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BALANCE OF PAYMENTS

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First quarter 2008

Balance of payments

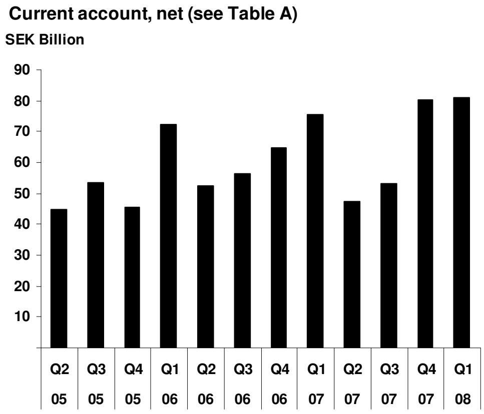
The balance of payments for the first quarter of 2008 resulted in a surplus in the current account of SEK 81.1 billion, a slight negative capital account and a surplus of SEK 19 billion in the financial account.

It was primarily the strong trade in goods in February that contributed to the surplus in the current account of SEK 81.1 billion. The trade in goods amounted to SEK 39.4 billion for the quarter, and is a result of high levels of imports and exports of goods. Following the weak export of goods in December, exports have again begun to increase in the beginning of 2008.

The financial account resulted in a surplus of SEK 19 billion. Interest for buying Swedish companies has again risen and during the first quarter many direct investment deals were finalised. The largest single acquisition was made by Nasdaq, which acquired the Swedish stock exchange OMX during the quarter.

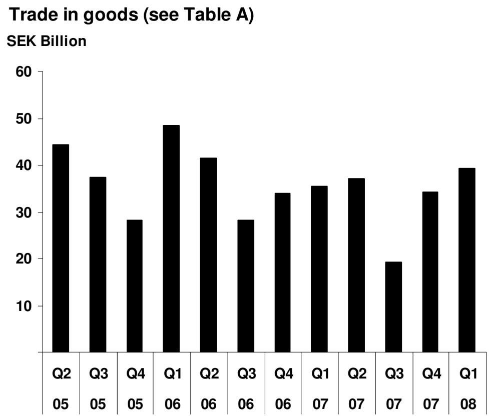
Share trade once again resulted in a significant net outflow during the first quarter. Foreign investors made net sales of Swedish shares while Swedish investors continue to purchase shares abroad. During the first quarter, Swedish investors made net purchases of shares abroad for SEK 45.4 billion, a significant increase compared to the previous quarter.

Current account



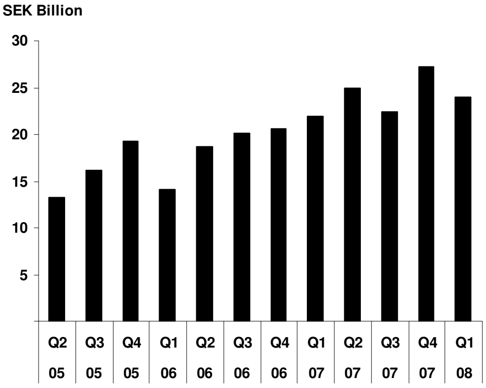
The balance of payments for the first quarter of 2008 shows a surplus of SEK 81.1 billion in the current account. This is an increase of SEK 1.6 billion compared to the corresponding period in 2007, and it is above all a surplus in the trade of goods that contributes to the increase. The quarter shows a stronger trade of goods compared to the same period in 2007, while trade in services was weakened. Current transfers increased during the quarter by SEK 1.6 billion compared to the first quarter of 2007.

Trade in goods



The trade in goods reached SEK 39.4 billion, an improvement of SEK 3.3 billion compared to the corresponding period in 2007. However, this marks an improvement of SEK 9.5 billion compared to the previous quarter. This improvement is above all explained by the high net trade surplus for February. During the first quarter, exports of goods amounted to SEK 310.3 billion while imports amounted to SEK 271 billion.

