Statistiska centralbyrån Statistics Sweden

Balance of Payments

Second quarter 2009

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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 second quarter of 2009.

Statistics Sweden, September 2009

Lars Melin

Christina Ekblom

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Balance of payments

The balance of payments for the second quarter of 2009 produced a surplus of SEK 67.9 billion in the current account, a slightly positive capital account and a deficit of SEK 96.8 billion in the financial account.

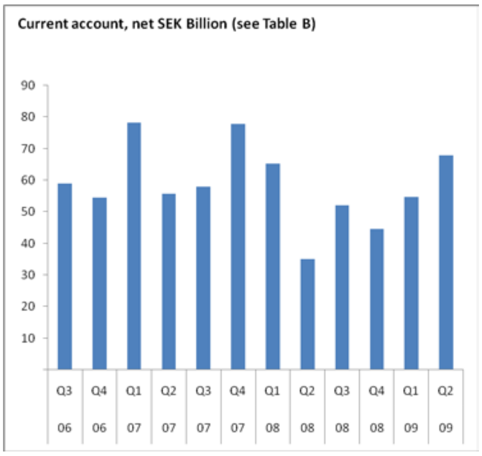
The trade in goods improved during the quarter and amounted to SEK 38.9 billion, which is SEK 9.9 billion higher than the previous quarter. The gross flows for the trade in goods were, on the other hand, considerably lower than the corresponding period last year. The trade in services also improved compared to the previous quarter by SEK 5.1 billion and amounted to SEK 30.2 billion.

The financial account resulted in a net outflow of SEK 96.8 billion, where other investments were responsible for a substantial net outflow of SEK 195.6 billion. The financial account was influenced in the second quarter by the Riksbank's decision to strengthen the reserve assets. Increased undertakings towards overseas organisations, other central banks and a greater need for foreign currency in Swedish banks are the reasons why the reserve assets have been strengthened by SEK 80.7 billion.

The Riksbank borrowed capital in foreign currency both from the National Debt Office and from the European Central Bank. To fulfil the Riksbank's need, the National Debt Office has in turn issued securities overseas. This contributed mainly to the large inflow of portfolio investment of SEK 137.6 billion.

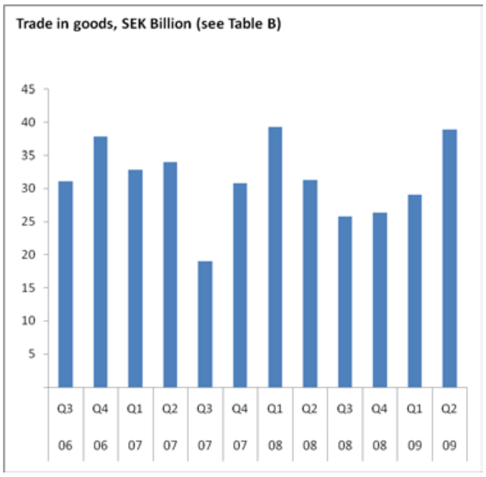
Direct investment gave a net inflow of SEK 23.7 billion for the second quarter, consisting mostly of capital contributions in groups of companies. Financial derivatives resulted in a net inflow of SEK 18.2 billion.

Current account



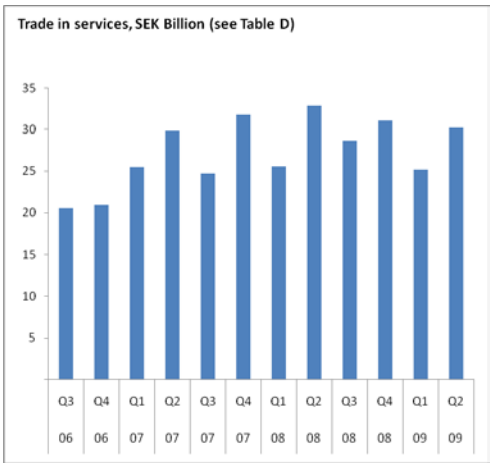
The surplus in the current account was strengthened during the second quarter by SEK 13.2 billion from the previous quarter and amounted to SEK 67.9 billion. This is SEK 32.8 billion more than the same period last year. Total trade in goods and services has increased compared to the previous quarter and the corresponding quarter in 2008 and amounted to SEK 69.1 billion. Notably, imports of goods and services within the EU area are lower than exports. This means that the trend of negative net trade within the EU has been broken as the second quarter resulted in a surplus of SEK 7.8 billion. Income resulted in an inflow of SEK 2.1 billion and the current transfers resulted in a net outflow of SEK 3.3 billion.

