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BALANCE OF PAYMENTS

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	Balance of Payments and Financial Markets (BFM)
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Third quarter 2007

Balance of Payments

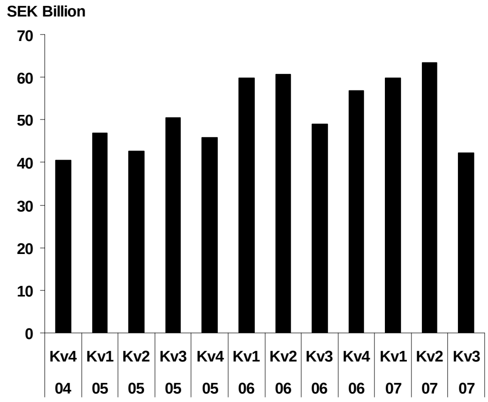
The balance of payments for the third quarter shows a surplus of roughly SEK 41 billion, a slight negative capital balance and a negative financial balance of about SEK 133 billion.

The current account balance for the third quarter of 2007 shows a surplus of 41.2 billion. The trade in services balance amounted to SEK 22.4 billion, and current transfers improved by SEK 2.7 billion, thus contributing to the surplus in the current account. However, the trade balance worsened by SEK 8.9 billion, largely due to the sharp downturn in exports. Factor incomes also fell by SEK 0.9 billion during the third quarter of 2007, compared to the same period in 2006.

Portfolio investments accounted for the largest outflow of SEK 77.5 billion in the financial account, which gave a net outflow of SEK 133.3 billion.

Statistics Sweden has produced and published Sweden's Balance of Payments on behalf of the Riksbank since September 2007. All statistics concerning the balance of payments are available on Statistics Sweden's website www.scb.se

Current balance, net (see Table A)



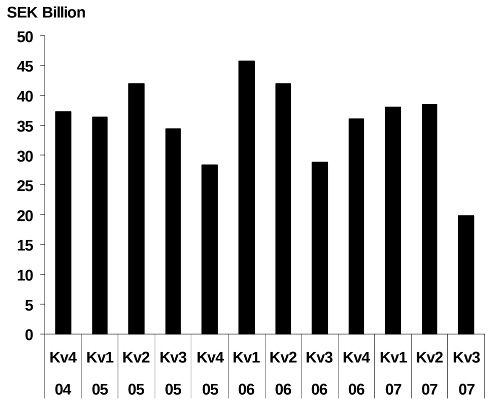
Current account

The current account showed a surplus of SEK 41.2 billion in the third quarter 2007, which is SEK 4.8 billion less than the amount for the same period in 2006.

The surplus originates from the balance of trade in services, which amounted to SEK 22.4 billion. This sum is SEK 2.2 billion more compared to the same period in 2006. Current accounts also contributed to the surplus, which improved by SEK 2.7 billion from a deficit of SEK 11.2 billion the same quarter last year to SEK 8.6 billion the third quarter of 2007.

The trade balance deteriorated by SEK 8.9 billion, and factor incomes by 0.9 billion.

Trade in goods balance (see Table A)



Trade in goods balance

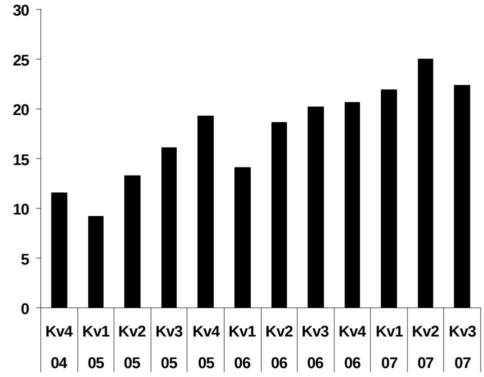
The surplus in the trade in goods balance amounted to SEK 19.9 billion during the third quarter this year, a decline of SEK 8.9 billion compared to the same period in 2006. The weak net trade balance during the third quarter is mainly due to the sharp downturn in exports to the US while imports are still at the same levels.

Exports rose during the third quarter by SEK 14.3 billion, while the corresponding increase of imports amounted to SEK 23.1 billion.

