the fourth quarter, the outflow in interest from debt securities was under SEK 10 billion, which is in line with the corresponding period in 2012.

### Income from other investments

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

Net income from other investments amounted to SEK 3 billion in the fourth quarter. Income from other investments abroad resulted in an inflow of SEK 7 billion, while the return on other investments in Sweden resulted in an outflow of SEK 3 billion.

Graph 10: Income on other investments, net, billion SEK



### Current transfers

Current transfers include transfers of real or financial assets without a similar consideration in return. This item primarily includes EU contributions and development assistance, and resulted in a net outflow of SEK 19 billion in the fourth quarter.

### Capital account

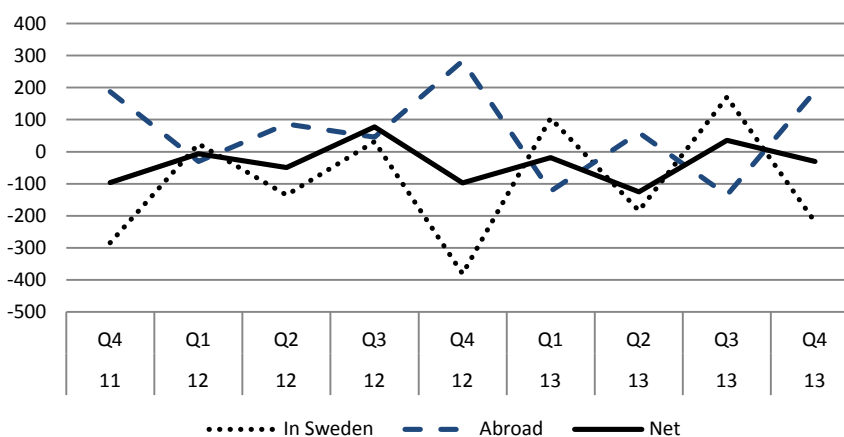
The capital account consists mainly of EU contributions and development assistance for investments, but also includes "transfer of rights" (patents, copyrights, etc.). The capital account generates smaller flows compared with current transfers. The capital account recorded a net outflow of just over 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*, which generated net outflows of SEK 31 billion during the fourth quarter of the year. The items direct investments and other investments contributed to the capital outflows, while the items portfolio investments, financial derivatives and reserve assets contributed to the capital inflows.

Graph 11: Financial account, billion SEK



The financial account showed a total net outflow of SEK 139 billion in 2013. For the full year 2012, the financial account produced a net outflow of SEK 77 billion. For the full years 2012 and 2013, other investments, direct investments and reserve assets generated net outflows while portfolio investments and financial derivatives generated net inflows.

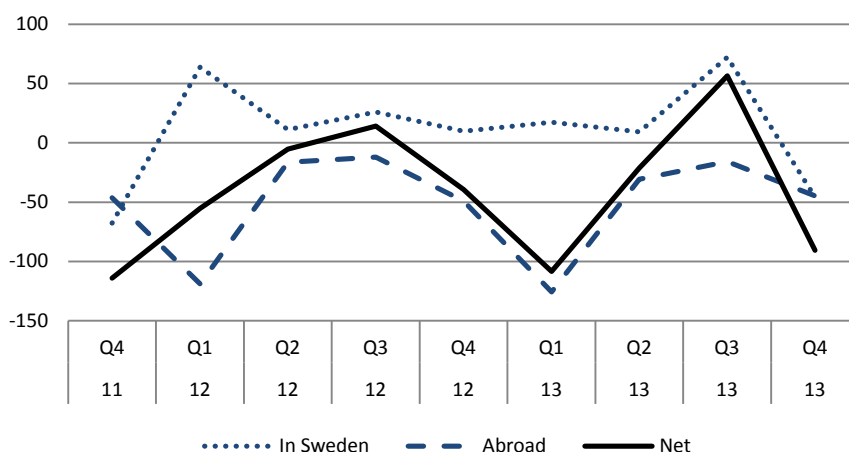
Portfolio investments continue to produce large inflows for the full year. The liability side creates large inflows as Swedes borrow large amounts in debt securities abroad. At the same time, other investments continue to generate large outflows. The outflows are primarily generated by the asset side, which means that large amounts are invested or lent to foreign counterparties.

