Balance of Payments

First quarter 2009

Statistics Sweden

Statistiska centralbyrån

Balance of Payments
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Statistics Sweden
2009

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Foreword

The balance of payments have been compiled and published by Statistics Sweden behalf of Sweden's Riksbank since September 2007.

The balance of payments is a compilation of Sweden's real and financial transactions with the rest of the world, and can be divided into the current account, the capital account and the financial account.

This report includes the results of the fourth quarter of 2008.

Statistics Sweden, June 2009

Lars Melin

Christina Ekblom

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Balance of payments

The balance of payments for the first quarter of 2009 produced a surplus of SEK 53.2 billion in the current account, a slightly negative capital account and a deficit of SEK 44.9 billion in the financial account.

The current account was weakened by SEK 28.3 billion during the first quarter compared to the corresponding period last year. Total trade in goods and services has fallen compared to the corresponding quarter in 2008, and generated a surplus of SEK 54.3 billion. Exports and imports of goods were solely responsible for the reduction, where gross flows decreased by about 18 percent. The largest reduction occurred in the trade in goods with EU countries.

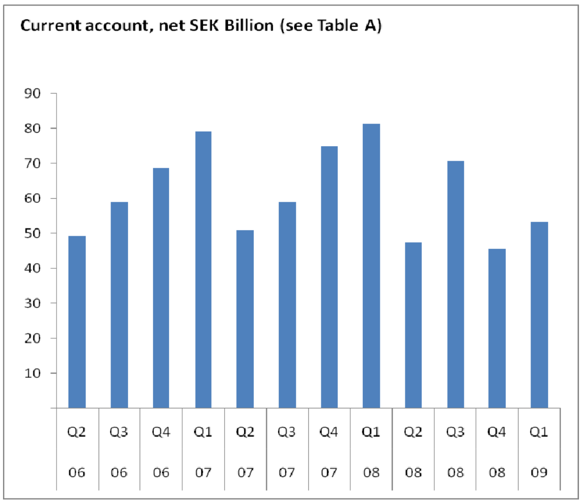
Income, consisting of salaries and capital income, showed a surplus of SEK 7.2 billion during the first quarter, which is SEK 3.1 billion more than the previous quarter.

In the financial account, direct investment generated a net outflow of SEK 47.8 billion. Activity in direct investment was significantly lower during the first quarter compared to the previous quarter.

During the quarter, trade in and issues of Swedish debt securities produced an inflow of SEK 55.5 billion. This inflow was primarily due to Swedish banks and building societies issuing bonds and certificates on the overseas market. Even non-financial enterprises issued Swedish debt securities during the first quarter.

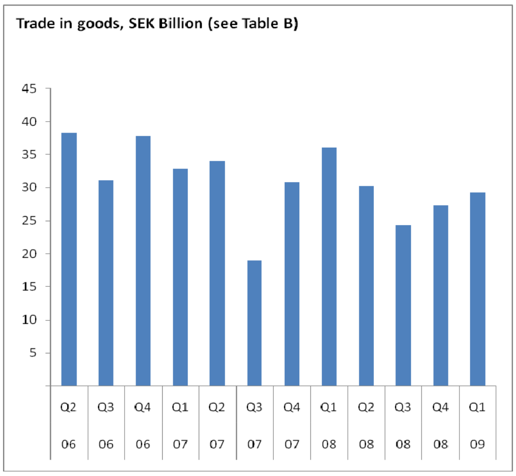
Other investment, with a net outflow of SEK 60.6 billion and financial derivatives of SEK 12.6 billion, also contributed to the net outflow in the financial account.

Current account



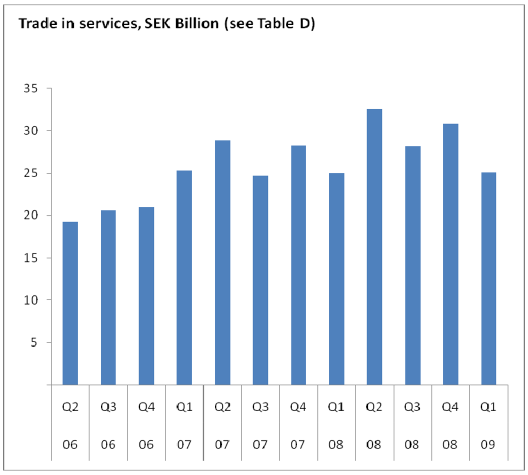
The surplus in the current account was strengthened during the first quarter by SEK 7.4 billion from the previous quarter and amounted to SEK 53.2 billion. This is SEK 28.3 billion less than the same period last year. Total trade in goods and services has fallen compared to the previous quarter and the corresponding quarter in 2008 and amounted to SEK 54.3 billion. Income fell by SEK 21.2 billion compared to the first quarter of 2008 but increased by SEK 3.1 billion on the previous quarter. Current transfers are on the same level as the corresponding quarter in 2008 with an outflow of SEK 8.2 billion. The outflow of current transfers has been halved since the previous quarter.

