Statistiska centralbyrån
Statistics Sweden

BALANCE OF PAYMENTS

DATE: 2008-02-28

PUBLISHER: Balance of Payments and Financial Market (BFM)

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Produced by Statistics Sweden for the Riksbank

Next quarterly publishing: 2008-05-30

Fourth quarter 2007

Balance of Payments

The balance of payments for the fourth quarter of 2007 produced a surplus in the current account balance of SEK 80.2 billion, a slight negative capital balance and a deficit of SEK 48.8 billion in the financial balance.

The current account balance improved by SEK 15.6 billion compared to the corresponding period in 2006 and the increase mostly consisted in a strong increase in the trade in services balance, where strong increases of both exports and import, primarily of computer licenses, computer services and merchanting, are included. The trade in goods balance reached SEK 34.3 billion during the quarter, which has increased marginally compared with the corresponding quarter in 2006.

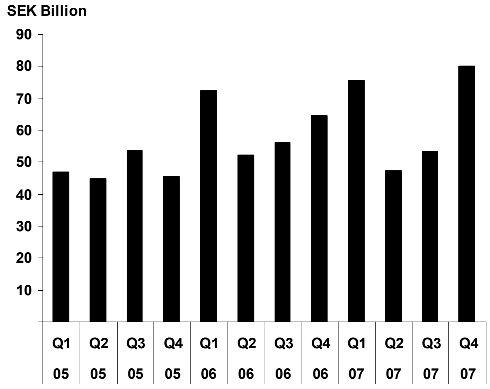
The fourth quarter of 2007 resulted in a net outflow for the financial balance of SEK 48.9 billion, where other capital made up most of the net outflow.

The balance of payments for the entire year of 2007 showed an surplus trade balance of SEK 256.5 billion, a negative capital balance of SEK 2.8 billion and an outflow in the financial account of SEK 153.9 billion.

Revisions have been conducted since the publication of the balance of payments for the third quarter. These revisions mostly depend on the financial balance but also the current balance.

Current account

Current balance, net (see Table A)

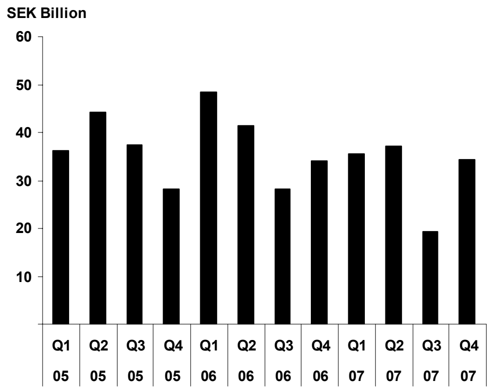


The current account resulted in a surplus of SEK 80.2 billion for the fourth quarter of 2007. This was an increase of SEK 15.6 billion compared to the corresponding period in 2006, and it was mostly a strongly enhanced trade in services balance that contributed to the increase. The trade balance deteriorated by SEK 0.3 billion compared to the corresponding period of 2006, while transfers improved by SEK 0.5 billion and factor incomes by SEK 8.3 billion.

The current account balance for the entire year of 2007 resulted in a surplus of SEK 256.5 billion, which is an improvement of SEK 11.2 billion compared to 2006.

Trade in goods balance

Trade in goods balance (see Table A)

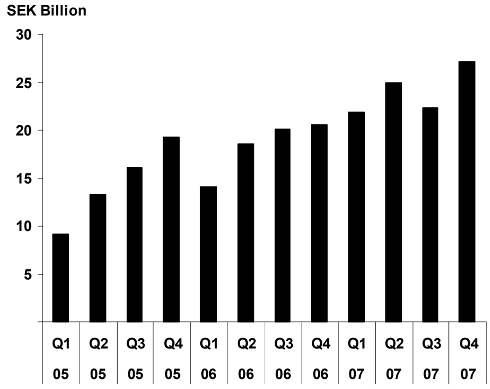


The trade in goods balance reached SEK 34.3 billion, which is deterioration of SEK 0.3 billion compared to the corresponding period in 2006. However this marks an improvement of SEK 15.1 billion compared to the previous quarter. This improvement can be explained primarily by the rarely low net trade balance for the third quarter.

