Balance of Payments

Fourth quarter 2009

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2010

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Producer
Statistics Sweden, Balance of Payments and Financial Markets
Box 24300
SE-115 81 Stockholm
+46 8 506 940 00

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

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

Fredrik Öhrström, +46 8 506 941 12
fredrik.ohrstrom@scb.se

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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 2009.

Statistics Sweden, March 2010

Lars Melin

Christina Ekblom

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Balance of payments

The current account for 2009 amounted to SEK 225.2 billion, which is a weakening of SEK 74.6 billion compared to 2008. It is mainly lower income that contributed to this decline.

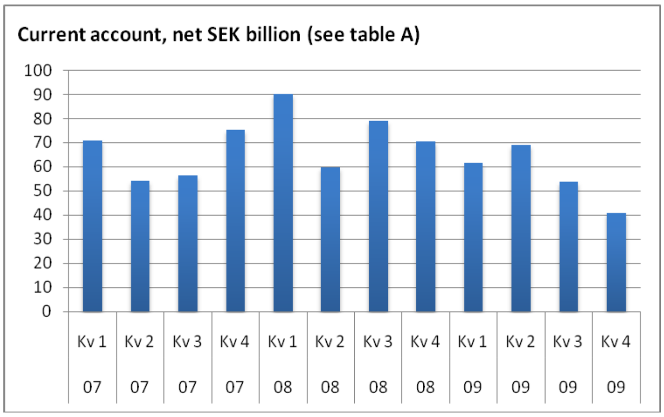
Trade in goods amounted to SEK 13.8 billion, which is almost half of the result for the fourth quarter of 2008. In contrast, trade in services was strengthened slightly and amounted to SEK 31.1 billion. The total trade in goods and services amounted to SEK 209.2 billion during 2009 compared to 2008 when the total trade amounted to SEK 232.2 billion.

The item travel, which resulted in a net inflow for the first time in the previous quarter, produced a net outflow of SEK 1.7 billion in the fourth quarter. Foreign travellers’ consumption during travel in Sweden increased by 9 percent compared to the fourth quarter of 2008 while Swedes' consumption when travelling abroad was nearly unchanged.

The total income resulted in a net inflow of SEK 10.7 billion during the quarter, which is a decline of SEK 21.0 billion compared to the fourth quarter 2008. The total income for 2009 amounted to SEK 55.9 billion, which was a half of the 2008 result when the return amounted to SEK 111.9 billion. The reduced income sharply contributed to the weakening of the current account in 2009.

The financial balance resulted in a net outflow of SEK 16.5 billion. Direct investments produced a net outflow of SEK 44.0 billion while portfolio investments produced a net inflow of SEK 27.2 billion. The financial balance for the entire year of 2009 produced a net outflow of SEK 315.6 billion, which can be compared to the 2008 financial balance that produced a net inflow of SEK 139.1 billion.

Current account



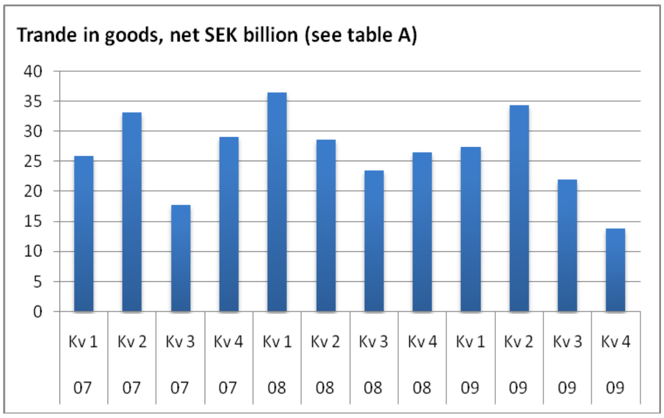
The surplus in the current account amounted to SEK 40.8 billion in the fourth quarter, which is a weakening of SEK 13.2 billion from the previous quarter. Compared to the fourth quarter of 2008 this is also a weakening of approximately SEK 30 billion. Foreign trade in services improved since the previous quarter and the corresponding period of the previous year, amounting to SEK 31.1 billion. In contrast, trade in goods weakened in the same comparisons and amounted to SEK 13.8 billion during the quarter.