Trade in goods



Trade in goods amounted to SEK 29.2 billion net as a consequence of a fall in both exports and imports of goods on the previous quarter. Compared to the corresponding quarter in 2008, exports and imports of goods have each fallen in value by about 18 percent. Trade with EU countries, which in terms of value constitutes more than half of Sweden's exports and imports, dropped sharply. The negative trade development was consistent for most goods sectors (Foreign trade in goods, Statistics Database) Pharmaceuticals and food were the only sectors that experienced a rise in exports and imports during the first quarter. The road vehicle sector was responsible for the largest decrease in value on the exports side, falling by 51 percent.

Trade in services



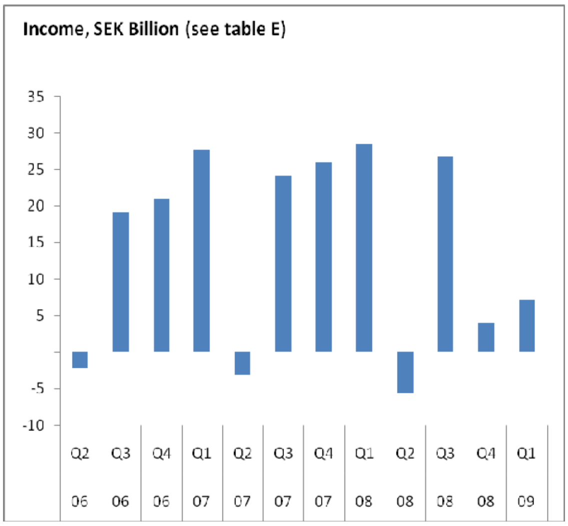
Trade in services amounted to SEK 25.1 billion during the first quarter, which can be compared to SEK 30.8 billion in the previous quarter. Both imports and exports fell by 13 and 15 percent respectively on the previous quarter but were on a par with the first quarter of 2008.

Both exports and imports of *transport services* have fallen during the first quarter after a strong fourth quarter in 2008. On the exports side, all types of transport have fallen but sea transport is responsible for the biggest change. In total, exports of transport services amounted to SEK 17.6 billion, which is SEK 5.6 billion lower than the previous quarter. Imports have fallen for the majority of transport types but imports of sea transport services are responsible for almost the entire decrease.

The item *travel* includes goods and services used by travellers when travelling to other countries. Because of substantial seasonal variations for this item, comparisons are best drawn with the same period the year before. Exports of travel, consisting of consumption by foreign travellers in Sweden, amounted to SEK 20.6 billion during the quarter, a SEK 2.6 billion increase on last year. Imports of travel, i.e. expenses of Swedes abroad, amounted to SEK 22.6 billion, a decrease of SEK 2.1 billion on the year before.

After a strong result for *other services* in the previous quarter, this type of services has returned to a more normal level for this quarter and amounted to SEK 23.8 billion. Exports and imports of the sub-item *other business services* fell sharply on the previous quarter. Within this item, *research and development* is responsible for the biggest reduction for both exports and imports.

Income

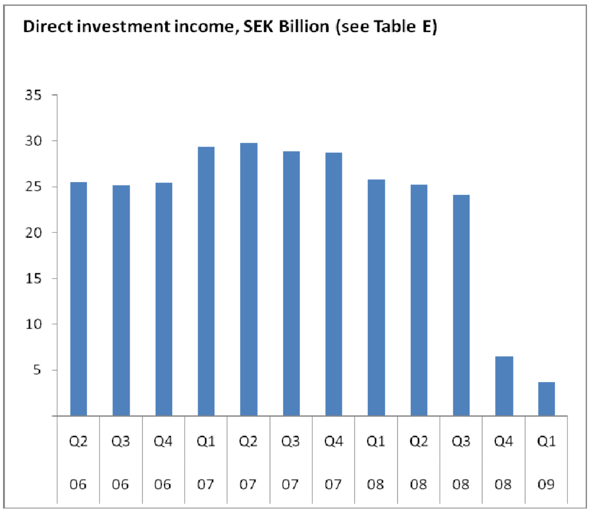


Income, consisting of compensation of employees and capital income, showed a surplus of SEK 7.2 billion during the first quarter, which is SEK 3.1 billion more than the previous quarter. Returns on direct investment resulted in a net inflow of SEK 3.7 billion. Returns on portfolio investment resulted in a net inflow of SEK 5.3 billion.

