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BALANCE OF PAYMENTS

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Lena Finn + 46 8 506 944 09, lena.finn@scb.se

Camilla Bergeling +46 8 506 942 06, camilla.bergeling@scb.se

Malin Sundeby 08-506 946 14, malin.sundeby@scb.se

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Second quarter 2008

Balance of payments

The balance of payments for the second quarter of 2008 resulted in a surplus of the current account of SEK 38.8 billion, a slight negative capital account and a surplus of SEK 12.7 billion in the financial account.

A negative return on capital is the major reason for the current account being halved compared to the quarter before. Income from portfolio investments in Sweden contributed to the large net outflow, with an outflow of nearly SEK 74 billion. Swedish shares made up a large part of the outflow, which depends on Swedish companies primarily give out dividends during the second quarter.

The second quarter resulted in a trade in goods of SEK 32.4 billion, which is a decline both in comparison to the quarter before and in comparison to the same period the year before. The trade in services improved by SEK 5.2 billion from the quarter before and amounted to SEK 27.4 billion.

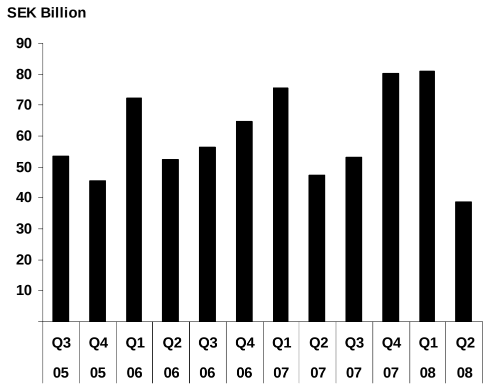
Portfolio investments together with other capital generated a high net inflow during the quarter, while direct investments generated a net outflow, which gave rise to a financial balance of SEK 12.7 billion.

A large contributing part of the portfolio investments' net inflow was from foreign investors increased holdings in Swedish debt securities. The loaned portion of direct investments is quite volatile because of the complexity and extent of inhouse transactions on the part of multinational groups. During the second quarter the item showed a net outflow of SEK 65.7 billion compared to a net inflow of SEK 59.5 billion the quarter before.

Current account

The current account for the second quarter 2008 resulted in a surplus of SEK 38.8 billion, which is clearly a decrease compared to both the quarter before and the corresponding quarter of 2007. Trade in goods worsened in comparison with the quarter before and second quarter of 2007 while the trade in services improved compared with the quarter before. The negative return on capital shown during the quarter, where returns on portfolio investments caused a large net outflow, was a primary contributor to the worsening of the current account. The transfers for the second quarter increased compared to the quarter before.

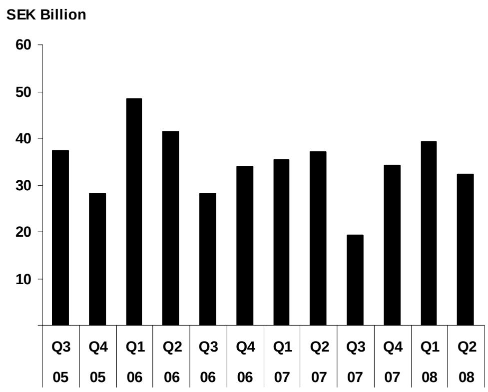
Current account, net (see Table A)



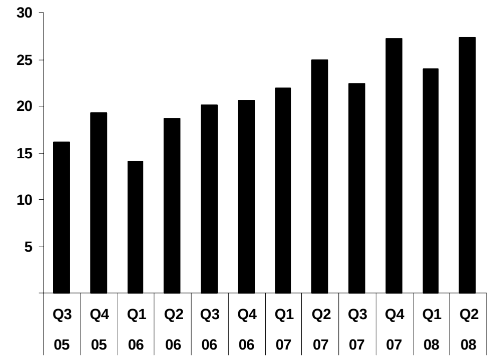
Trade in goods

The trade in goods amounted to SEK 32.4 billion during the second quarter, which is a decrease of SEK 6.4 billion compared to the quarter before and of SEK 5.2 billion compared to the corresponding quarter of 2007. The export of goods amounted to SEK 318.5 billion and the import of goods was SEK 286.1 billion, which compared to the quarter before is an increase of nearly 9 percent and 12 percent, respectively.