Trade in services balance

Trade in services balance (see Table G)

SEK Billion



The surplus in the trade in services balance amounted to SEK 22.4 billion during the third quarter this year, an increase of SEK 2.2 billion compared to the same period in 2006.

Trade in services has fallen somewhat compared to the second quarter of 2007. The main reason is because of a decline in exports. Compared to corresponding quarter last year, exports have increased by SEK 11.5 billion and imports by SEK 9.3 billion.

Transportation showed an increased surplus of SEK 5.7 billion, which is a slight increase compared to the same period in 2006.

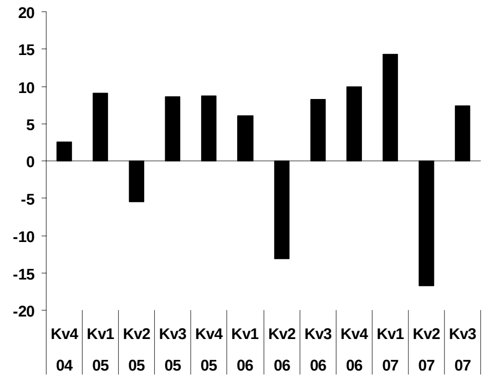
The items licences/royalties and other business services accounted for the major part of the increased surplus in trade in services compared to the corresponding period in 2006. Licences/royalties showed a surplus of SEK 6.6 billion, which is SEK 2 billion more than the corresponding period last year. Concerning other business services, merchanting accounted for the largest contribution to the increase, a surplus of SEK 12.3 billion, which is SEK 1.4 billion more than last year. This item consists of Swedish companies' purchases and sales abroad of goods which do not cross the Swedish border. Merchanting is defined as the trade margin, i.e. the difference between the purchase price and the sales price.

The item for travel showed a deficit of SEK 2.7 billion, which is somewhat higher than the third quarter of 2006.

Income balance

Income balance (see Table H)

SEK Billion

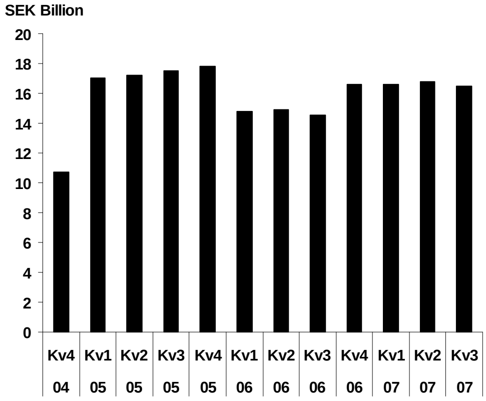


Income, which consists of compensation of employees and investment income, showed a surplus of SEK 7.4 billion during the third quarter of 2007. This is a deterioration of about SEK 0.9 billion compared to the same period last year. The deterioration stems from earnings on capital, while the compensation of employees remains largely unchanged.

- *Direct investment income balance, net*

Income on direct investment showed a net inflow of SEK 16.5 billion during the third quarter of 2007. Income from direct investments abroad amounted to SEK 60.6 billion, while income on corresponding foreign direct investment in Sweden totalled SEK 44.1 billion. This item mainly consists of profits in direct investment companies, and, to a lesser extent, of interest on loans within a direct investment relationship.

Direct investment income balance, net (see Table H)

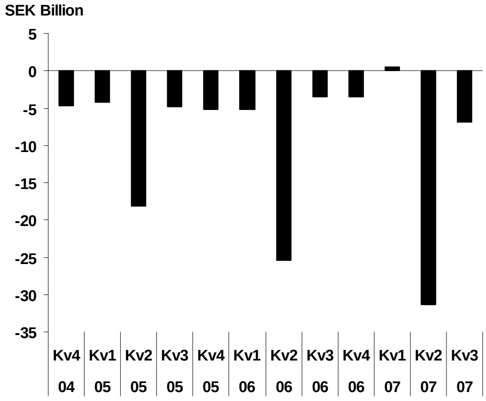


- *Portfolio investment income balance, net*

Income on portfolio investment resulted in a net outflow of SEK 6.9 billion during the third quarter of 2007, or SEK 3.4 billion more than the same period last year. The main reason is due to a drop in the net outflow of share income by SEK 5.2 billion.