Returns on other investment resulted in a net inflow of SEK 1.3 billion, which can be compared to a net inflow of SEK 0.2 billion in the previous quarter.

The item *compensation of employees* generated a net inflow of SEK 0.5 billion, which is on a par with previous periods.

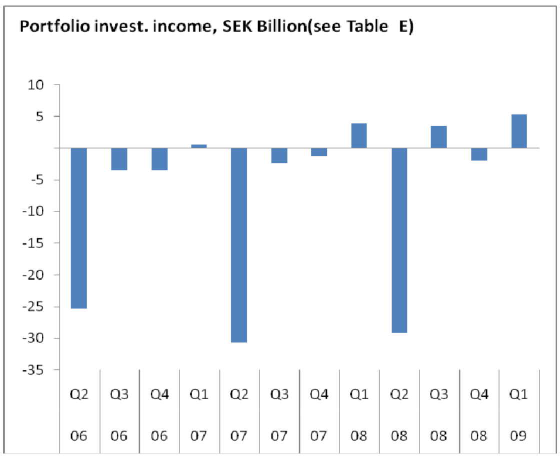
Returns on direct investment, net



Returns on direct investment produced a net inflow of SEK 3.7 billion, which is considerably lower than previous periods. This reduction is mainly due to the lower forecast for total returns in 2009 compared to 2008. The financial crisis has had an effect on the real economy, which in turn influences the forecast for returns for enterprises with a direct investment relationship.

Returns on direct investment abroad amounted to SEK 34.9 billion, which is considerably less than previous periods. Returns on direct investment in Sweden amounted to SEK 31.2 billion, which is also lower than previous periods.

Returns on portfolio investment, net

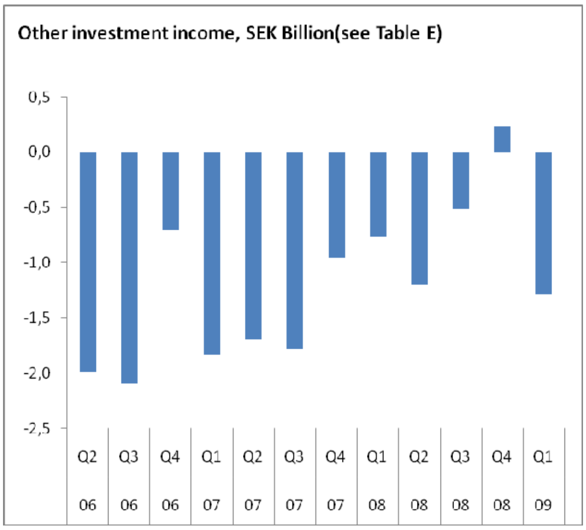


Returns on portfolio investment produced an inflow of SEK 5.3 billion during the first quarter. During the same quarter in 2008, the corresponding amount was SEK 3.9 billion. As was the case last year, the inflow in this quarter was created by dividends on foreign shares.

Returns on debt securities generated total outflows of SEK 8.3 billion for the first quarter. Interest costs for Swedish debt securities amounted to SEK 20.7 billion, which were compensated for by inflows of SEK 12.4 billion from holdings in foreign debt securities.

Dividends on Swedish shares were insignificant during the first quarter of 2009, while dividends on foreign shares resulted in inflows of SEK 13.7 billion.

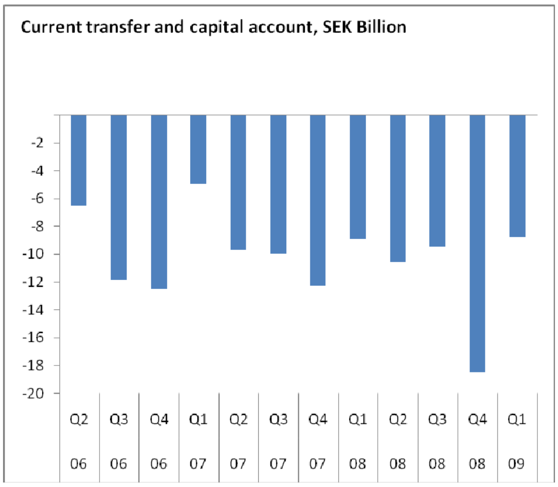
Returns on other investments, net



Returns on other investments produced a net outflow of SEK 1.3 billion during the first quarter, which can be compared to a net outflow of SEK 0.8 billion during the corresponding period in 2008.