Trade in services (see Table G)



Trade in services

The first quarter resulted in a weaker trade in services compared to the same period in 2007. The trade in services amounted to SEK 23.9 billion, a deterioration of SEK 1.4 billion. Transportation generated a surplus of SEK 5.4 billion while tourist payments resulted in a deficit of SEK 5.3 billion.

The export of transport services amounted to SEK 18.4 billion, a decrease of SEK 3.2 billion compared to the previous quarter. Compared to the previous quarter however, this is an increase of SEK 3 billion. Imports amounted to SEK 13 billion, a decrease of 0.6 billion compared to the previous quarter. However, in comparison with the first quarter of 2007, imports have increased by 1.6 billion.

The flow of travel increased by about SEK 1 billion compared to the first quarter of 2007 and amounted to SEK 19.3 billion. At the same time the outflow increased by SEK 3.6 billion and amounted to SEK 24.7 billion. This resulted in a net outflow of SEK 5.3 billion, comparable to a net outflow of SEK 2.7 billion during the first quarter of 2007.

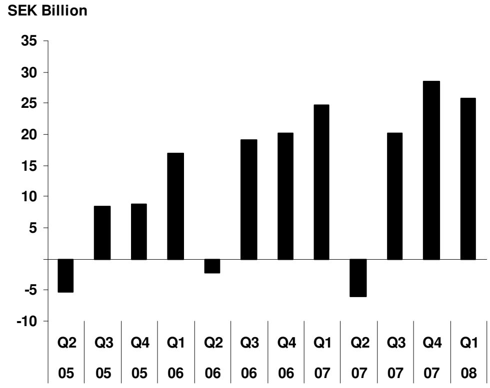
Both exports and imports of other services decreased during the first quarter compared with the fourth quarter of 2007. The item resulted in a surplus of about SEK 23.9 billion, which is a weak decrease compared to the corresponding quarter in 2007, but a decrease of SEK 2.3 billion compared to the previous quarter. On the export side, services such as licences and royalties, merchanting, research and development as well as technical services decreased, while legal services and commission for goods increased. On the import side, services such as licences and royalties, marketing, research and development as well as technical services decreased.

Concerning other business services, merchanting accounted for SEK 13.6 billion of the combined surplus, a decrease of SEK 2.8 billion compared to the fourth quarter but a slight increase compared to the same quarter in 2007. This item consists of Swedish companies' purchases and sales of goods abroad without such goods passing Swedish borders. Merchanting is defined as the trade margin, i.e. the difference between the purchase price and the sales price.

Income

Income, consisting of compensation of employees and capital income, showed a surplus of SEK 25.8 billion during the first quarter, which is SEK 2.2 billion lower than the quarter before. The surplus was mostly made up of earnings on capital from direct investments that amounted to SEK 24.5 billion. The salary item is nearly unchanged compared to the previous quarter.

Income (see table H)



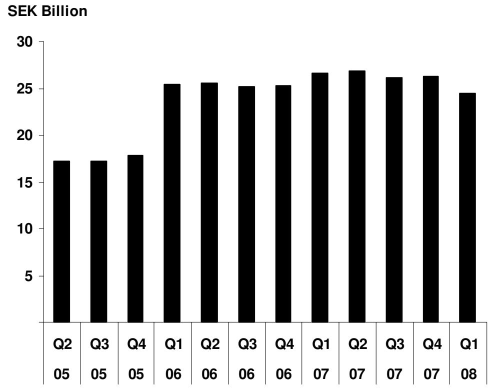
Direct investment income, net

Income on direct investment showed a net inflow of SEK 24.5 billion during the first quarter of 2008. This was a decrease of SEK 2.1 billion compared to the corresponding period the year before.

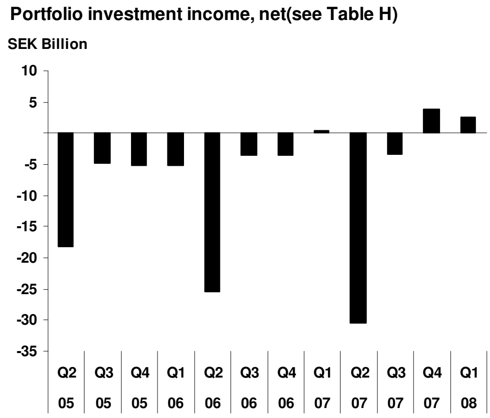
Income from direct investments abroad amounted to SEK 66.4 billion, while income on corresponding foreign direct investment in Sweden totalled SEK 41.9 billion.

