Balance of Payments

Third quarter 2009

Statistiska centralbyrån Statistics Sweden

Balance of Payments

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Statistics Sweden

2009

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2009

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Foreword

The balance of payments has been produced and summarised by Statistics Sweden on commission for the 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 third quarter of 2009.

Statistics Sweden December 2009

Lars Melin

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Balance of payments

The balance of payments for the third quarter of 2009 resulted in a surplus in the current account of SEK 53.1 billion, a slight negative capital account and a surplus of SEK 174.7 billion in the financial account.

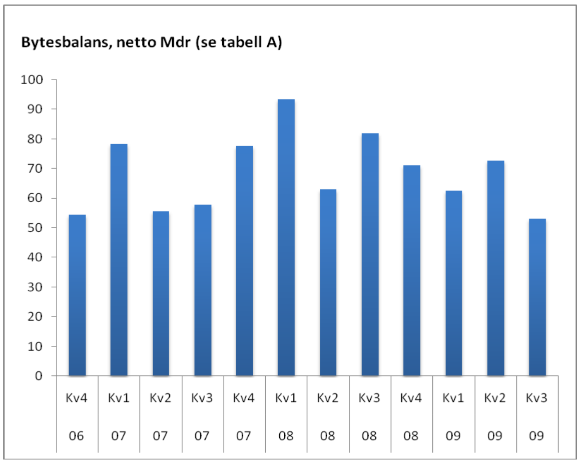
The total net trade in goods and services amounted to SEK 48.3 billion during the third quarter, which is a decrease both from the previous quarter and the corresponding quarter of 2008. It is mainly trade in goods that continues to decline. The value of exports and imports both decreased by approximately 18 percent since the corresponding quarter of 2008.

The travel item showed a net inflow for the first time after foreign travellers' consumption while travelling in Sweden increased by 6 percent since the corresponding quarter of last year.

The financial crisis and strong downturn in the business cycle have brought about lowered corporate profits. This can be seen in the dividends for companies involved in direct investments that produced a net inflow of SEK 16.0 billion during the quarter. Total return on capital generated a net inflow of SEK 16.2 billion during the quarter, which can be compared to SEK 37.3 billion in the previous quarter.

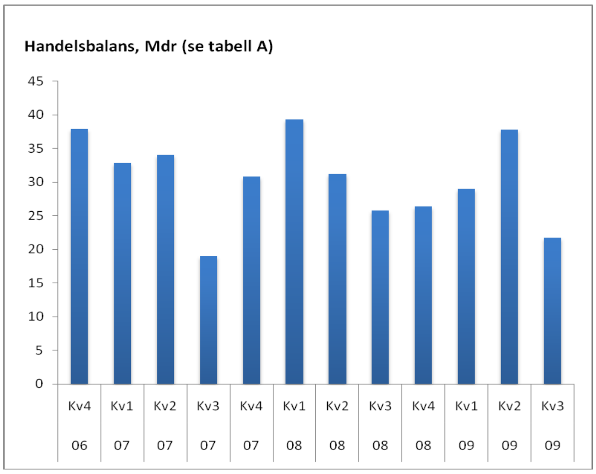
The financial account resulted in a net outflow of SEK 174.7, of which direct investments accounted for the largest net outflow of SEK 98.3 billion. Vattenfall AB acquired the Dutch energy company Nuon during the third quarter, which contributed to the large net outflow. Other investments also resulted in large net outflows of roughly SEK 78.9 billion. It was mainly the larger Swedish banks that also continued to generate capital outflows in the third quarter, which is due to the decreased borrowing abroad.

Current account



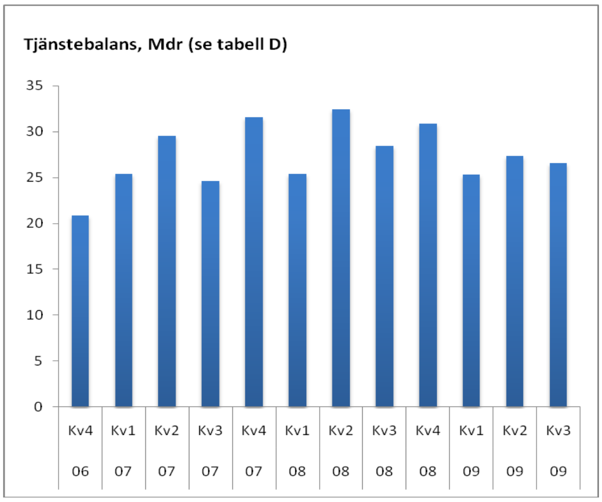
The current account surplus was weakened by approximately SEK 20 billion during the third quarter from the previous quarter and amounted to SEK 53.1 billion. The current account also weakened in comparison to the corresponding period of last year by approximately SEK 29 billion. Investment income has decreased by more than half since the third quarter of last year, which contributed to the weakening. The trade balance amounted to SEK 21.7 billion after continued decline in trade in goods. Trade in services amounted to SEK 26.6 billion, which is a decrease compared to both the previous quarter and the corresponding period of last year. Income resulted in a net inflow of SEK 15.7 billion and the current transfers resulted in a net outflow of SEK 10.9 billion.