The trade in goods balance for the entire year of 2007 reached SEK 126.2 billion, which is a deterioration by SEK 25.8 billion compared to 2006. One half of the reduced net trade balance, between the years 2006 and 2007, resulted from the reduced trade with the USA. Revisions of the trade balance for 2005 forward have been conducted since the preceding publication.

Trade in services balance

Trade in services balance (see Table G)



The fourth quarter resulted in a strong trade in services balance that reached SEK 27.2 billion, which is an improvement of SEK 6.6 billion compared to the corresponding period of 2006. The change depends on a strong increase in both exports and imports, primarily of licenses, computer services and merchanting.

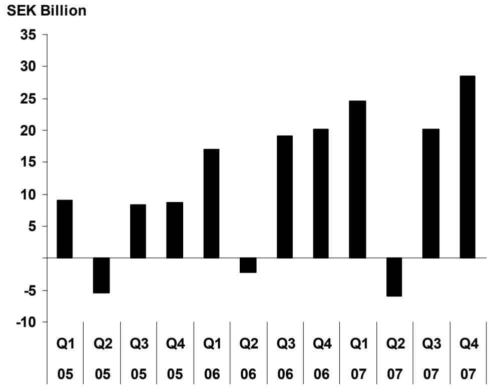
Transportation generated a surplus of SEK 7.8, while tourist payments resulted in a deficit of SEK 6.5 billion. The tourist payments display a seasonal pattern of fourth quarter deficits. The deficit has increase by SEK 2.1 billion compared to the corresponding quarter of the year before. The other service categories produced a surplus of SEK 25.9 billion, which is an increase of SEK 7.2 billion compared with the fourth quarter of 2006. Concerning other business services, merchanting accounted for SEK 14.3 billion of the combined surplus. This item consists of Swedish company's purchases and sales of goods abroad without such goods leaving Swedish borders. Merchanting is defined as the trade margin, i.e. the difference between the purchase price and the sales price.

The fourth quarter shows a clearly improved trade in services balance in comparison to the previous quarter in 2007 and the corresponding quarter of 2006. This can be explained in part by the high level of service exports occurring the fourth quarter. Service exports reached SEK 116.7 billion, which is an increase of SEK 17.2 billion compared to the fourth quarter of 2006. Imports increased for the same period by SEK 10.7 billion from SEK 78.8 billion to SEK 89.5 billion.

The trade in services balance reached SEK 96.3 billion for primarily entire year of 2007, which is an improvement by SEK 22.9 billion compared to primarily entire year of 2006.

Income balance

Income balance (see Table H)

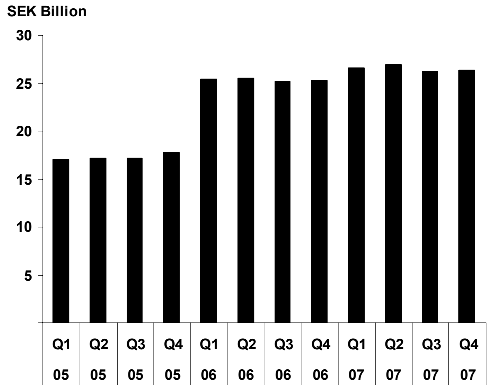


Income, consisting of compensation of employees and capital income, showed a surplus of SEK 28.6 billion during the fourth quarter, which is SEK 8.3 billion higher than the quarter before. The surplus was mostly made up of earnings on capital from on direct investments that rose to SEK 26.3 billion. The compensation of employees remained largely unchanged compared to the quarter before while the outflow had increased marginally compared to the fourth quarter of 2006.