Trade in goods (see Table B)



Trade in services (see Table D)



Trade in services

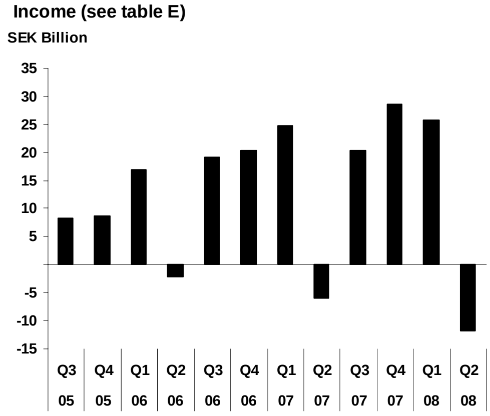
The fourth quarter resulted in a strong trade in services that reached SEK 27.4 billion, which is an improvement of 5.2 billion compared to the quarter before. Exports increased by SEK 7.8 billion from the quarter before and amounted to SEK 112.4 billion and imports amounted to SEK 85 billion after an increase of SEK 2.5 billion. The sub-items contributing the majority of the positive net result is *Transport, Computers and Information Services* and *Other business services.*

Transport generated a surplus of SEK 7.7 billion, which is SEK 2.2 billion more than the quarter before. Compared to the corresponding quarter the year before, this item has improved by SEK 2 billion. Export of Transport services increased by SEK 2.2 billion compared to the quarter before, when exports of shipping services was the most contributory sub-item.

The item *Trave*l provided a net outflow of SEK 5.4 billion for the second quarter, which can be compared to the net outflow of SEK 1.8 billion during same quarter of last year. Travel includes goods and services that travellers obtain when travelling in other countries. The value of the inflow of travels amounted to SEK 19.7 billion, which is a decrease of SEK 2.4 billion compared to the second quarter of 2007. The outflow of travels increased by SEK 1.1 billion in the same period to SEK 25 billion.

The other service forms gave a surplus of SEK 25.1 billion during the second quarter, which follows the trend of increases in both exports and imports. Compared to the quarter before, exports increased by SEK 4 billion and this was primarily sub-items *Computer - and information services, Licenses and royalties* and *Other business services* that contributed with the largest flows. Imports increased by SEK 2.2 billion and it was mostly *Other business services* that drove up the import levels. Other business services consist of a number of different sub-items where *Research and development services, Technical services* and *Operational leasing* generated the net increase.

Income

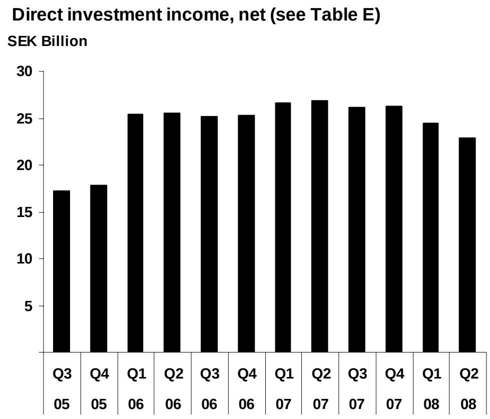


Income, consisting of salaries and returns on capital, showed a deficit of SEK 11.7 billion during the second quarter, which is a distinctive change from the quarter before when the incomes resulted in a surplus of SEK 24.4 billion. The high outflow of return on capital for portfolio investments contributed strongly to the deficit, which is the reason for the worsened balance of the current account.

Returns on direct investments remained at the level they were at during earlier quarters. The return on capital for Other investment resulted in a net outflow of SEK 11.2 billion.

The compensation of employees remained largely unchanged compared to the quarter before while the outflow had increased marginally compared to the second quarter of 2007.

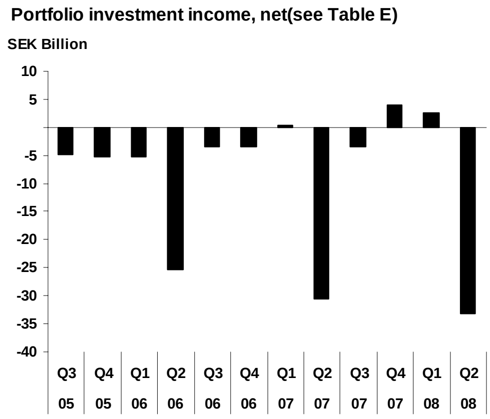
Direct investment income, net



The item for returns on direct investment includes a majority of profits derived from direct investment companies, but consists also to a lesser extent of loans made under direct investment conditions.