Trade in goods



Export of goods amounted to SEK 241.3 billion during the third quarter and import of goods amounted to SEK 219.5 billion, which produces a net trade balance of SEK 21.7 billion. Exports continued sinking and have decreased in value by 18 percent in comparison to the corresponding period of last year. In contrast, imports were strengthened during the quarter compared to the previous quarter, but also declined in value by approximately 18 percent in the third quarter of 2008. Trade with EU countries, accounting for more than half of Swedish exports and imports, declined sharply compared to the corresponding period of 2008.

Trade in services



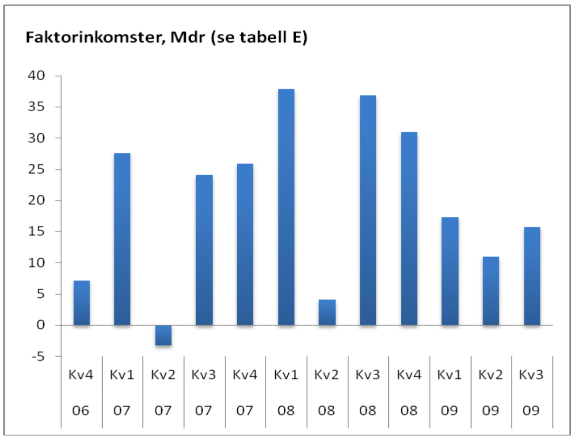
Both exports and imports of services have increased in comparison to the previous quarter, which resulted in a net trade amounted to SEK 26.6 billion. In comparison to the third quarter of 2008, the surplus in the trade in services in contrast decreased by SEK 1.8 billion, due to a lower level of exports while the import of services was nearly unchanged.

The total export of *transport services* amounted to SEK 19.5 billion and imports (of same) amounted to SEK 14.8 billion after both imports and exports had increased in the previous quarter. In comparison to the third quarter of 2008, there was in contrast a decrease for both flows, by SEK 2.2 billion for exports and by SEK 1.3 billion for imports. The increased inflow from the previous quarter was mainly due to the increased exports of *shipping services* and *air transport.* The increase in imports was also contributed to by *air transport* as well as *rail transport*, which both had positive developments in the previous quarter.

The item *travel* includes goods and services that travellers obtain when travelling in other countries. Comparisons are best made top the corresponding period of the last year because this item is subject to sharp seasonal variation. The trend in earlier quarters that decreased the deficit continued for this quarter as well and for the first time the item travel showed a net inflow, amounting to SEK 0.2 billion. Export of travel, consisting of travellers' consumption when travelling in Sweden, increased by 6 percent compared to the third quarter of 2008 and amounted to SEK 26.5 billion. Imports, i.e., Swedes' expenses when travelling abroad, amounted to SEK 26.4 billion, a decrease of 4 percent by the same comparison.

Both exports and imports of the other service stocks decreased in total since the previous quarter and resulted in a surplus SEK 21.7 billion. Exports also declined in comparison during the corresponding period of 2008 while in contrast imports were strengthened. The increase in imports was mainly due to the increased outflow of the sub-item *other business services*. In the previous quarter it was mainly the sub-items *licenses and royalties* and *construction services* that contributed to the negative net development. However the total decrease was limited to net increases in the sub-items *communication services* and *computer and information services.*