Trade in goods



Goods exports amounted to SEK 257.0 billion during the second quarter and goods imports amounted to SEK 218.1 billion, resulting in a net trade of SEK 38.9 billion. Imports decreased by SEK 8.8 billion whilst exports were strengthened by SEK 1.0 billion compared to the previous quarter. Compared to the corresponding period in 2008, exports have fallen in value by 20 percent and imports by 24 percent. Trade with EU countries, which in terms of value constitutes more than half of Sweden's exports and imports, dropped sharply compared to the corresponding period in 2008.

Trade in services



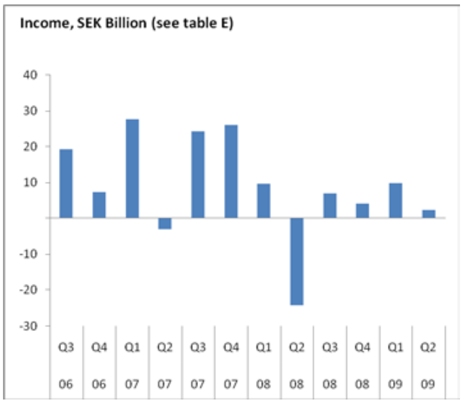
Trade in services amounted to SEK 30.2 billion during the second quarter, which can be compared to SEK 25.1 billion in the previous quarter. This represents a deterioration of SEK 2.6 billion from the second quarter of 2008. Exports increased by SEK 5.1 billion from the previous quarter although they decreased by approximately SEK 1 billion compared to the second quarter of 2008. Imports of services are unchanged from the previous quarter but increased by SEK 1.6 billion compared to the second quarter of 2008.

In total, exports of *transport services* amounted to SEK 20.3 billion and imports to SEK 13.9 billion, resulting in a surplus of SEK 6.5 billion. Exports of *transport services* increased by SEK 3.2 billion from the first quarter, but are on a par with the second quarter of 2008. Above all, an increased inflow of *maritime services* and *air transports contributed to the increase in exports*.

The item *travel* includes goods and services used by travellers when travelling in 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 in total to SEK 23.2 billion during the quarter, an increased inflow of SEK 3.5 billion compared to the same quarter last year. Imports of travel, i.e. expenses of Swedes abroad, amounted to SEK 24.3 billion, a decrease of SEK 0.7 billion using the same comparison. The item *travel* resulted in a net outflow of SEK 1.1 billion for the second quarter thereby continuing the trend of a decreased deficit for *travel*.

Both exports and imports of other types of services have weakened and for the second quarter are on a par with the first quarter. In a historical perspective, the first quarter is normally followed by a stronger outcome during the second quarter, but this was not the case here. Compared to the second quarter of 2008, exports have decreased by SEK 4.6 billion, caused mostly by reduced exports of the sub-item *other business services*. The total reduction was limited slightly by increased exports of the item *data and information services*.

Income

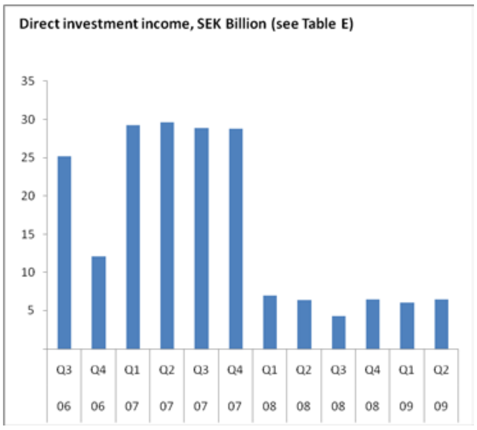


Income, consisting of salaries and capital income, showed a surplus of SEK 2.1 billion during the second quarter, which is SEK 7.7 billion less than the previous quarter. Returns on direct investment resulted in a net inflow of SEK 6.6 billion whereas returns on portfolio investment resulted in a net inflow of SEK 6.7 billion.

Returns on other investment resulted in a net inflow of SEK 2.8 billion, which can be compared to a net outflow of SEK 1.3 billion in the previous quarter.

The item *salaries* generated a net outflow of SEK 0.6 billion, which is on a par with previous periods.