The second quarter of 2008 showed a net inflow of SEK 22.9 billion as regards returns on direct investments. Income from direct investments abroad amounted to SEK 64.3 billion, while income on corresponding foreign direct investment in Sweden totalled SEK 41.4 billion. The net inflow has decreased by SEK 3.3 billion compared to the same period in 2007, on the other hand the sub-item returns on direct investment has increased distinctly from a net outflow of SEK 1.3 billion in the second quarter 2007 to a net inflow of SEK 20.2 billion.

Portfolio investment income, net

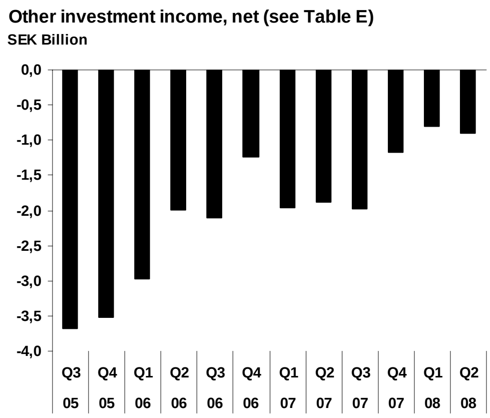


Income from portfolio investments, consisting of interest and share dividends, resulted in a capital inflow of SEK 33.2 billion net during the first quarter of 2008. These are on a similar level as those of the same period in recent years, see the graph.

Income from portfolio investments in Sweden contributed to the large net outflow, with an outflow of nearly SEK 74 billion. Swedish shares account for a large part of the outflow when the share dividends for the Swedish shares amounted to SEK 54 billion. At the same time, dividends from foreign shares provided a capital inflow of SEK 28.7 billion.

Interest costs for Swedish debt securities amounted to SEK 20 billion during returns second quarter 2008. Foreign debt securities generated incomes of SEK 12.2 billion.

Other investment income, net



Income on other investment gave rise to a net outflow of SEK 0.9 billion during the second quarter 2008, which can be compared to the net outflow of SEK 1.9 billion during the same period in 2007. Thus far in the year, income on other investment has given rise to a net outflow of SEK 1.7 billion.

The inflow of income on other investment abroad increased by SEK 2.0 billion compared to the second quarter of 2007. During the same period the outflow of income on other investment in Sweden increased by SEK 1.0 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.

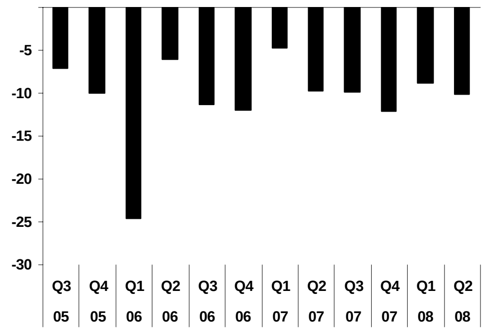
Current transfer and capital account, net

Current transfers and the capital account showed a deficit of SEK 10.1 billion during the quarter, which increases outflow by SEK 1.4 billion compared to the quarter before.

EU transfers showed a deficit of SEK 4.3 billion, which can be compared to the SEK 3.8 billion in outflow for the same period of 2007. Transactions associated with EU membership make up SEK 5.7 billion in outflow, which is SEK 4.8 billion lower than the quarter before. Even foreign aid amounted to a net outflow of SEK 3.4 billion.

The item other, that is to say all other transfers that are not associated with the EU or foreign aid, resulted in a net outflow of SEK 2.4 billion, which is a decrease in outflow by SEK 1.3 billion from the quarter before.