Income

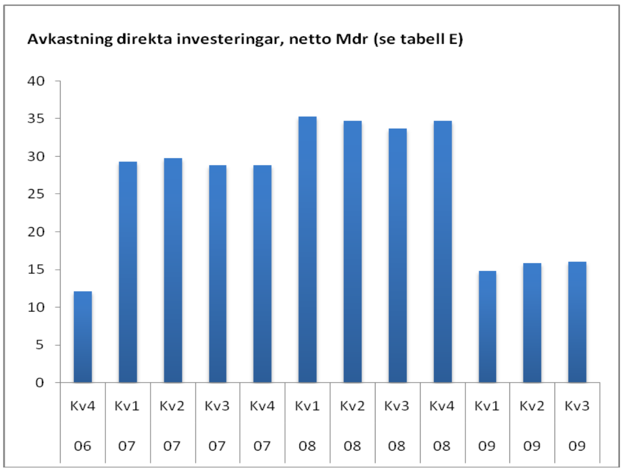


Income, consisting of compensation paid to employees and investment income showed a surplus of SEK 15.7 billion during the third quarter, which was an increased net inflow of SEK 4.7 billion from the previous quarter. Returns on direct investment resulted in a net inflow of SEK 16.0 billion while returns on portfolio investments resulted in a net outflow of 1.7 billion.

Returns on other investments resulted in a net inflow of SEK 1.9 billion, which can be compared to the net inflow of SEK 2.7 billion in the previous quarter.

The item *compensation of employees* generated a net outflow of SEK 0.5 billion, in line with previous periods.

Income on direct investments



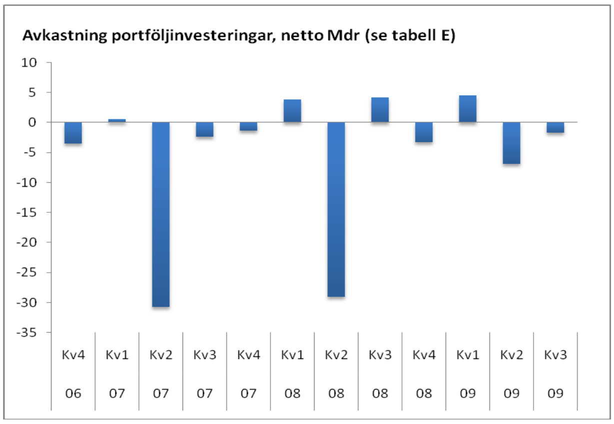
Income on direct investments generated a net inflow of SEK 16.0 billion where reinvested profits accounted for the large inflow. On the whole, income on direct investments were significantly lower in 2009 than in earlier periods. The financial crisis has affected the real economy and thus corporate profits, which affect returns for companies working in direct investment.

Income on direct investments abroad amounted to SEK 48.2 billion which can be compared to an inflow of SEK 68.5 billion in the third quarter of 2008. Income on direct investments in Sweden amounted to SEK 32.3 billion, which was an outflow decrease of SEK 2.6 billion compared to the third quarter of 2008.

Dividends generated a net outflow of SEK 5.7 billion during the quarter.

Income on direct investments have been sharply revised for 2008 due to the forecasted 2008 values being replaced with values based on the results from the survey for corporations working in direct investment.

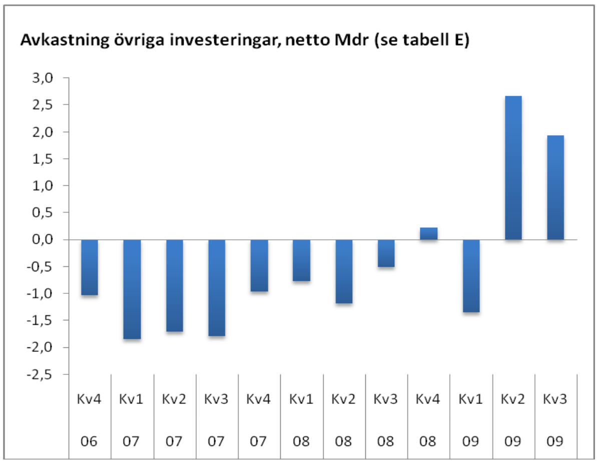
Income on portfolio investments



Income on portfolio investments produced a net outflow of SEK 1.7 billion during the third quarter, which can be compared to the net inflow of SEK 4.2 billion during the corresponding quarter of 2008.

Income on debt securities generated a total net outflow of SEK 11.1 billion during the third quarter. Interest costs for Swedish debt securities amounted to SEK 21.5 billion. Returns on foreign debt securities amounted to SEK 10.5 billion and dividends on foreign shares amounted to SEK 9.3 billion. Total returns on portfolio investments abroad resulted in a net inflow of SEK 19.8 billion.