The income resulted in a net inflow of SEK 10.7 billion, which can be compared to the net inflow of SEK 31.7 billion in the fourth quarter of 2008.

The deficit in current transfers continued to increase during the fourth quarter and resulted in a net outflow of SEK 14.2 billion.

The current account for the entire year of 2009 resulted in a surplus of SEK 225.2 billion, which is a weakening of SEK 74.6 billion compared to 2008, when the surplus amounted to SEK 299.8 billion. The majority of this decline is due to incomes being reduced by more than half, from SEK 109.8 billion to SEK 53.3 billion. This is mainly due to the lower return on direct investment abroad during 2009.

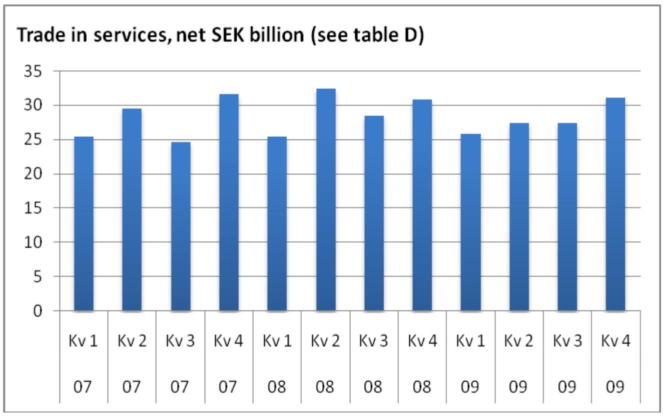
Trade in goods



Trade in goods for the fourth quarter 2009 amounted to SEK 13.8 billion, which is a weakening compared to the corresponding period of 2008. In the last quarter of the year imports have grown more than exports, which resulted in a weaker trade in goods. Both imports and exports in goods increased in value since the last quarter, by 10 percent and 5 percent respectively. Compared to the fourth quarter of 2008, both imports and exports have decreased by 7 percent and 11 percent respectively.

For the entire year of 2009, Sweden exported goods worth SEK 1013.1 billion, which is 17 percent lower than in 2008. Imports also decreased by 17 percent and amounted to SEK 915.6 billion during the year.

Trade in services



The trade in services for the fourth quarter 2009 resulted in a surplus of SEK 31.1 billion. Both exports and imports increased from the previous quarter and amounted to SEK 122.1 billion and SEK 91.0 billion respectively. However, compared to the fourth quarter 2008 this is a decrease, as exports amounted to SEK 129.7 billion and imports amounted to SEK 98.9 billion.

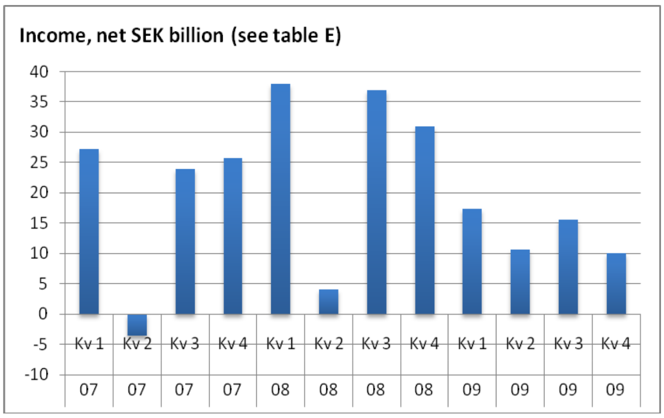
Transport services resulted in a net inflow of SEK 5.9 billion. Compared to the fourth quarter of 2008, imports and exports have decreased by 15 percent each. As was seen with trade in goods, transport services showed lower imports and exports for the entire year compared to 2008.