Returns on other investments consist of returns 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 transfers and capital account, net

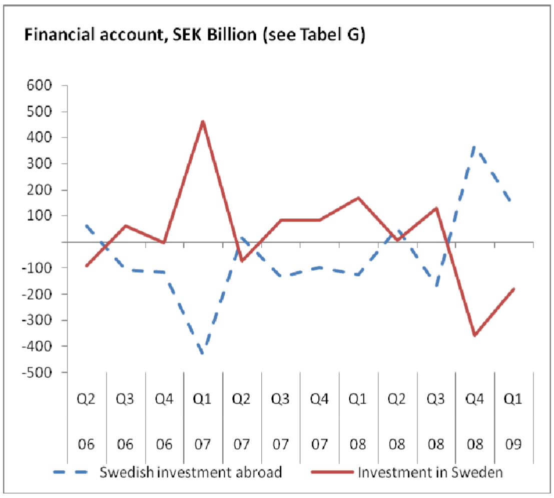


Current transfers and capital account produced a deficit during the quarter of SEK 8.8 billion, which represents a SEK 9.7 billion reduction in the deficit from the last quarter. The deficit has only decreased marginally compared to the corresponding period in 2008, however.

The inflow of transfers associated with the EU is normally higher during the first quarter than the three remaining quarters of the year and amounted during the quarter to SEK 8.1 billion.

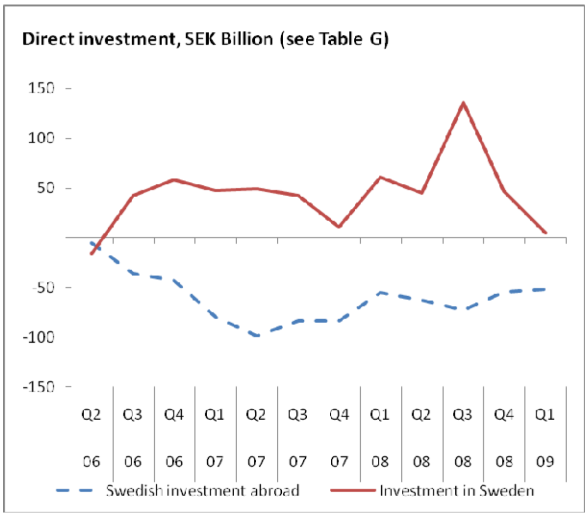
The item other, i.e. all other transfers that are not associated with the EU or foreign aid, resulted in a net outflow of SEK 3.8 billion, which is a decrease in outflow of SEK 1.1 billion compared to the previous quarter.

Financial account



The financial account resulted in a net outflow of SEK 44.9 billion for the first quarter of 2009. Portfolio investments produced a net inflow of SEK 69.7 billion, while other investments resulted in a net outflow of SEK 60.6 billion. Direct investment also contributes an outflow of SEK 47.8 billion and financial derivatives contribute SEK 12.6 billion to the net inflow. Reserve assets generated a net inflow of SEK 6.3 billion.

Direct investment



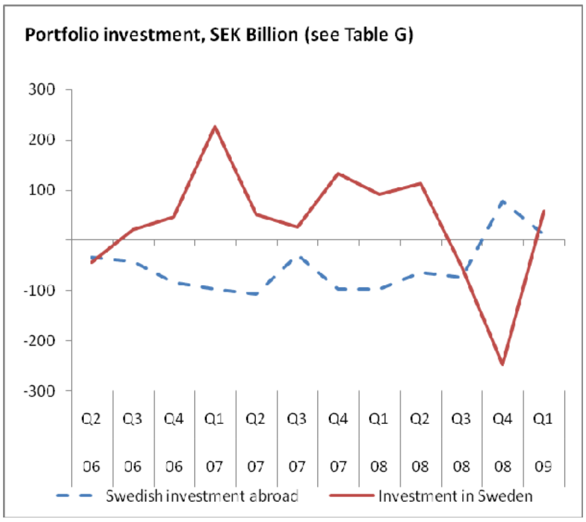
During the quarter, direct investment generated a net outflow of SEK 47.8 billion.