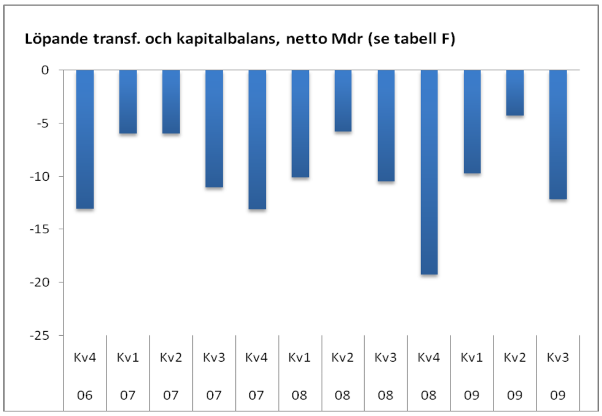
Income on other investments



Income on other investments gave rise to a net outflow of SEK 1.9 billion during the third quarter 0.5, which can be compared to the net outflow of SEK billion during the same period in 2008. Returns on other investments abroad amounted to SEK 10.6 billion and returns in Sweden amounted to SEK 8.7 billion.

Income 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

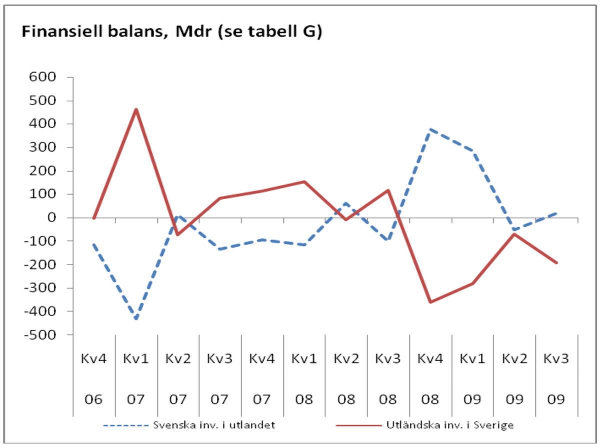


The deficit in current transfers and the capital account increased since the previous quarter by SEK 7.9 billion and amounted to SEK 12.2 billion. When compared to the third quarter of 2008, the deficit has increased by SEK 1.7 billion.

The outflow for current transfers increased since the previous quarter, which was mainly due to the transfers connected to the EU increased by SEK 4.0 billion. At the same time the total inflow of current transfers decreased by SEK 4.7 billion, which brought about an increased deficit for the item since the previous quarter.

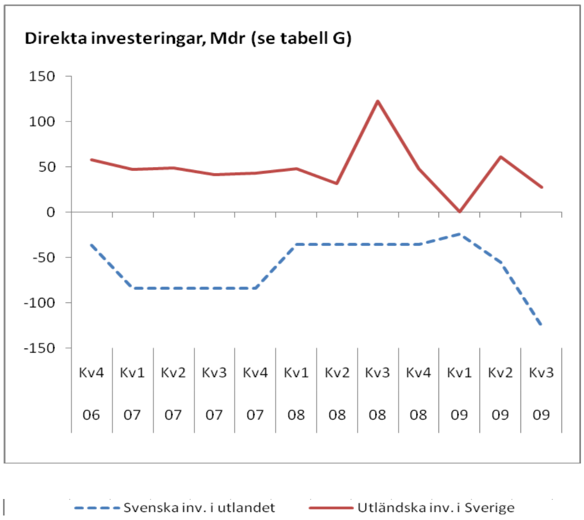
The item other, that is to say all other transfers that are not associated with the EU or foreign aid, resulted in a net outflow of SEK 4.2 billion, which is an unchanged outflow.

Financial account



The financial account's results showed a net outflow of SEK 174.7 billion. Direct investments accounted for the largest net outflow of SEK 98.3 billion. Other investments, financial derivatives and reserve assets also brought about the capital outflow. Portfolio investments, in contrast, resulted in a net inflow of SEK 55.9 billion, which is mainly explained by securities borrowing abroad.

Direct investment

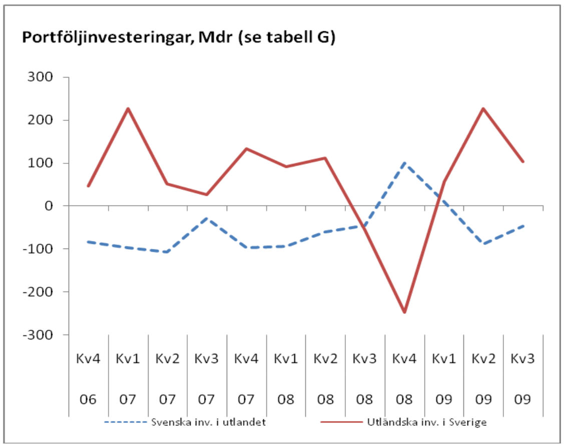


Direct investments produced a net outflow of SEK 98.3 billion for the third quarter 2009, which can be compared to the net inflow of SEK 6.2 billion in the previous quarter. The capital outflow is mainly explained by Vattenfall AB's acquisition of the Dutch energy company Nuon.