The item *travel* again generated a net outflow of SEK 1.7 billion after the unique net inflow in the third quarter. Comparisons are best made to the corresponding period of the last year because this item is subject to sharp seasonal variation. The export of travel, consisting of the foreign travellers' consumption while travelling in Sweden, increased by 9 percent compared to the fourth quarter of 2008. Imports, that it Swedes' expenses when travelling abroad, also increased however only marginally so.

Exports for the *other services* have recovered after a weak third quarter and amounted to SEK 80.6 billion, which is an increase in 16 percent since the previous quarter. Imports have also recovered and amounted to SEK 53.7 billion, which is an 11 percent increase. In contrast to comparisons with the fourth quarter of 2008, exports and imports are each SEK 6 billion lower. The net result for the *other services* has increased by SEK 4.4 billion since the previous quarter and it is mainly the sub-items *Other business services, Computer and information services* and *Licenses and Royalties* that contributed to the positive net development.

The export of *other business services* has had an upturn during the fourth quarter after downturns over the year and increased by 19 percent since the previous quarter. Imports were also strengthened and increased by 16 percent. The year's final quarter usually shows a large positive development as it is a seasonally affected item. To summarise the entire year of 2009, the increase in exports has been larger than the increase in imports where the increase in export of merchanting is a part of the explanation.

Income

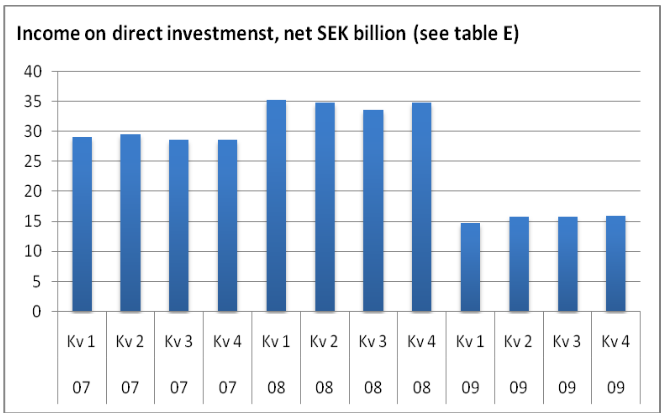


Income, consisting of compensation of employees and capital income, showed a surplus of SEK 10.0 billion during the fourth quarter. Compared to the fourth quarter of 2008, when income amounted to SEK 31 billion, this is a clear decrease in the surplus. Returns on direct investment resulted in a net inflow of SEK 16.0 billion while returns on portfolio investments resulted in a net outflow of 7.3 billion. As was the case with the second and third quarters of the year, returns on other investments resulted in a net inflow amounting to SEK 2.1 billion in the fourth quarter.

During 2009 income amounted to SEK 53.5 billion, which is approximately half of the 2008 result when incomes amounted to SEK 109.8 billion. This decrease by half is mainly due to low returns on direct investments that amounted to SEK 62.2 billion during 2009. During 2008 the returns on direct investments amounted to SEK 138.4 billion.

The item *compensation of employees* generated a net outflow of SEK 0.7 billion, in line with the fourth quarter of 2008.