Returns on direct investment

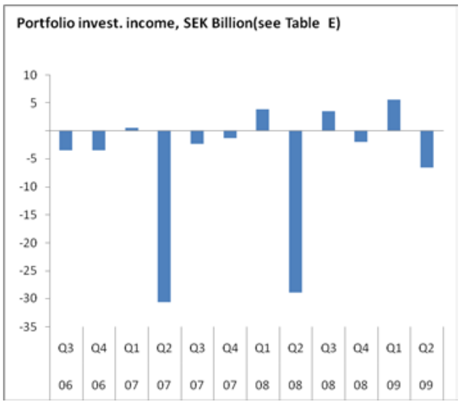


Returns on direct investment resulted in a net inflow of SEK 6.6 billion. Seen as a whole, capital income is much lower than previous periods. The financial crisis has had an effect on the real economy, which in turn influences the forecast for returns for enterprises that have a direct investment relationship.

Returns on direct investment overseas amounted to SEK 38.0 billion which can be compared to a net inflow of SEK 47.9 billion in the second quarter of 2008. Returns of direct investment in Sweden amounted to SEK 31.4 billion, which is a decrease in inflow of SEK 10 billion compared to the second quarter of 2008.

Dividends generated a net inflow of SEK 16.9 billion during the quarter.

Returns on portfolio investment

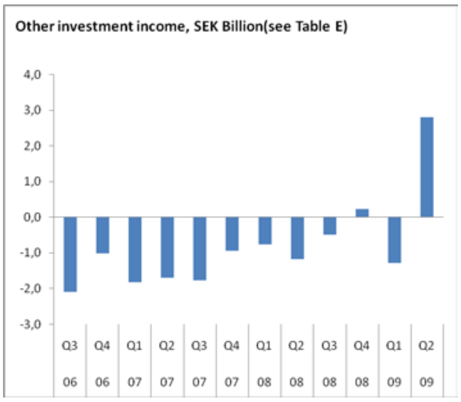


Returns on portfolio investment produced an outflow of SEK 6.7 billion during the second quarter. During the same quarter in 2008, the outflow was SEK 29.0 billion. The reason for this significantly lower outflow is the fact that share dividends for the second quarter generated a net inflow of SEK 0.1 billion, which can be compared to a net outflow of SEK 22.1 billion in the second quarter of 2008. Swedish share dividends are above all responsible for this, having decreased from SEK 54.0 billion to SEK 32.6

billion. Dividends on foreign equity securities produced an inflow of SEK 32.7 billion, which is on a par with the second quarter of 2008.

Returns on debt securities generated a total outflow of SEK 6.8 billion for the first quarter. Interest costs of Swedish debt securities amounted to SEK 19.5 billion.

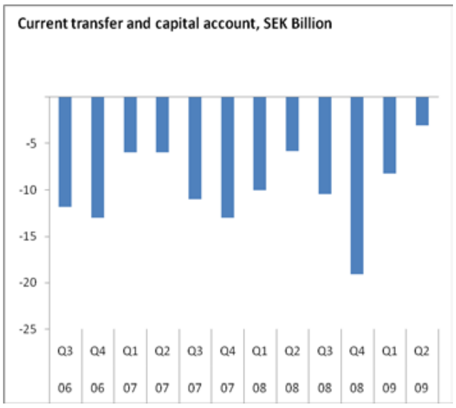
Returns on other investments



Returns on other investments produced a net inflow of SEK 2.8 billion during the second quarter, which can be compared to a net outflow of SEK 1.2 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 overseas.

Current transfers and capital account

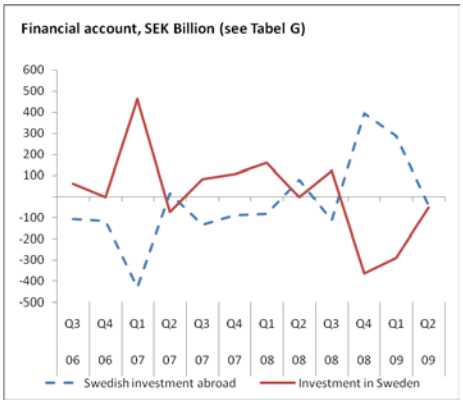


Current transfers and capital account produced a deficit during the quarter of SEK 3.1 billion, which represents a reduction in the deficit of 5.2 billion compared to the last quarter.

After the high level of the first quarter, the inflow of transfers associated with the EU has returned to a lower level and amounted to SEK 3.8 billion. The outflow for the same item amounted to SEK 3.9 billion.