This item mainly consists of profits in direct investment companies, and, to a lesser extent, of interest on loans within a direct investment relationship.

Direct investment income, net (see Table H)



Portfolio investment income, net



Income from portfolio investments, consisting of interest and share dividends, resulted in a capital inflow of SEK 2.6 billion net during the first quarter of 2008. As a result, net income on portfolio investments with other countries increased by SEK 2.1 billion compared to the corresponding period the year before.

Dividends on Swedish shares in the first quarter produced an outflow of SEK 0.1 billion during the year, while dividends in foreign shares resulted in an inflow of SEK 12.5 billion.

Interest costs for Swedish debt securities amounted to SEK 19.7 billion, while holdings of international bonds and money market instruments generated an income of SEK 10 billion.

Other investment income, net

Income on other investment gave rise to a net outflow of SEK 0.8 billion during the first quarter of 2008, which is lower than in previous quarters. Net interest has decreased by over 50 percent compared to the same quarter in 2007.

Compared to the first quarter of 2007, income from other investment abroad increased from SEK 14.6 billion to SEK 17.4 billion. During the same period, the outflow of income from other investment income in Sweden increased from SEK 16.6 billion to SEK 18.2 billion. The income values for debts and assets were about the same in the first quarter of 2008 as in the first quarter of 2007. At the same time, interest rates have gone up.

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.

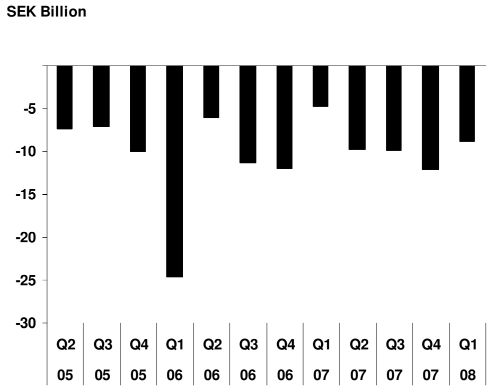
Current transfer and capital account, net

The net sum of current transfers and the capital account gave a deficit of SEK 8.8 billion which is an improvement of SEK 3.1 billion compared to the fourth quarter of 2007, and SEK 4.1 billion compared to the first quarter of 2007.

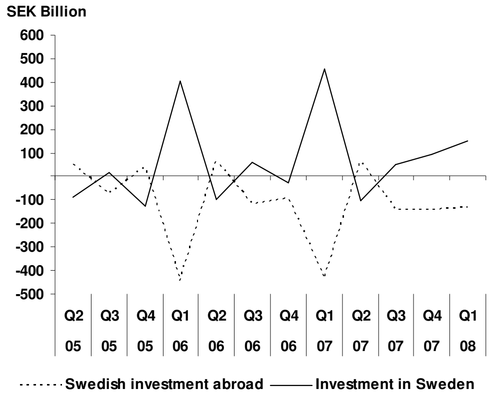
Transactions linked to the EU generated a deficit of SEK 3.3 billion, an increase of SEK 2.2 billion compared to the first quarter of 2007. Foreign aid amounted to SEK 0.8 billion, nearly unchanged from last year. The item other transfers showed a deficit of SEK 3.8 billion, an increase of the deficit by SEK 1.6 billion compared to the same period last year. This item has also increased somewhat compared to the previous quarter.

It is mainly the sub-item acquisitions/sales of immaterial assets in the capital account that deviates from the previous quarter and the first quarter of 2007. The net of acquisitions/sales resulted in a deficit of SEK 0.2 billion compared to the same period in 2007 that resulted in a surplus of SEK 2.3 billion.