Income on direct investments

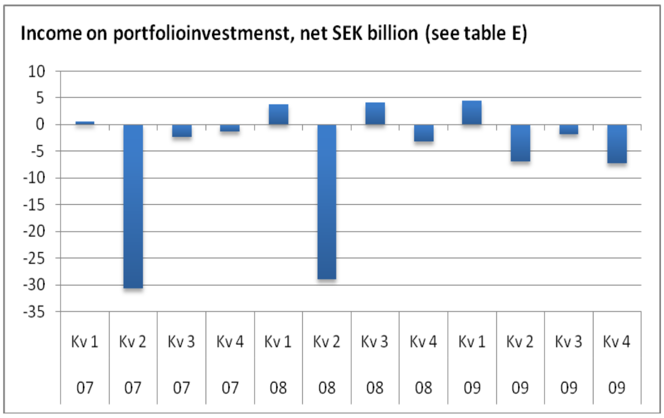


Income on direct investments generated a net inflow of SEK 16.0 billion during the fourth quarter. For the entire year of 2009, the income was significantly lower than in 2008. The financial crisis has affected the real economy and thus corporate profits, which affect returns for companies working in direct investment.

The income on direct investments abroad amounted to SEK 48.8 billion, which can be compared to SEK 71.0 billion in the fourth quarter of 2008. Income on direct investments in Sweden amounted to SEK 32.8 billion, which was a decrease of SEK 3.5 billion compared to the fourth quarter of 2008.

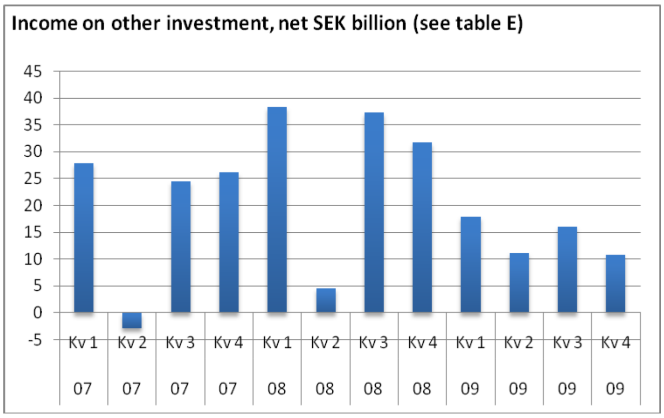
Dividends from direct investment generated a net inflow of SEK 8.2 billion during the quarter, which is significantly lower than the previous year's fourth quarter when dividends generated a net inflow of SEK 53.2 billion.

Income on portfolio investments



Income on portfolio investments resulted in a net outflow of SEK 7.3 billion during the fourth quarter. Dividends on shares and fund holdings resulted in a net inflow of SEK 7.1 billion. Returns on securities resulted in a net outflow of SEK 14.3 billion. Income on portfolio investments resulted in a net outflow of 11.5 billion for 2009, which can be compared to a net outflow of SEK 24.2 billion in 2008. The reduced net outflow is mainly due to decreased share dividends in Sweden from portfolio investments abroad.

Income on other investments

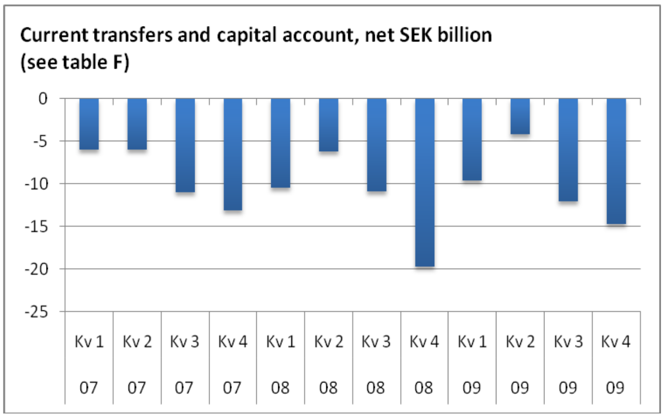


Income on other investments gave rise to a net inflow of SEK 2.1 billion during the fourth quarter, which can be compared to the net inflow of SEK 0.2 billion during the same period in 2008. Returns on other investments abroad amounted to SEK 10.2 billion and returns in Sweden amounted to SEK 8.1 billion.

Income on other investments has turned from a net outflow of SEK 2.2 billion in 2008 to a net inflow of SEK 5.1 for 2009. The returns have intensely decreased both for Swedish investments abroad and foreign investments in Sweden.