The income balance for the entire year of 2007 resulted in a surplus of SEK 65.7 billion, which is SEK 13.5 billion higher than 2006.

- Direct investment income balance, net

Direct investment income balance, net (see Table H)

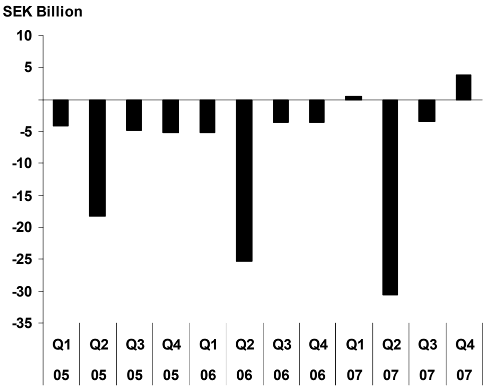


Income on direct investment showed a net inflow of SEK 26.3 billion during the fourth quarter of 2007. Income from direct investments abroad amounted to SEK 67.4 billion, while income on corresponding foreign direct investment in Sweden totalled SEK 41.1 billion.

The net income for the entire year of 2007 resulted in a surplus of SEK 106 billion. This is an increase compared with 2006, when the net income was SEK 101.4 billion. Income from direct investments abroad reached SEK 266.9 for the year 2007, while the income on direct investments in Sweden reached SEK 160.9 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.

- Portfolio investment income balance, net

Portfolio investment income balance, net (see Table H)



Income on portfolio investment resulted in a net inflow of SEK 3.9 billion during the fourth quarter of 2007, which is an increase of SEK 7.4 billion compared to the same period last year. The foremost explanation for this is that dividends from foreign shares increased by SEK 4.2 billion compared to the corresponding period in the year before, while dividends from Swedish shares have been relatively negligible.

Interests from bonds and money market instruments generated the outflow during the quarter. Interest costs for Swedish interest bearing securities reached SEK 19 billion, while ownership of international bonds and money market instruments gave rise to an income of SEK 10.6 billion.

Income from portfolio investments abroad increased for the entire year of 2007 by SEK 18 billion compared to 2006, while the income from portfolio investments in Sweden increased by SEK 10 billion. The principle reason for the changes in portfolio investment income is that the incomes of both Swedish and international shares have increased.

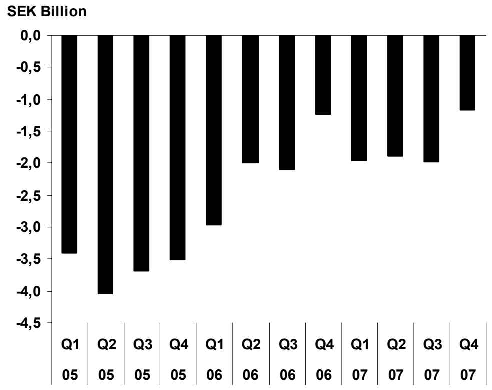
- Other investment income balance, net

Income on other investment income gave rise to a net outflow of SEK 1.2 billion during the fourth quarter of 2007, which is of the same size as the net outflow during the corresponding period in 2006.

The trend of reduced net outflow on other investment income continued for the entire year of 2007. Income on other investment income during 2007 gave rise to a net outflow of SEK 7.0 billion, which can be compared to the net outflow of SEK 8.3 billion during 2006 and a net outflow of SEK 14.6 billion in 2005. The gross flows have however increased. The inflow of income from other investment income abroad increased from SEK 47.8 billion to SEK 61.5 billion compared to 2006. Outflow of income from other investment income in Sweden increased from SEK 56.1 billion to SEK 61.5 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 towards counterparts abroad.