Current transfer and capital account, net



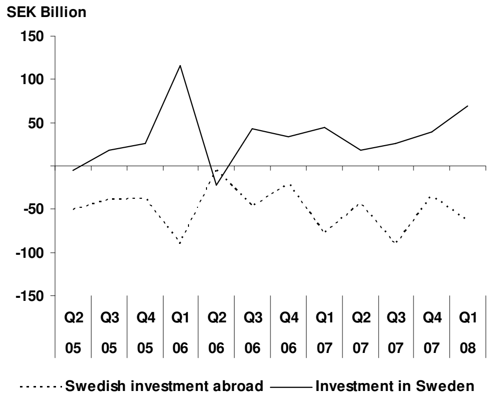
Financial account (see Table J)



Financial account

The financial account resulted in a surplus of SEK 19 billion for the first quarter of 2008. The item other investment is the main contributor to the surplus of a net inflow of SEK 59.6 billion. Direct investments also contribute to the net inflow with SEK 5.1 billion. Portfolio investments resulted in a net outflow of SEK 42.6 billion while trade in financial derivatives resulted in a net outflow of SEK 8.9 billion.

Direct investment (see Table J)



Direct investment

During the first quarter of 2008, direct investment resulted in a net inflow of SEK 5.1 billion. This corresponds to an increase of SEK 41.2 billion compared to the same period last year when the item resulted in a new outflow of SEK 36.1 billion.

Swedish investments abroad produced an outflow of SEK 64.4 billion during the quarter while foreign investment in Sweden resulted in an inflow of SEK 69.5 billion.

The net inflow is largely because a number of foreign acquisitions of Swedish companies were finalised during the quarter, where Nasdaq's acquisition of the Stockholm stock exchange OMX was the largest deal. This is reflected in the sub-item equity capital. This item showed a net inflow of SEK 48.8 billion for the first quarter, which is an increase of SEK 43.9 billion compared to the same quarter in 2007.

It is important to note that total profit, consisting of re-invested profits and returned dividends, are forecasted and may be subject to revisions.

Portfolio investment

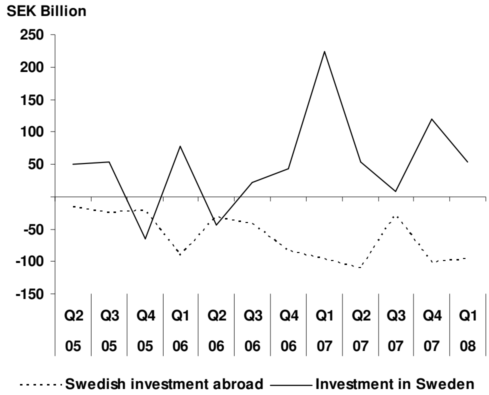
Portfolio investments abroad generated a capital outflow of SEK 42.6 billion in the first quarter of 2008. This can be compared to the same period the year before when portfolio investments produced a net outflow of SEK 127.5 billion.

Foreign interest for Swedish debt securities was considerably less than during the same quarter one year ago. In total, foreign investors purchased Swedish debt securities for a net value of SEK 55.3 billion, or a decrease of SEK 161 billion. The first quarter of 2007 generated an unusually large net inflow.

Swedish investors increased their holdings in foreign bonds and money market instruments by SEK 50.8 billion. Foreign bonds in Swedish kronor and money market instruments in foreign currency were the main net purchase items.

Share trade resulted in a significant net outflow of SEK 47.1 billion during the first quarter. This is an increase of SEK 39 billion net compared to the same quarter last year. Swedish investors continued to make net purchases of foreign shares and funds for SEK 45.4 billion in the first quarter. At the same time foreign investors made net sales of Swedish shares for SEK 1.7 billion.