Income from other investments consists 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.

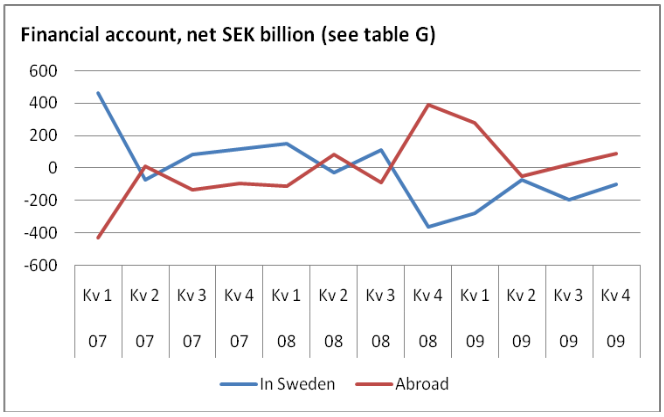
Current transfers and capital account



The deficit in current transfers and the capital balance amounted to SEK 14.7 billion. Compared to the fourth quarter last year, the deficit has decreased by SEK 5.0 billion. The current transfers and the capital balance resulted in a deficit of SEK 40.6 billion in 2009. The corresponding deficit during 2008 was SEK 47.3 billion. The decreased deficit is mainly due to decreased net inflow of EU transfers.

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 4.4 billion, which is an unchanged outflow.

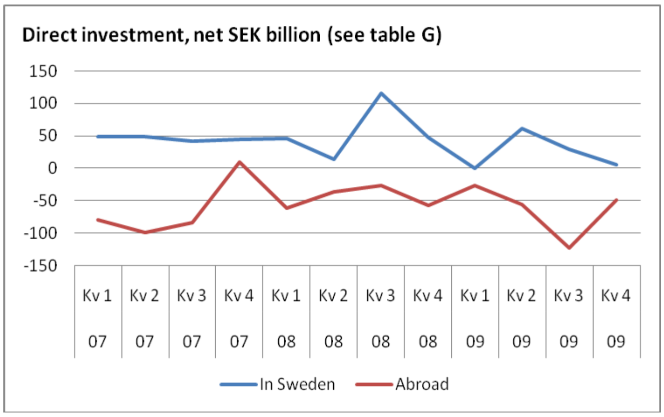
Financial account



As with the second and third quarters, the financial account also resulted in a net outflow in the fourth quarter. The net outflow amounted to SEK 16.5 billion for the fourth quarter. Direct investments accounted for the largest flow with a net outflow of SEK 44.0 billion. The reserve asset also showed a net outflow of SEK 5.3 billion during the quarter. Portfolio investments, financial derivatives and other investments generated the net inflow. Portfolio investments accounted for a net outflow of 27.2 billion while financial derivatives and other investments showed smaller net inflows.

For the entire year of 2009, the financial balance produced a net outflow of SEK 315.6 billion, which can be compared to 2008 when the net inflow of SEK 139.1 billion was noted.

Direct investments

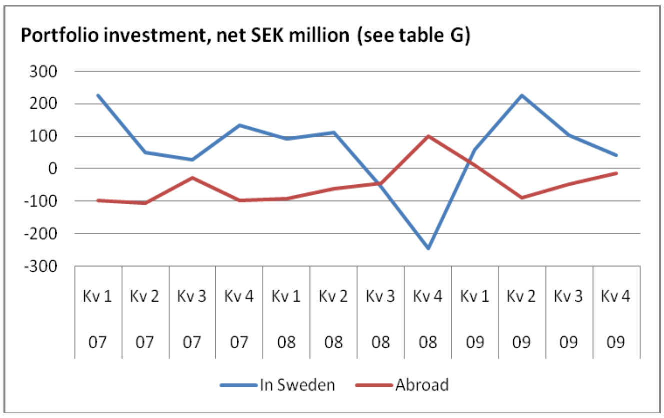


Direct investments produced a net outflow of SEK 44.0 billion during the fourth quarter of 2009. The economic conditions have affected direct investments and can be seen in the decreased gross flow for the entire year of 2009 compared to 2008.