Other investment income balance, net (see Table H)



Current transfer and capital account balance, net

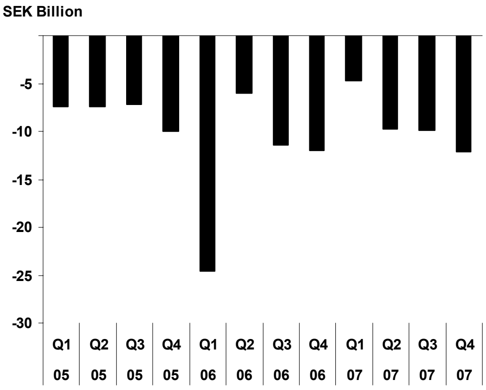
Current transfers and the capital balance showed a deficit of SEK 12.2 billion during the quarter, which is a marginal increase of the outflow compared to the fourth quarter in 2006.

EU transfers showed a deficit of SEK 4.3 billion, which cannot be compared to the SEK 4.1 billion in outflow for the corresponding period of 2006. Transactions linked to EU membership reaching SEK 8.1 billion make up the largest part of the outflow, which is an increase by SEK 2.1 billion compared to the fourth quarter of 2006. Foreign aid also resulted in a deficit of SEK 5.1 billion.

The item other transfers - all other transfers not connected to foreign aid or the EU, remained unchanged compared to the fourth quarter of 2006 and reached a net outflow of SEK 2.7 billion.

Current transfer and the capital balance resulted for the entire year of 2007 in a deficit of SEK 36.5 billion, which can be compared to the deficit of SEK 53.9 billion in 2006.

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

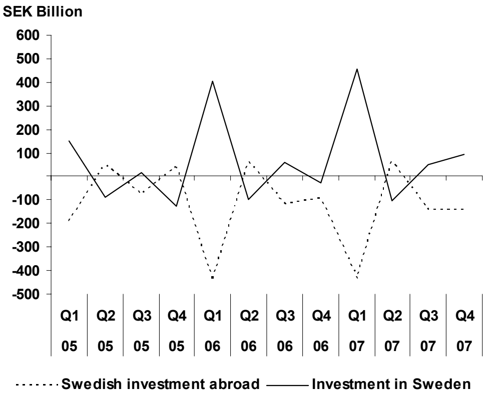


Financial account

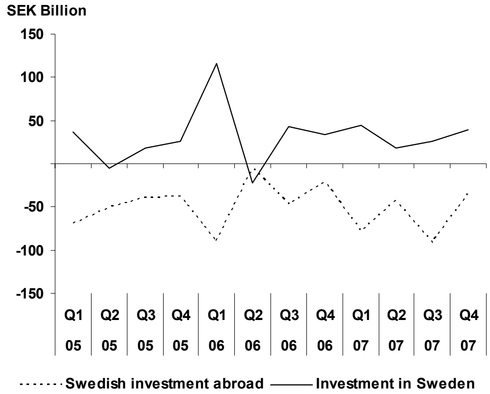
The financial account gave a net outflow of SEK 48.8 billion during the fourth quarter of 2007. The main contribution to this was that other investment showed a net outflow of SEK 72 billion. Direct investments made up a net inflow of SEK 4.3 billion while portfolio investments showed a net inflow of SEK 17.7 billion during the quarter.

The financial account gave a net outflow of SEK 153.8 billion seen for the entire year of 2007, which is a sharp reduction since 2006 when the financial account outflow rose to SEK 253.0 billion. This depended on large changes in direct investments that shifted from an inflow of SEK 7.5 billion to an outflow of SEK 121.1 billion and portfolio investments that shifted from an outflow of SEK 149.3 billion to an inflow of SEK 68.7 billion.

Financial account (see Table J)



Direct investment (see Table J)



Direct investment

During the fourth quarter of 2007, direct investment resulted in a net inflow of SEK 4.3 billion. Swedish investments abroad produced an outflow of SEK 34.7 billion during the quarter and the foreign investment in Sweden resulted in an inflow of SEK 39 billion. This means a reduction of the net inflow by SEK 8.8 billion in comparison to the fourth quarter of 2006 that showed a net inflow of SEK 13.1 billion.