Direct investment activity was on a par with that of the corresponding quarter in 2008. Activity has however been lower than in the previous quarter. Internal liquidity transactions within company groups have been responsible for most of the direct investment activity, whilst a number of internal loan portfolio restructurings within company groups have led to both large inflows and outflows.

Swedish direct investment abroad produced a net inflow of SEK 52.3 billion for the first quarter of 2009, which was on a par with the corresponding period last year. A considerable proportion of these transactions occurred internally within company groups.

Foreign direct investment in Sweden produced a net inflow of SEK 4.5 billion, which is considerably lower than in previous periods. The net inflow on loan side has been larger than before, which explains the low net inflow of foreign investment in Sweden. Internal transactions within company groups and restructurings made a substantial contribution to the outflow.

Portfolio investment

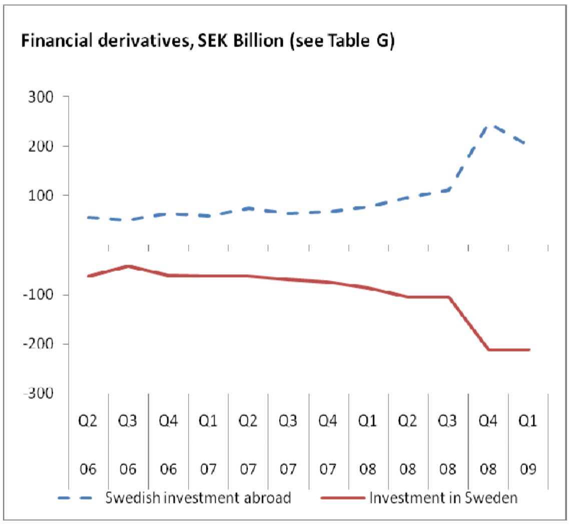


Cross-border portfolio investments resulted in an inflow of SEK 69.7 billion in the first quarter of 2009. Most of the inflow came from issues of Swedish debt securities.

During the first quarter, trade in and issues of Swedish debt securities produced an inflow of SEK 55.5 billion. This inflow was primarily due to Swedish banks and housing finance institutions issuing bonds and certificates on the overseas market. This can be compared to the previous quarter when the same institutes allowed their securities to lapse, resulting in substantial outflows. At the height of the uncertainty on the financial markets at the end of last year, Swedish banks and housing finance institutions virtually stopped borrowing securities abroad altogether, a fact indicated by the large outflows during the fourth quarter of 2008. Even non-financial enterprises issued debt securities during the first quarter.

Inflows of capital were also created by Swedish investors selling foreign securities, mostly bonds. Foreign shares were on the other hand purchased during the quarter, resulting in outflows. It was mainly purchases of Norwegian shares that caused the outflows.

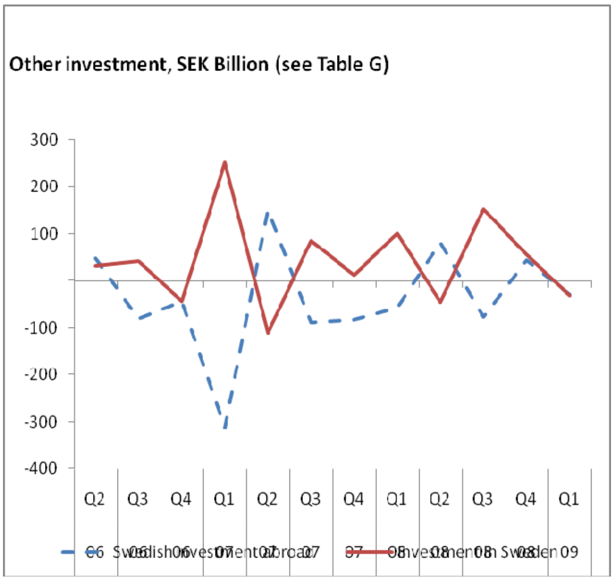
Financial derivatives



Transactions in financial derivatives with overseas counterparts resulted in a net outflow of SEK 12.6 billion during the first quarter of 2009. Direct trade in financial derivatives conducted by non-financial enterprises contributed a net inflow of SEK 3.3 billion. Transactions from all other contributors' resulted in a net outflow of SEK 15.9 billion to the net amount. The significant net inflow for transactions in financial derivatives during the last quarter of 2008 has been replaced by a net outflow in the first quarter of 2009.