### Direct investments

Direct investments accounted for a total net outflow of SEK 91 billion during the quarter. Swedish direct investments abroad contributed a net outflow of SEK 45 billion, while foreign direct investments in Sweden contributed a net outflow of SEK 46 billion.

For the full year 2013, direct investments generated a net outflow of SEK 164 billion. Swedish direct investments abroad show larger net outflows. At the same time, foreign direct investments in Sweden have increased with net inflows in the financial account.

Graph 12: Direct investments, billion SEK

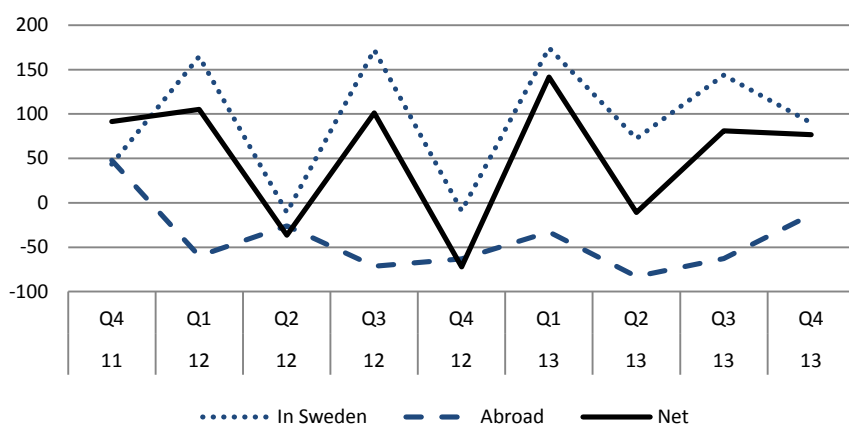


## Portfolio investments

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

Portfolio investments abroad resulted in a net capital inflow of SEK 77 billion in the fourth quarter of the year. The inflow is mainly attributable to foreign investors who purchased Swedish debt securities for a net SEK 89 billion. During 2013, Swedish issuers chose to secure their borrowing abroad in foreign currencies and foreign investors bought Swedish debt securities for SEK 447 billion, most of which, SEK 278 billion, was issued by Swedish banks.

Graph 13: Portfolio investments, billion SEK



Swedish investors continued to show great interest last year for foreign equities and mutual funds, which were bought for a net SEK 149 billion. Nonetheless, this was a decrease from 2012 when Swedish investors bought foreign equities and mutual funds for a net SEK 202 billion. However, Swedish investors were attracted to foreign bonds during the fourth quarter. Foreign bonds were purchased for a net SEK 14 billion during the quarter.

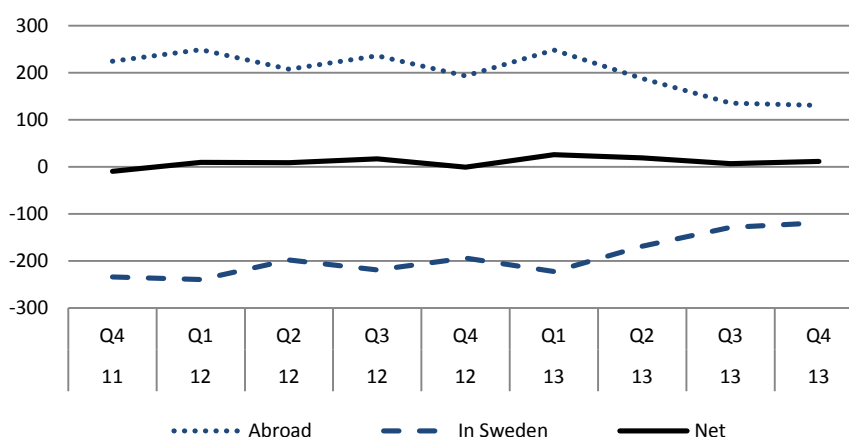
In 2013, portfolio investments generated an inflow of SEK 289 billion, which can be compared with an inflow of SEK 98 billion in 2012.

### Financial derivatives

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

Financial derivatives generated a net inflow of SEK 12 billion in the fourth quarter. The largest part of the net inflow was generated by different types of swap contracts. For the full year 2013, derivative payments produced a net inflow of SEK 63 billion, which can be compared with 2012 when derivative payments produced a net inflow of SEK 36 billion.