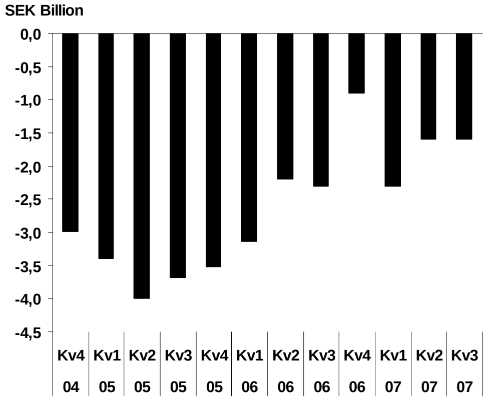
During the first three quarters of 2007, income from portfolio investments abroad generated an outflow of SEK 37.8 billion, which is comparable to the outflow of SEK 34.1 billion for the same period in 2006. The net outflow of the interest item fell from SEK 34.1 to 28.6 billion. However, the net of share dividends increased to an outflow of SEK 9.2 billion, which can be compared to a net outflow nearly at nil for the same period in 2006.

Portfolio investment income balance, net (see Table H)



- Other investment income balance, net

Other investment income balance, net (see Table H)



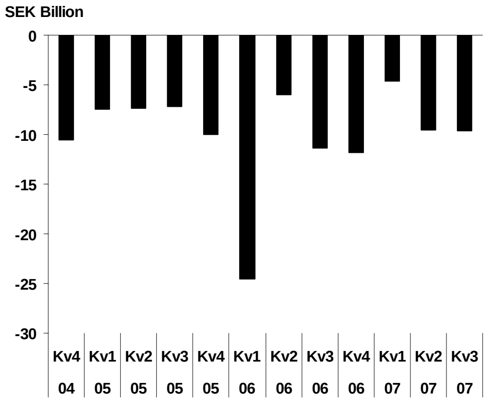
Income on other investment income gave rise to a net outflow of SEK 1.6 billion during the third quarter of 2007, which can be compared to the net outflow of SEK 2.3 billion during the same period in 2006.

Compared to the third quarter of 2006, inflow of other investment income from abroad increased from SEK 12.2 billion to 13.8 billion in the third quarter of 2007. At the same time the outflow of other investment income from Sweden increased from SEK 14.5 billion to 15.4 billion.

Income from other investment consists of earnings on loans and bank deposits etc. The largest contributions to this item come from Swedish banks' income on their assets and liabilities respectively towards counterparts abroad.

Current transfer and capital account balance, net

Current transfer and capital account balance, net (see Table I)



The net sum of current transfers and the capital balance gave a deficit of SEK 9.5 billion during the third quarter this year, which is an improvement of SEK 1.8 billion compared with the same period in 2006.

Transactions linked to EU membership showed a deficit of 3.6 billion, which is SEK 1.9 billion less than in the third quarter of 2006. This improvement is mainly due to larger subsidies/return flow from the EU. The deficit for foreign aid amounted to SEK 3.6 billion, which is SEK 0.8 billion more than the same period last year.

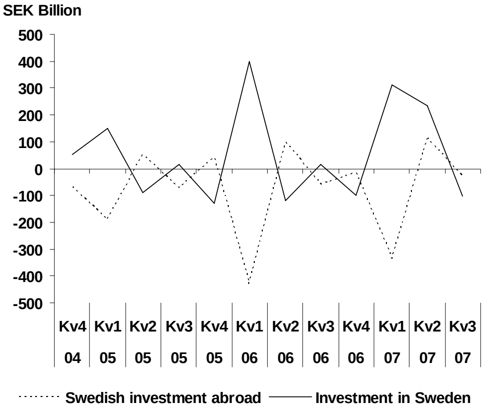
The item other transfers - all other transfers not connected to foreign aid or the EU - improved by SEK 0.7 billion compared to the third quarter of 2006.

Financial account

The financial account gave a net outflow of SEK 133.3 billion during the third quarter of 2007. The main contribution to this came from portfolio investment, which accounted for the largest outflow, SEK 77.5 billion. Direct investments accounted for an outflow of SEK 60.3 billion, while other investment gave rise to a net inflow of SEK 8.3 billion.