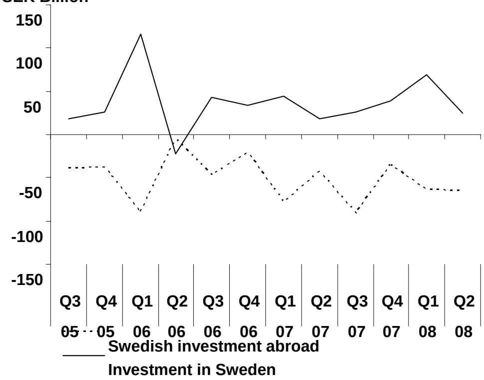
Current transfer and capital account, net
SEK Billion



Financial account

Financial account (see Table G)

SEK Billion

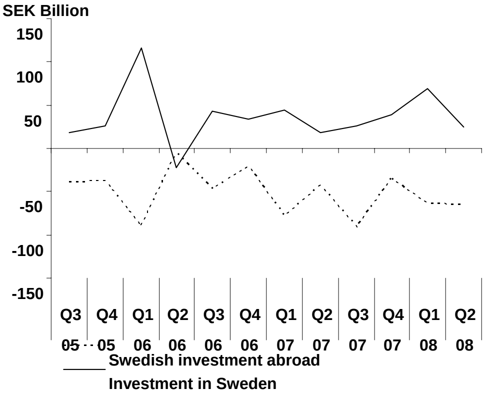


The financial account resulted in a surplus of SEK 12.7 billion for the second quarter of 2008. The item Portfolio investment is the main contributor to the surplus of a net inflow of SEK 43.6 billion. Other investment contributed to the net outflow by SEK 19.7 billion. During the quarter, direct investments showed a net outflow of SEK 41.3 billion. These three items have changed drastically in comparison to the quarter before, which is normal for the financial account, where broad variations in flow are natural.

Direct investment

Direct investment (see Table G)

SEK Billion



During the second quarter of 2008, direct investment resulted in a net outflow of SEK 41.3 billion. This corresponds to an increase of outflow compared to the same period last year and resulted in a net outflow of 29.2 billion.

Swedish direct investments abroad provided a net outflow of SEK 65.7 billion during the quarter, where the sub-item loan under direct investment conditions clearly made up the largest part of the outflow. Foreign investment in Sweden resulted in a net inflow of SEK 24.4 billion.

As the graph indicates, direct investment is an item that varies greatly over time. This depends partly on the variation of business cycle position through the number and size of direct investment deals that follow the level of activity in the economy. And on the other part on how multinational groups chose to handle their internal liquidity. This latter fact results also to that short-term loans within the larger groups produce a large impact. The large net outflow of loans at SEK 65.7 billion is primarily of a short-term nature.

It is important to note that the total profit, consisting of the re-invested profits and repatriated dividends, are forecasted and can become objects of revision when the results from the annual direct investment survey are tallied.

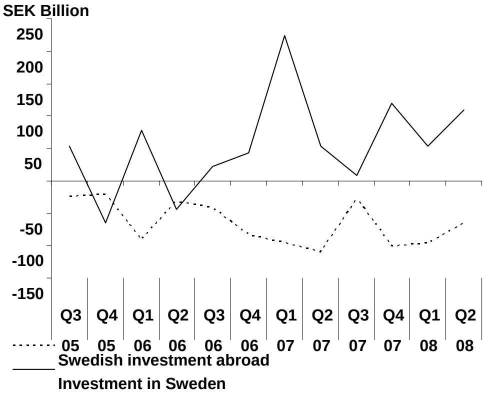
Portfolio investment

Portfolio investments abroad resulted in a net capital inflow of SEK 43.6 billion during the second quarter 2008. The same period last year saw a net capital outflow of SEK 57.7 billion. The largest flows were once again to be found in the bank and housing credit institutions primary trade in currency denominated securities and trade in foreign shares.

Investors abroad increased holdings of Swedish debt securities by SEK 117.2 billion during the quarter. The increase mainly depends on the banks' increased borrowing in foreign currency that generated a net inflow of nearly SEK 144 billion. The large net inflow was partially balanced by Swedish investors increasing holdings of foreign debt securities worth SEK 65.6 billion.