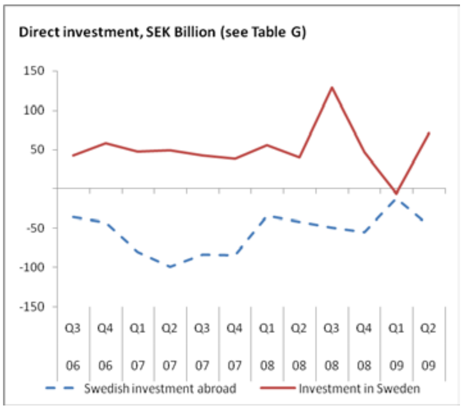
The item ‘other’, i.e. all other transfers that are not associated with the EU or foreign aid, resulted in a net outflow of SEK 0.1 billion, which is a decrease in outflow of SEK 3.1 billion compared to the previous quarter.

Financial account



The financial account resulted in a net outflow of SEK 96.8 billion, where other investments are responsible for the largest net outflow of SEK 195.6 billion. The financial account has been affected in the second quarter of 2009 by the Riksbank's decision to strengthen the reserve assets, which are responsible for a new outflow of SEK 80.7 billion. Portfolio investments and financial derivatives showed both new inflows, SEK 137.6 billion and SEK 18.2 billion respectively. Direct investment amounted to a net inflow of SEK 23.7 billion.

Direct investment

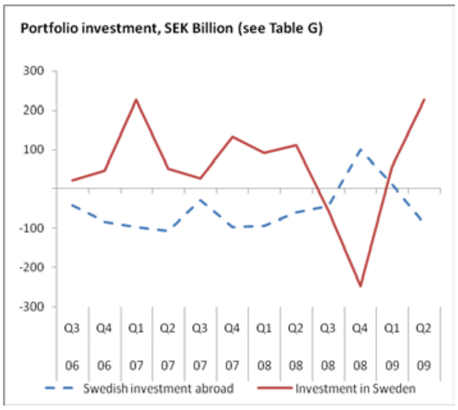


Direct investment gave a net inflow of SEK 23.7 billion for the second quarter of 2009, consisting mostly of capital contributions in groups of companies.

Swedish direct investment overseas resulted in a net outflow of SEK 46.9 billion and foreign investment in Sweden amounted to a net inflow of SEK 70.6 billion. The sub-item *equity* has the largest net flows both as regards direct investment in Sweden and abroad. These flows are the result of capital contributions in groups of companies, where a direct investment relationship already existed.

New direct investment activity in Sweden and abroad respectively has been low during the quarter, which is a sign of the global recession.

Portfolio investment

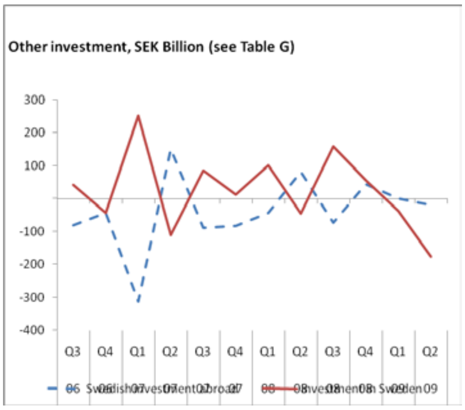


Portfolio investment produced a net inflow of SEK 137.6 billion for the second quarter of 2009. Among those making a contribution to the large net inflow was the Swedish National Debt Office, which has borrowed securities in foreign currency to allow the Riksbank to strengthen the reserve assets.

Swedish portfolio investment abroad gave rise to a net outflow of SEK 88.7 billion. The purchase of foreign equity securities by Swedish actors made the greatest contribution to the net outflow. Swedish investors made net purchases of foreign equity securities for SEK 53.9 billion, which is a must higher amount than in previous quarters. The corresponding period last year produced a net inflow of only SEK 1.3 billion. Trade in debt securities abroad generated an outflow of SEK 34.9 billion.

Foreign portfolio investment in Sweden gave a net inflow of SEK 226.4 billion in the second quarter. It was trade in and issues of securities in Sweden that made the main contribution to the large inflow and amounted to a net inflow of SEK 222.7 billion. Apart from the National Debt Office, it is banks, building societies and non-financial companies who borrow the most. The majority of security trading has been done in foreign currency.