Swedish direct investments abroad resulted in a net outflow of SEK 126.1 billion. The large outflow mainly came from the equity sub-item that produced a net outflow of SEK 114.9 billion, where Vattenfall AB's acquisition of Nuon contributed largely to the outflow. The loan sub-item showed a net inflow of SEK 23.2 billion, compared to a net inflow of SEK 39.5 billion for the corresponding quarter in 2008. Foreign investment in Sweden amounted to a net inflow of SEK 17.9 billion during the quarter.

In general it was clearly noted how the global business cycle downturn could be seen in the figures for sharply decreased numbers of new investments both in Sweden and abroad.

Portfolio investment



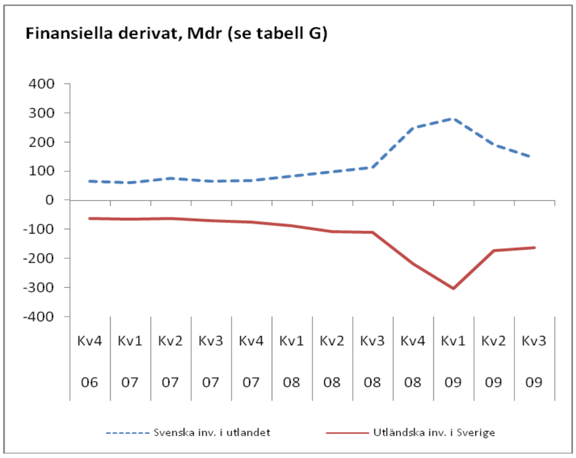
Portfolio investments generated a total capital inflow of SEK 55.9 billion during the third quarter of the year. The inflow is mainly due to trade in Swedish debt securities. In contrast, Swedish investments in shares and debt securities abroad brought about a capital outflow.

Foreign investors' trade in Swedish securities brought about a net inflow of SEK 97.5 billion. The inflow is mainly due to debt securities borrowing abroad. Swedish banks and housing credit institutions continued to finance their activities by borrowing abroad in the third quarter. The Swedish National Debt Office also issued securities and contributed to the inflow.

Swedish investments in foreign debt securities produced a net outflow of SEK 48.0 billion during the third quarter. It was mainly the purchase of foreign shares that contributed to the capital outflow.

In the third quarter of 2009 a new method regarding statistics about trade in Swedish debt securities denominated in foreign currencies was introduced. Collected transactions have been replaced with estimations base on balance values, revised for exchange rate changes and other changes in value.

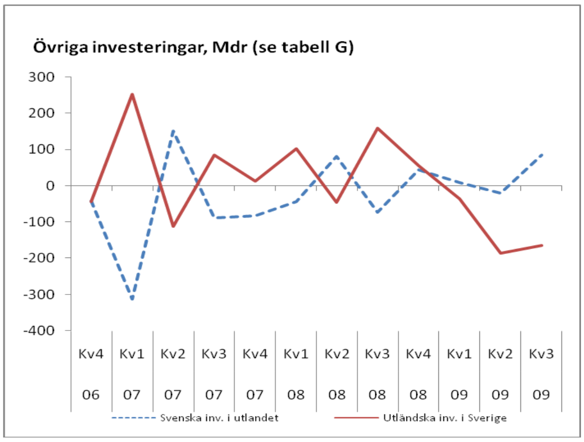
Financial derivatives



Transactions in financial derivatives generated a net outflow of SEK 17.0 billion in the third quarter of 2009. The large flows seen in the earlier quarters have now decreased and have reached significantly lower levels.