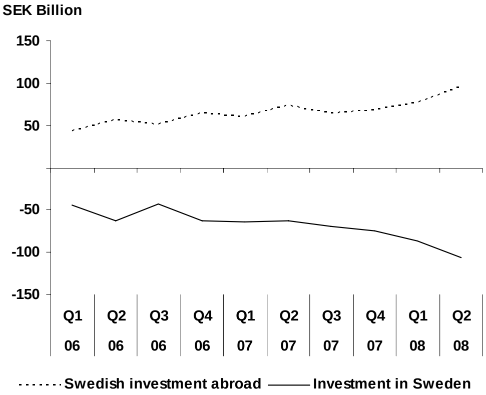
Trade in shares gave rise to a large extent to a net outflow of SEK 8.0 billion during the quarter. Trade in foreign shares, mainly German and Norwegian, were the main reason for the large turnover. Interest abroad for Swedish shares was mild.

Portfolio investment (see Table G)



Financial derivatives

Financial derivatives (see Table J)

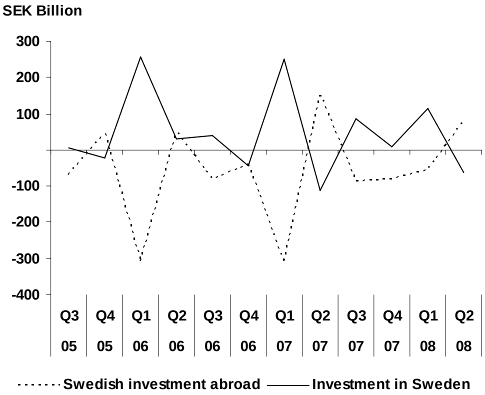


During the second quarter of 2008, financial derivatives resulted in a net outflow of SEK 10.3 billion. The same quarter in 2007 showed a net inflow of SEK 10.5 billion.

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.

Other investment

Other investment (see Table G)



Other investment gave rise to a net inflow of 19.7 billion during the second quarter of 2008. Swedish investment abroad gave rise to a net inflow of SEK 81.0 billion while corresponding foreign investment in Sweden resulted in a net outflow of SEK 61.3 billion.

The value of investment in other investment 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 covers transactions regarding deposits and borrowing, lending, depositions and repo transactions toward and from abroad.

International investment position, net

Swedish net liability to foreign countries increased by SEK 112 billion to SEK 321 billion during the first half of 2008, according to preliminary figures.

Net assets in the form of direct investments have been forecasted to SEK 353 billion, which is a marginal increase compared to last year.

The net debt in the form of portfolio investments (portfolio shares and debt securities) amounted to SEK 568 billion, which is a decrease of SEK 14 billion compared to 2007.

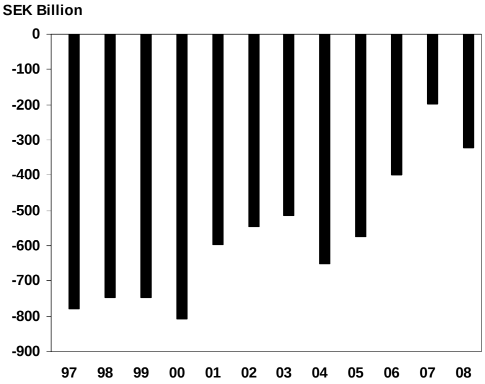
The other net debt, exclusive of direct investments and portfolio investments increased somewhat during the first half of 2008. The currency reserve has decreased by SEK 15 billion during 2008 and stands at SEK 186 billion after the first half of 2008.

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 also published as a complement, where market value for direct investment has been calculated, this is only done annually. According to this compilation, Sweden's net assets abroad for 2007 equalled SEK 426 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 2007, such as direct investment and portfolio shares, are forecasts. The figures should therefore be interpreted with caution.

International investment position, net (see Table I)



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. EU subsidies and fees
- 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 investment 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 ($X_t - M_t$):

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

[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, GDI_t:[2]

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

Rewriting (2) gives:

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

[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, $GDI_t - T_t - C_t$.[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 trade in goods. $X_t - M_t + F_t$ is the current account. Equation (4) thus shows that there is a simple connection between net investments and trade in goods. 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 of trade in goods 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. A growing deficit in the current account 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 are 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 account and the financial account. It is simple to obtain the balance of payments from (1) and (6).

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

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the sum of the 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. Please 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.[6]

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[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 trade in goods during certain periods of time.
[6] 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.

The connection to 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 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 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 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 account 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 account, 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 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 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**

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