Other investments

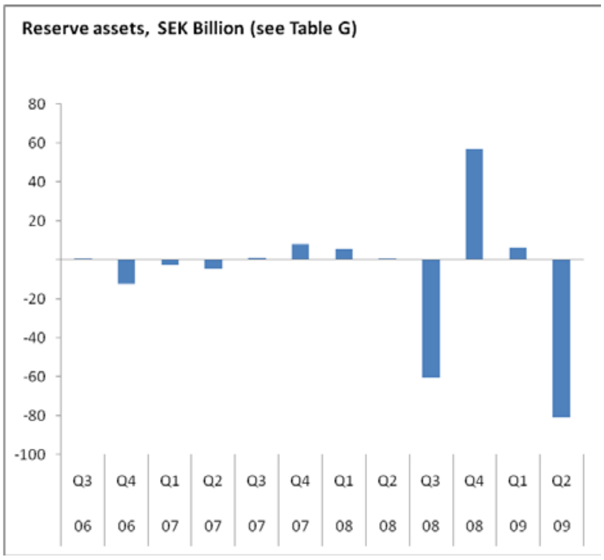


Other investments gave a net outflow of SEK 195.6 billion for the second quarter of 2009. In the corresponding period last year, other investments amounted to a net inflow of SEK 35.8 billion.

It was mostly the big Swedish banks who contributed to the remarkably large net outflow. Other investments consist mainly of the banking sector's loans to and from overseas and vary considerably over the quarter. The Riksbank contributed to a relatively large proportion of the outflow during the quarter.

Swedish investments abroad amounted to a net outflow of SEK 16.5 billion and foreign investments in Sweden gave a net outflow of SEK 181.2 billion.

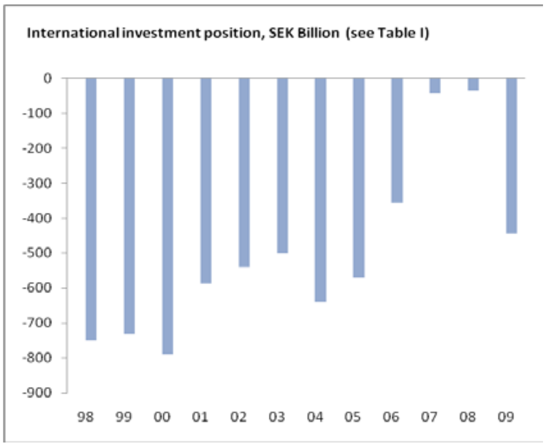
Reserve assets



Reserve assets resulted in a net outflow of SEK 80.7 billion in the second quarter of 2009. Historically speaking, this represents a major change and was made in order to strengthen the reserve assets. During the second quarter, the Riksbank decided to restore the reserve assets to their previous levels and to expand them so that it has the necessary contingency to safeguard financial stability.

The Riksbank has borrowed capital in foreign currency both from the National Debt Office and from the European Central Bank. This will continue during the next quarter. One of the Riksbank's most important tasks is to ensure that Swedish banks are solvent. Increased undertakings towards overseas organisations, other central banks and a greater need for foreign currency in Swedish banks are the reasons why the reserve assets have been strengthened.

International investment position, net



Swedish net liabilities to overseas increased during the first half of 2009 by SEK 408 billion and amounted to SEK 443 billion according to preliminary figures. This is the largest figure for Swedish net liabilities to overseas since 2005.

Net assets in the form of direct investment have been forecasted at SEK 471 billon, 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. Other important factors are stockmarket prices in Sweden and overseas, as well as the market value of direct investment enterprises.

The value of assets and liabilities abroad in derivative instruments continues to be on a high level. At the mid-point of the year, the balance value for assets in derivative contracts, i.e. contracts with positive market values, amounted to SEK 490 billion. The corresponding values for liabilities, i.e. contracts with negative market values, amounted to SEK 420 billion.

Net liabilities for portfolio investment increased dramatically during the first half of 2009 and amounted to SEK 1 020 billion. The net liability for other investments amounted to SEK 277 billion. Following the Riksbank's decision to strengthen the reserve assets, it has so far increased by SEK 80 billion during 2009 and showed a balance value of SEK 313 billion at the mid-point of the year.

The official compilation of Sweden's international investment position is reported at 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 assets overseas equalled SEK 54 billion in 2008.

It is important to note that several sub-items in the international investment position for the first half of 2009, 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 ($X_t - M_t$):

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

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

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).

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

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**