Flows from financial derivatives arise through realised values from overdue contracts, as well as through different types of premium payments. The financial instruments that constitute derivatives are mainly options, futures and swaps. The largest trade volumes refer to different types of currency derivatives.

Other investments

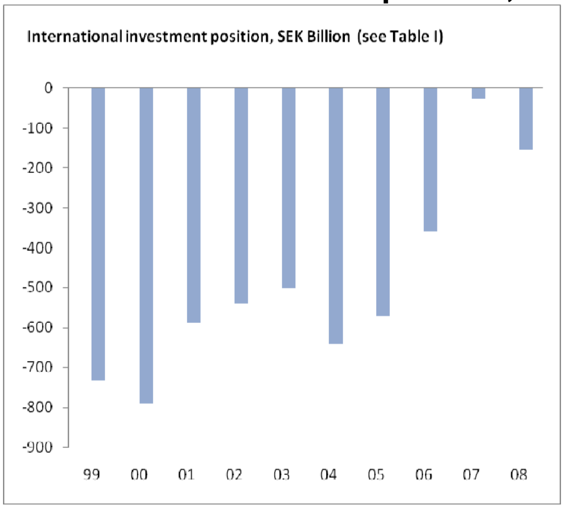


Other investments gave rise to a net inflow of SEK 60.6 billion during the first quarter of 2009.

Other investments consist mainly of loans to and from abroad as well as a number of smaller financial items not covered under direct investment, portfolio investments or financial derivatives.

The value of other investments varies considerably from one quarter to the next and it is usually short-term movements of capital between banks in Sweden and their counterparts abroad that create these fluctuations.

International investment position, net



Swedish assets and liabilities to overseas are published every six months.

Swedish net liability to overseas increased by SEK 127 billion to SEK 153 billion during the whole of 2008, according to preliminary figures.

Net assets in the form of direct investment have been forecasted at SEK 514 billion, which is an increase compared to last year.

The largest contributory factor for development of the international investment position is the Swedish krona exchange rate. As mentioned earlier, the krona has weakened considerably in 2008. Other important factors are stock market prices in Sweden and abroad, as well as the market value of direct investment enterprises.

In 2008, assets and liabilities to overseas in derivative instruments rose considerably. At the beginning of the year and during the first three quarters, the balance values for contracts concerning both assets and liabilities were between SEK 200 billion and SEK 250 billion. During the fourth quarter, there was a sharp rise in balance values for derivative contracts and by the end of the year, the balance value for assets in derivative contracts, i.e. contracts with positive market values, amounted to SEK 556 billion. The corresponding values for liabilities, i.e. contracts with negative market values, amounted to SEK 497 billion.

Net liabilities for other investment and portfolio investments increased during the whole of 2008. The reserve assets have increased by SEK 32 billion in 2008 and amounted to SEK 233 billion at the end of the year.

The official compilation of Sweden's international investment position has been 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 with calculations of a market value for direct investment is also published. According to this compilation, Sweden's net liability abroad equalled SEK 135 billion in 2008.

It is important to note that several sub-items in the international investment position for 2008, such as direct investment and portfolio shares, are only forecasts. The figures should therefore be interpreted with caution.

What is the balance of payments?

The balance of payments has been produced and summarised by Statistics Sweden on commission for the Swedish Riksbank since September 2007.

In a closed economy the level of investment is determined by the total savings in the economy. This means that if 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 following.

- 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 reserve assets. 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 ($X_t - M_t$):

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

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

[1] This relationship is called an identity because it must by definition be fulfilled in every individual time period.

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:

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

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:

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

The difference between S_t and I_t is often called net external investment and the difference between X_t and M_t is called trade in goods. $X_t - M_t + F_t$ is called the current account. Equation (4) thus shows that there is a simple connection between net investments and trade in goods. For a given net income, changes in the difference between S_t and I_t will always be followed by corresponding changes in the difference between X_t and M_t. Equation (4) also shows that it is not possible in the short term to reduce a deficit in the trade in goods 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:

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[2] These incomes are often called primary incomes. Net incomes consist of wages, capital earnings and current transfers.

[3] This means that the national savings are identical to the sum of the public sector savings and households' savings.

[4] Net 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 trade in goods during certain periods of time.

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

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).

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

The left side of the balance of payments (7) is, as mentioned earlier, the current account, which consists of the sum of trade in goods and net 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]

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 reserve assets.[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

[6] Because there are a number of sources for measuring the items in the balance of payments, there can arise measurement errors such as periodisation errors and thus there is included a residual 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.

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**