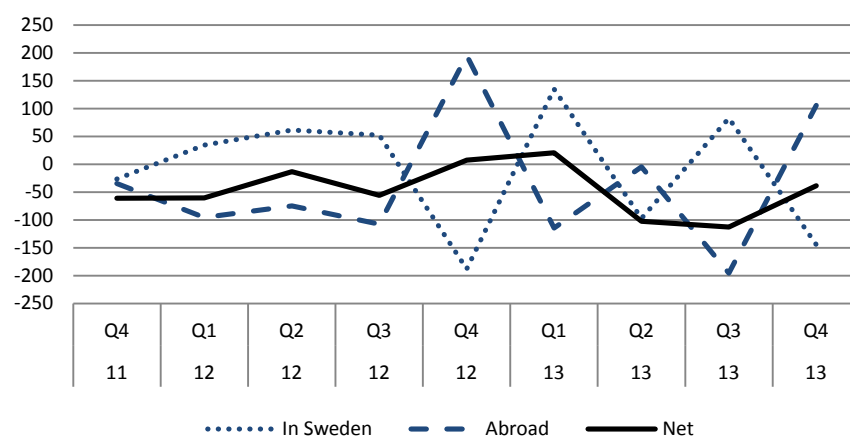
Graph 14: Financial derivatives, billion SEK



### Other investments

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

Graph 15: Other investments, billion SEK



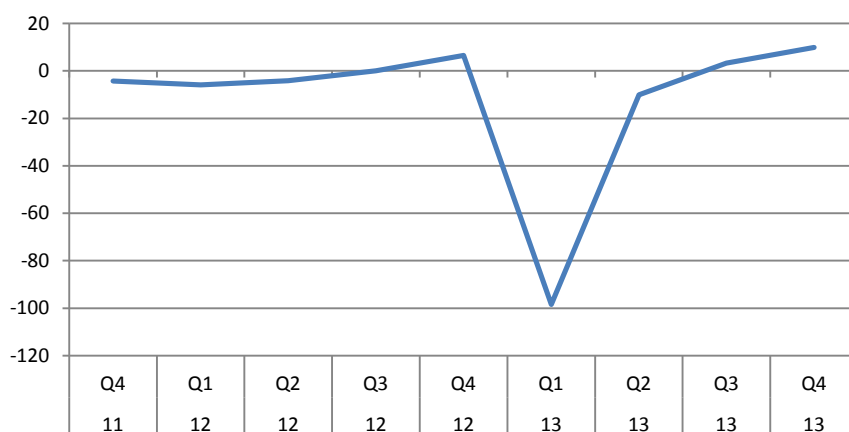
Other investments accounted for a net outflow of SEK 39 billion during the fourth quarter. A reduced lending to other countries produced a net inflow of SEK 106 billion, while borrowing from other countries produced a net outflow of SEK 144 billion. As before, banks accounted for most of the net outflow during the quarter.

### Reserve assets

Sweden's reserve assets consist of the Riksbank's reserves of gold and securities in foreign currencies. Its main purpose is to provide 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.

Reserve assets generated a net inflow of SEK 10 billion in the fourth quarter, which was attributable to a reduction in foreign bank deposits. Reserve assets decreased slightly and amounted to SEK 420 billion at the end of the fourth quarter.

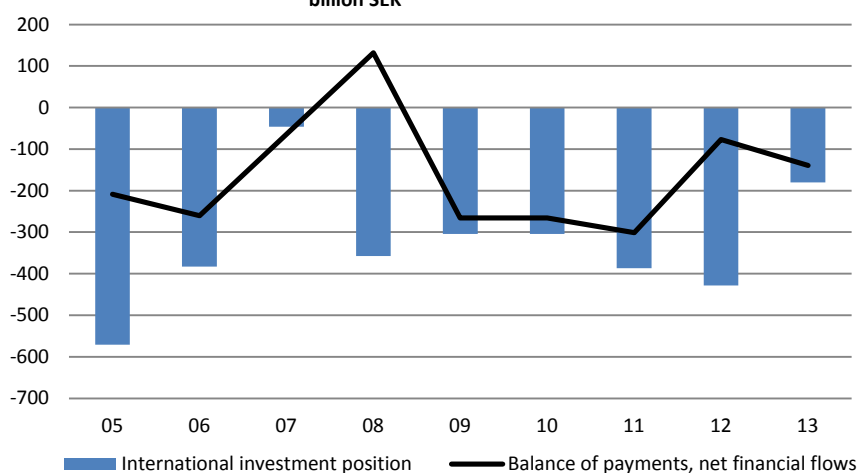
Graph 16: Reserve assets, billion SEK



## Swedish net assets and liabilities abroad

At year-end 2013, preliminary figures for Sweden's international investment position show a net liability of SEK 180 billion. The liability has decreased compared with year-end 2012 when it amounted to SEK 428 billion. Swedish assets abroad have increased more than Swedish liabilities abroad, which has resulted in a reduction of the net liability.