Swedish direct investments abroad resulted in a net outflow of SEK 49.7 billion, where all sub-items generated the net outflows. For the entire year of 2009, direct investments abroad produced a net outflow of SEK 255.0 billion compared to the net outflow of SEK 183.3 billion in 2008.

Foreign direct investment in Sweden produced a net inflow of SEK 5.6 billion during the fourth quarter. During 2009, foreign direct investment in Sweden resulted in a net inflow of SEK 96.4 billion compared to a net inflow of SEK 222.1 billion during the entire year of 2008.

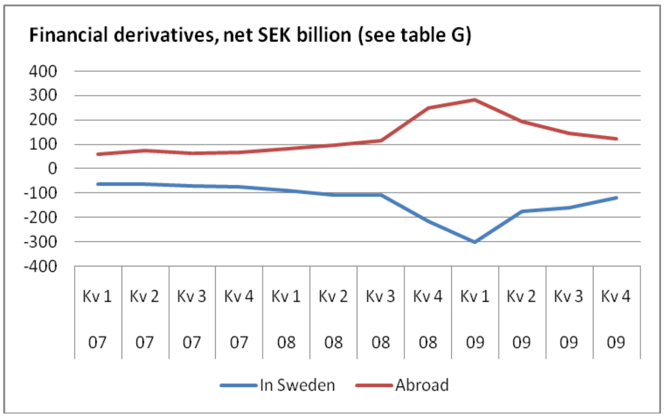
Portfolio investments



During the fourth quarter of 2009, portfolio investments produced a net inflow of SEK 27.2 billion. This can be compared to a net inflow of 147.0 billion during the same quarter of 2008. Portfolio investments produced a net inflow of SEK 286.3 billion during the entire year of 2009 compared to the net outflow of SEK 197.1 billion during 2008.

Swedish portfolio investments abroad resulted in an outflow of SEK 15.3 billion during the quarter. This is mainly due to investment in foreign shares. Foreign portfolio investments in Sweden gave rise to an inflow of SEK 42.5 billion for the fourth quarter, which was mainly due to the inflows from securities. Foreign portfolio investments in Sweden showed large net outflows during all of 2009. During 2009 foreign investors invested SEK 417.8 billion in Swedish securities. This can be compared to the entire year of 2008 when Swedish investors invested SEK 88.4 billion in foreign securities.

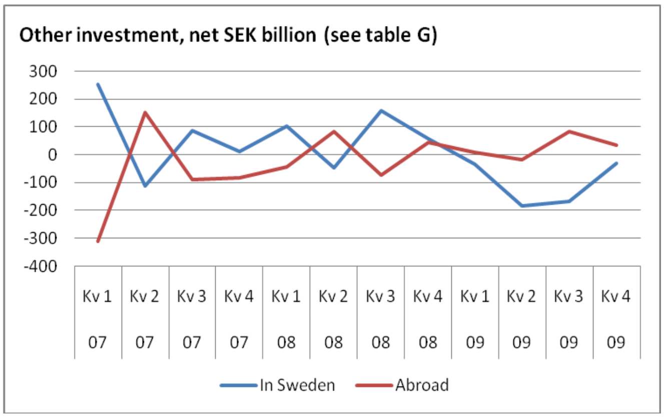
Financial derivatives



During the fourth quarter transactions in financial derivatives resulted in a net outflow of SEK 2.0 billion, which can be compared to the net outflow of SEK 16.9 billion in the previous quarter. Financial derivatives in total resulted in a net outflow of SEK 16.6 billion during the entire year of 2009. The corresponding figures for the entire year of 2008 generated a net inflow of SEK 16.1 billion.