For the entire year of 2007, direct investment has generated a net outflow of SEK 121.1 billion, which can be compared to the net inflow of SEK 7.5 billion for the same period in 2006. Swedish investments abroad produced and outflow of SEK 248 billion during the year, while foreign investment in Sweden totaled an inflow of SEK 126.9 billion. The large net outflow during the year of 2007, as compared to the 2006 net inflow, can be explained by SSAB's acquisition of the North American company IPSCO during the third quarter. The foreign acquisition of Scandia in part serves to explain the net inflow during 2006. Furthermore, a large part of the net inflow in 2007 was made up of re-invested profits from direct investments abroad as well as foreign investments in Sweden, this means that profits were not disbursed as dividends to shareholders but re-invested in the companies. It is important to note that the total profit, consisting of the re-invested profits and repatriated dividends, are prognosticated and can become objects of revision during the autumn of 2008 when the results from Statistics Sweden's direct investment survey are tallied.

Portfolio investment

Combined cross-border portfolio investment produced a net inflow of 17.7 billion during the fourth quarter of 2007. This can be compared to the same period the year before when portfolio investments produced a net outflow of SEK 39.8 billion.

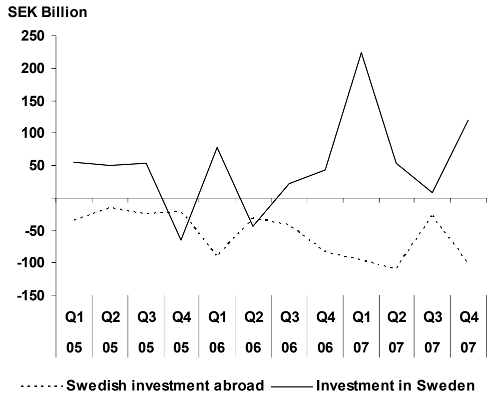
The net inflow was generated by trade in Swedish interest bearing securities during the fourth quarter. Foreign investors net purchased Swedish interest bearing securities for SEK 119.1 billion. Banks' and housing credit institutions' loans in foreign currencies through bonds and short term certificates. The inflow can be balanced in part by the net purchasing of foreign interest bearing securities by Swedish investors totaling SEK 92.8 billion.

Trade in shares resulted in a net outflow. Swedish investors net purchased foreign shares and mutual funds for SEK 8.9 billion as foreign investors net purchased Swedish shares for SEK 0.2 billion.

Cross-border portfolio investments produced a net capital inflow of SEK 68.7 billion during the entire year of 2007. The net inflow can be compared to portfolio investments in 2006 that instead produced a net outflow of SEK 149.3 billion. The greatest reason for the change is the increase in foreign investment in Swedish interest bearing securities.

Statistics for international trade in shares have been revised due to erroneously reported information from one of the principal data sources. The revision entails the period of March to November 2007 and means that Swedish investors' net purchases of foreign shares were adjusted downwards by SEK 129 billion during the given period.

Portfolio investment (see Table J)



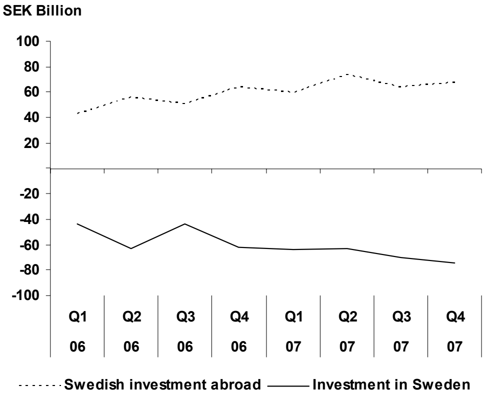
Financial derivatives

The fourth quarter of 2007 has meant a large gross flow in financial derivatives and a net outflow of SEK 6.9 billion.