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

Other investments



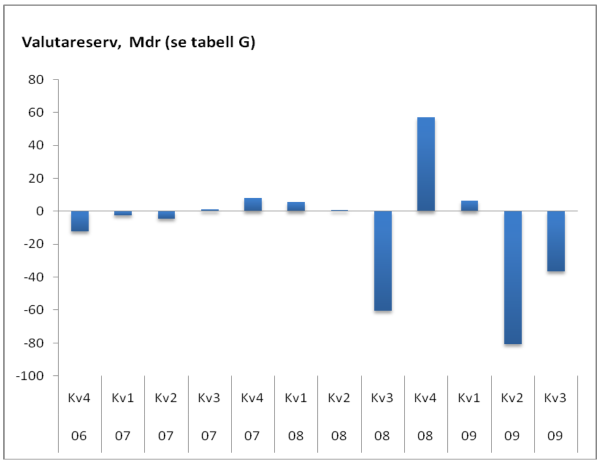
Other investments produced a net outflow of SEK 78.9 billion for the third quarter of 2009. Other investments generated a net inflow of SEK 84.9 billion the corresponding period of last year.

Other investments mainly consist of the banking sector's loans to and from abroad except for securities loans, which vary greatly from quarter to quarter. The larger Swedish banks also continued to generate a capital outflow during this quarter, which is due to decreased borrowing abroad.

As with the previous quarter, Riksbank contributed to a rather large part of the outflow. Foreign investments in Sweden produced a total net outflow of SEK 163.5 billion.

Swedish investments abroad brought about a net inflow of SEK 84.6 billion. The inflow is mainly due to reduced lending abroad.

Reserve assets

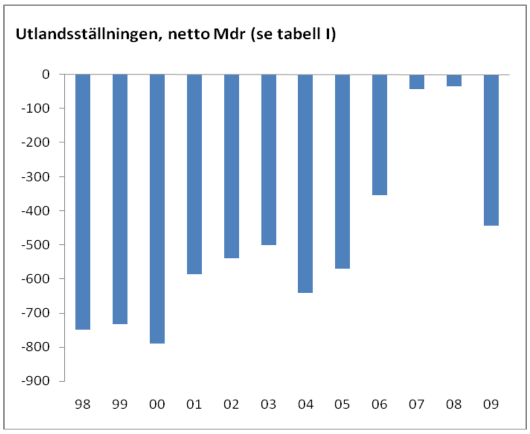


The reserve assets resulted in a net outflow of SEK 36.3 billion during the third quarter, which was a relatively large change historically speaking. This was more than a reduction by half compared to the second quarter of 2009.

The capital outflow is largely due to the distribution of Special Drawing Rights (SDR) by the IMF in August, but it is also due to the purchase of foreign bonds. SDR is an international reserve asset that was brought into being by the International Monetary Fund (IMF) for distribution to member states.

One of the Riksbank's most important tasks is to see to it that the Swedish banks maintain liquidity. Increased undertakings toward foreign organisations, other central banks and increased need for foreign currency in Swedish banks brought about the reinforcement of the currency reserve. During the quarter the Riksbank has continued to loan capital denominated in foreign currency to the Swedish National Debt Office.

International investment position, net



The Swedish net liability to foreign countries increased in the first half of 2009 by SEK 138 billion and amounted to SEK 582 billion according to preliminary figures. This is the largest Swedish liability to foreign countries since 2004.

Net assets in the form of direct investment have been forecasted to SEK 458 billion, which is a marginal increase compared to last year.

The factor of greatest significance regarding the development of the international investment position is the exchange rate of the Swedish krona. Other important factors are stock market prices in Sweden and abroad, as well as the market value of direct investment companies.

The value of assets and liabilities to other countries in terms of derivative instruments remains at a high level. By the end of the year balance values for assets in derivative contracts, i.e. contracts with positive market values, amounted to SEK 498 billion. The corresponding balance values, i.e., contracts with negative market values, amounted to SEK 427 billion.

The net liability for portfolio investments increased sharply during the first half of 2009 and amounted to SEK 1 142 billion. Net liability for other investments amounted to SEK 282 billion. The currency reserve increased to SEK 80 billion in 2009, after Riksbank's decision to enhance the currency reserve, and showed a balance value of SEK 313 billion after six months.

The official compilation of Sweden's international investment position was revised to reflect market value, with the exception of direct investment, which is reported at book value. A compilation of Sweden's international investment position is published as a complement, with calculations of the market value for direct investment. According to this compilation, Sweden's net assets abroad equalled SEK 260 billion in 2009.

What is the balance of payments?

The balance of payments has been produced and summarised by Statistics Sweden on behalf of the Swedish Riksbanken 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. It is simply a summary of a country's real and financial transactions with the world abroad.

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, divided into direct investments, portfolio investments, financial derivatives, return on other investments and the 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 ($X_t - M_t$):

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

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]

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

Rewriting (2) gives:

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

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:

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

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**