**Graph 17: International investment position and transactions, 2005-2013, net, billion SEK**



The changes in the international investment position are partly due to transactions in the financial account. Exchange rate fluctuations and changes in stock prices and interest rates also affect the international investment position.

The decrease in the net liability in the international investment position is primarily attributable to increased net assets in other investments and direct investments. Portfolio investments made a negative contribution with an increased liability. Thus, two clear trends continue in the international investment position. The first trend is the continued increase in net liability from securities in portfolio investments. The second trend, which is basically the mirror image of the first trend, involves an increase in net claims abroad via other investments. Other investments consist primarily of loans and deposits.

Share prices have risen during the year, which means that the equities in portfolio investments have increased in value. At the same time, the Swedish krona has weakened slightly against some of the major currencies, which contributed to an increase in the value of assets abroad.

The international investment position is a compilation of a country's financial assets and liabilities abroad. Thus it is a measure of a country's wealth relative to other countries. A compilation of the international investment position where a market value has been calculated is also presented as a supplement. For 2013, the complete market value

calculation means that Sweden has a net asset position abroad amounting to SEK 711 billion.

It is important to note that several of the subitems in the international investment position for 2013 are estimated, mainly direct investments and portfolio investments. A more definitive value will be reported following completion of the annual surveys of portfolio investments and direct investments. Thus it is important to interpret the figures with some caution.

#### *Definitions and explanations*

The international investment position is a compilation of the total assets and liabilities abroad held by all domestic sectors. The net of these assets and liabilities is a measure of Sweden's wealth relative to other countries. This is not to be confused with the national debt which is the combined deficit and surplus in the central government's budget over time.

## **Revisions**

Sweden's revision policy for the current account is as follows:

- When Quarter 1 is published, the previous 4 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 current account.

The current account has been revised from Quarter 1 2009 through Quarter 3 2013. During the revised period, revisions of SEK 6 billion net were made in the current account and SEK 26 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 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. Put in simple terms, it is a compilation of a country's real and financial transactions with the rest of the world. The main aggregates in the balance of payments are *the current account, the capital account, and the financial account.*

## Derivation of the balance of payments

A country's gross domestic product,  $BNP_t$  is the total value of the goods and services produced in the country during a certain year,  $t$ . Production is used to satisfy either domestic demand in the form of household consumption,  $C_t$ , private investments,  $I_t$ , and public expenditures,  $G_t$ , or to be delivered abroad in the form of exports of goods and services,  $X_t$ . Domestic demand can also be satisfied by the import of goods and services,  $M_t$ . The National Income Identity shows that a country's production during an individual year is equal to the sum of domestic demand ( $C_t + I_t + G_t$ ) and net sales of goods and services to the rest of the world ( $X_t - M_t$ ):

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

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,  $BNI_t$ ,<sup>2</sup>

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

Rewriting (2) gives:

<sup>1</sup> This relationship is called an identity because it must by definition be fulfilled in every individual time period.

<sup>2</sup> This factor income is often called primary income. Net factor income consists of compensation to employees, capital earnings and current transfers.

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

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 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.<sup>4</sup> It is also interesting to note that equation (4) means that if households' savings are as large 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 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 expenditures in each time period is limited by the income in the same period and the country's possibilities to borrow:

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

<sup>3</sup> This means that the national savings are identical to the sum of the public sector savings and households' savings.

<sup>4</sup> Net incomes are assumed to be constant in the short term.

<sup>5</sup> This relationship means in actual fact that the public sector's budget balance will co-vary with the trade in goods and services during certain periods of time.



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 noted earlier, the current account, which consists of the sum of trade in goods and net factor incomes. The term  $(A_t - A_{t+1})$  on the right side shows how the net external assets change over time. 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 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 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.<sup>7</sup>

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<sup>6</sup> 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 a residual is included in the form of an errors and omissions item.

<sup>7</sup> 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.

<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>