During 2007, financial derivatives made up a net outflow of SEK 7 billion, which can be compared to a net inflow of SEK 0.7 billion during 2006.

Financial derivatives comprise premium and marginal payments for financial derivatives (futures, options and swaps) as well as the realised value (profit or loss) of the derivative contract upon reaching redemption or maturity.

Financial derivatives (see Table J)



Other investment

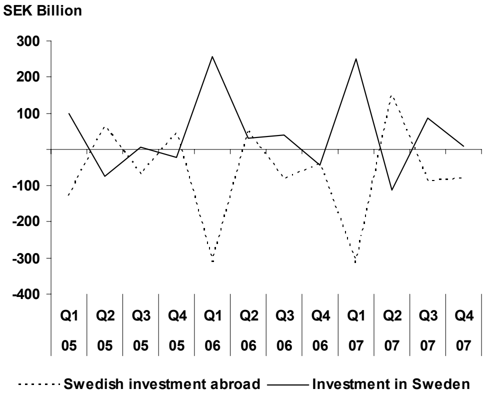
Transactions related to other investment resulted in a net outflow of SEK 72.0 billion during the fourth quarter of 2007. Changes in Swedish lending, among other things, resulted in a net outflow of SEK 80.4 billion while the corresponding changes for loans to and deposits in Sweden resulted in a net inflow of SEK 8.5 billion.

Transactions related to other investments resulted in a net outflow of SEK 96.7 billion during the year 2007. Assets and liabilities both increased during the year and changes in Swedish lending abroad resulted in a net outflow of SEK 330.8 billion while the corresponding changes in loans to and deposits in Sweden resulted in a net inflow of SEK 230.7 billion.

Income from other investments varies considerably from one quarter to the next and it is usually short-term capital movements between banks in Sweden and counterparts abroad that have created these fluctuations.

"Other investment" refers to external loans, aside from the Swedish group, and includes regarding deposits and borrowing, lending, repurchasing transactions, etc. to and from abroad.

Other investment (see Table J)



International investment position, net

During 2007, the foreign debt was reduced by half compared to 2006. The total net debt abroad rose to SEK 197 billion, which amounts to approximately 6.5% of the Swedish GNP.

Net assets, in the form of direct investments, have been prognosticated to SEK 348 billion. This corresponds to an increase of SEK 96 billion compared to 2006.

The net debt in the form of portfolio investments (portfolio shares and interest bearing securities) rose to SEK 520 billion, which is a reduction by SEK 60 billion compared to 2006.

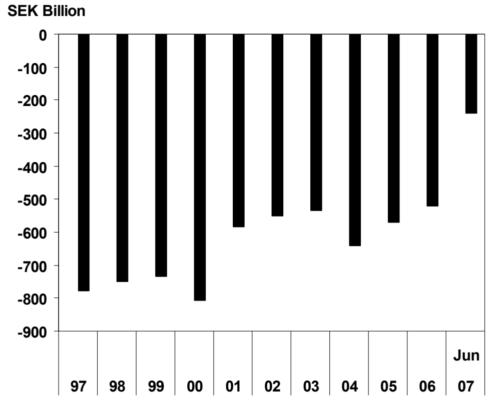
The remaining net debt, exclusive of direct investments and portfolio investments, continued to lessen during last year.This remaining debt was reduced, in total, by SEK 30 billion compared to 2006 and rose to SEK 256 billion by the close of 2007.

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 international investment position is published as a complement, where the market value of direct investment has also been calculated. According to such, Sweden's net assets abroad for the year 2007 reached SEK 631 billion.

Those factors of greatest significance for the development of the international investment position include: SEK exchange rate; share prices on the stock market in Sweden and abroad; and the market value of direct investment companies.

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 ($X_t - M_t$):

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

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]

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

Rewriting (2) gives:

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

[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):

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

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 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.

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

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).

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

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.