The surplus on the current account for the third quarter of 2007 of SEK 41 billion, a slightly negative capital balance and the negative financial account of SEK 133 billion gave rise to a positive errors and omissions item of SEK 93 billion. The errors and omissions item describes the net total of the transactions for which there was no explanation, and thus consists of various deficiencies in the data. One of the most important explanations for the errors and omissions item during separate quarters is periodisation errors. As the data in the balance of payments are gathered from different sources, the periodisation of transactions may differ for items that are balanced against one another. In the longer term however, the errors and omissions should offset one another.

Financial account (see Table J)

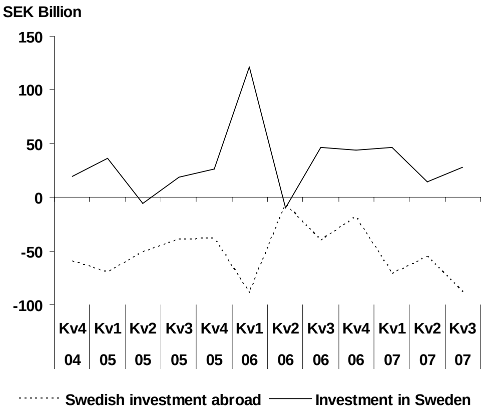


Direct investment

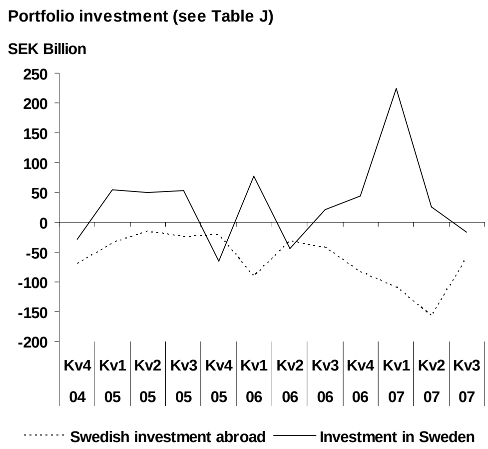
During the third quarter of 2007, direct investment resulted in a net outflow of SEK 60.3 billion. Swedish investment abroad gave an outflow of SEK 88.1 billion during the quarter; SSAB's acquisition of the North American IPSCO accounted for a significant amount of the gross outflow. Foreign investment in Sweden resulted with an inflow of SEK 27.8 billion.

During three first three quarters of 2007, direct investment has generated a net outflow of SEK 124.8 billion, to be compared with a net inflow of SEK 21.5 billion for the same period in 2006.

Direct investment (see Table J)



Portfolio investment

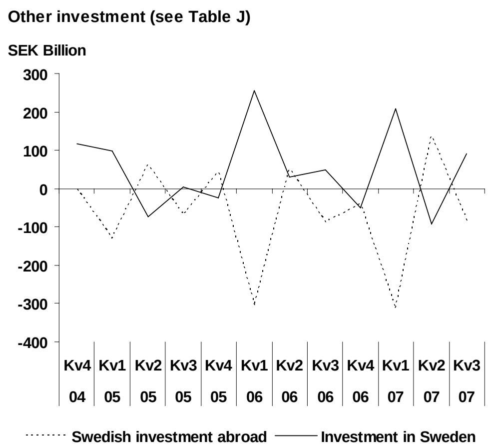


Cross-border portfolio investment generated capital outflows of SEK 77.5 billion during the third quarter of 2007, which can be compared to SEK 20.3 billion for the same period the year before. The largest outflows are found within the primary markets of banks and housing finance institutions in securities denominated in other currencies.

Cross-border equity trading resulted in a net outflow of SEK 43.2 billion during the quarter, which was higher than the net outflow of SEK 10.1 billion for the same period last year.

In total, portfolio investment resulted in a net outflow of SEK 93.1 billion during the first three quarters of 2007. The corresponding figure for the same period last year was SEK 109.5 billion.

Other investment



Other investment gave rise to a net inflow of 8.3 billion during the third quarter of 2007. Swedish investment abroad gave rise to a net outflow of SEK 82.5 billion while corresponding foreign investment in Sweden resulted in a net inflow of SEK 90.8 billion.