Portfolio investment (see Table J)



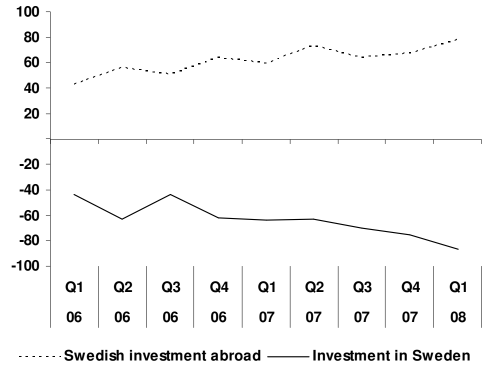
Financial derivatives

Financial derivatives gave rise to unusually large flows which resulted in a net outflow of SEK 8.9 billion in the first quarter. Thus, three quarters in a row have had relatively large net outflows. During the first quarter of 2007, the value of net outflow was SEK 4.4 billion.

The flows concerning financial derivatives consist primarily of realised positive and negative values of derivative contracts during the period (inflow and outflow respectively). Option premiums that have been paid for and received are also included in the flows.

Financial derivatives (see Table J)

SEK Billion



Other investment

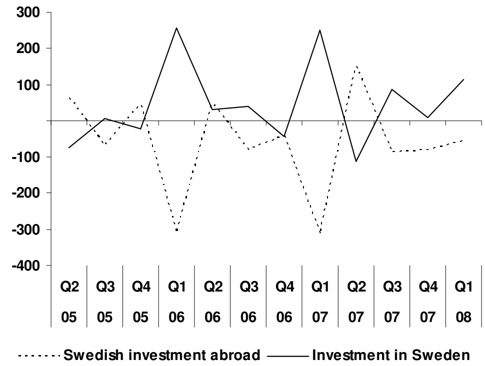
Transactions related to other investment resulted in a net outflow of SEK 59.6 billion during the first quarter of 2008.

Changes in Swedish lending to other countries, among other things, resulted in a net outflow of SEK 55.6 billion while the corresponding changes for loans to and deposits in Sweden resulted in a net inflow of SEK 115.2 billion.

The outflow concerning lending to other countries is mainly because Swedish banks report increased lending in foreign currency. Banks also account for most of the inflow; during the period banks have increased long-term borrowing in foreign currencies and short-term borrowing in Swedish kronor.

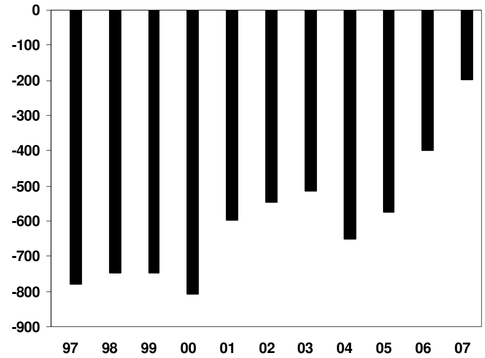
Other investment (see Table J)

SEK Billion



International investment position, net (see Table E)

SEK Billion



International investment position, net

The international investment position is compiled twice a year. During 2007, the foreign debt was reduced by half compared to 2006. The total net debt abroad amounted to SEK 197 billion, which amounts to approximately 6.5% of the Swedish GDP.

Net assets, in the form of direct investments, have been forecasted at SEK 348 billion. This corresponds to an increase in assets of SEK 102 billion compared to 2006.

The net debt in the form of portfolio investments (portfolio shares and debt securities) amounted to SEK 520 billion, which is a decrease of 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 amounted 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 external position is published as a complement, where the market value of direct investment has also been calculated (Table F). According to this compilation, Sweden's net assets abroad for 2007 equalled SEK 437 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.

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:

- Current accounts, including regular transactions in goods and services, return on financial assets and debts, and regular transfers such as EU subsidies and fees.
- The capital account, which covers EU subsidies and foreign aid for real investment as well as the purchase and sale of rights, such as patents.
- The financial account, which can be divided into direct investment, portfolio investment, financial derivatives, other investment and the foreign currency reserve. The financial account 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 ($X_t - M_t$):

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

By adding together the net factor incomes, F_t, i.e. Swedish factor income earned abroad (Swedish wage-earners' remuneration abroad and earnings on foreign 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):

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

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 co-vary 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 service 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 investment 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 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.
[7] In certain cases the book value is used instead of the market value, because the base for calculating market value is insufficient.