The value of investment in other capital varies considerably from one quarter to the next and it is usually short-term capital movements between banks in Sweden and counterparties abroad which have created these fluctuations.

Other investment covers transactions regarding deposits and borrowing, lending, repo transactions, etc.

International investment position, net

The position with the rest of the world is presented on a half-yearly basis, and in June 2007 Swedish assets abroad amounted to SEK 6 869 billion according to preliminary figures. At the same time, Swedish debts with foreign countries amounted to SEK 7 109 billion. Thus the Swedish net debt amounted to SEK 240 billion.

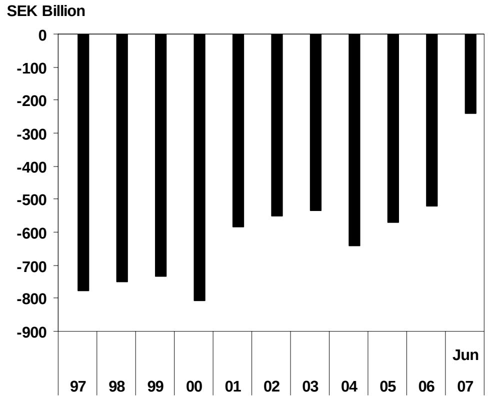
Net assets in the form of direct investments have been forecasted at SEK 360 billion, which is 60 billion higher than December 2006.

Net debt in the form of portfolio investment is calculated to have fallen to SEK 565 billion. Behind this change is an increase in the assets in foreign equity and debt securities of SEK 342 billion and an increase in foreign investors' holdings of Swedish securities of SEK 183 billion.

The official compilation of Sweden's international investment position was revised to reflect market value, with the exception of direct investment, which is reported at book value. A compilation of Sweden's external position is published as a complement, where the market value of direct investment has also been calculated.

It is important to note that several sub-items in the international investment position for June 2007, such as direct investment and portfolio shares, are forecasts. The figures should therefore be interpreted with caution.

International investment position, net (see Table E)



What is the balance of payments?

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. 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 can be divided into:

- The balance on the current account, which shows trade in goods and services, wages, earnings on financial assets and liabilities as well as current transfers, such as EU subsidies and contributions.
- The capital balance, which covers EU subsidies and foreign aid for real investment as well as the purchase and sale of rights, such as patents.
- The financial balance, which can be divided into direct investment, portfolio investment, financial derivatives, other capital and the foreign currency reserve. The financial balance shows changes in external financial assets and liabilities.

Derivation of the balance of payments

A country's gross domestic product, GDP_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 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 ($X_t - M_t$):

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

By adding together the net factor incomes, F_t, i.e. Swedish factor income earned abroad (Swedish wage-earners' remuneration abroad and earnings on Swedish capital abroad) minus foreign factor 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, GNI_t [2]

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

Rewriting (2) gives:

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

[1] This relationship is called an identity because it must by definition be fulfilled in every individual time period.
[2] These factor incomes are often called primary incomes. Net factor incomes consist of wages, capital earnings and current transfers.

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, $GNI_t - T_t - C_t$.[3]

According to (3):

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

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 balance of trade. $X_t - M_t + F_t$ is the current account balance. Equation (4) thus shows that there is a simple connection between net investments and the balance of trade. For a given net factor 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 balance of trade 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 balance. A growing deficit in the current account balance 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.

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

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

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

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the sum of the balance of trade and net factor 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 balance and the financial balance will show a net deficit, i.e. $A_t - A_{t+1} < 0$. Equation (7) thus

3 This means that the national savings are identical to the sum of the public sector savings and households' savings.
4 Net factor 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 balance of trade during certain periods of time.

means that the sum of the current account balance, the capital balance and the financial balance is always identical to zero.[6]

The connection to the international investment position

As the financial balance measures external net lending, a change in the balance on the current account will - by definition - always be matched by a similar change in the net external claims. A surplus on 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 foreign currency reserve, as these transactions are included in the financial balance. 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 balance 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 balance, into direct investment, portfolio investment, financial derivatives, other capital and the foreign currency reserve.[7]

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 balance 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**

[6] As a number of different sources are used to measure the items in the balance of payments, both measurement errors and periodisation errors can arise, and a residual is therefore included 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.