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.

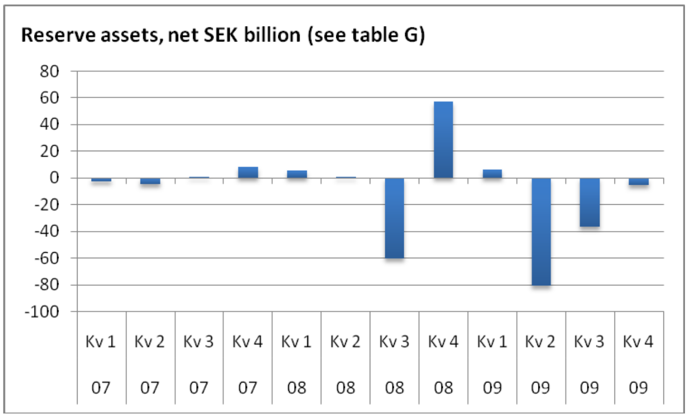
Other investments



Other investments resulted in a net inflow of SEK 3.6 billion during the fourth quarter of 2009. This can be compared with the same period of 2008 when other investments resulted in a net inflow of SEK 99.0 billion. Swedish investments abroad resulted in a net inflow of SEK 35.7 billion during the quarter while foreign investment in Sweden resulted in a net outflow of SEK 32.1 billion in the same period. The flows can be explained primarily by the banks borrowing abroad.

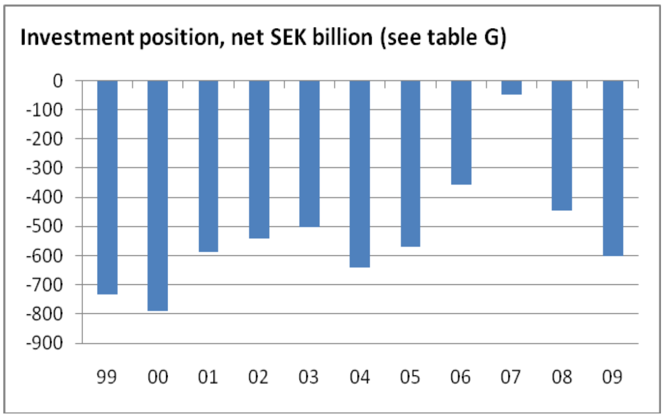
For the entire year of 2009, other investments resulted in a net outflow of SEK 310.6 billion compared to a net inflow of SEK 277.6 billion for the entire year of 2008. This can be explained by the extensive borrowing abroad during 2008, while these debts decreased during 2009.

Reserve assets



The reserve assets resulted in a net outflow of SEK 5.3 billion during the fourth quarter of 2009. This is a significantly smaller net outflow compared to the second and third quarters of the year. The reserve assets returned to lower net flows after a few quarters characterised by actions taken by the Riksbank during the financial crisis.

International investment position, net



The Swedish net liability to foreign countries increased in 2009 by SEK 157 billion and amounted to SEK 601 billion according to preliminary figures.

Net assets in the form of direct investment have been forecasted to SEK 435 billion, which is an increase compared to 2008.

The value of assets and liabilities abroad in derivative instruments continues to decrease from 2008 levels, but remains at a relatively 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 404 billion. The corresponding balance values, i.e., contracts with negative market values, amounted to SEK 348 billion. This results in net assets of SEK 56 billion.

The net liability for portfolio investments increased sharply during 2009 and amounted by the end of the year to SEK 1232 billion. The increase is mostly due to the inflow from abroad in Swedish securities. The net liability for other investments amounted to SEK 198 billion at the end of 2009, a decrease compared to the net liability of SEK 528 billion for year 2008. The reserve asset increased by SEK 105 billion in 2009, after the Riksbank's decision to enhance the reserve assets, and showed a balance value of SEK 338 billion at the end o f the year.

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 liabilities abroad equalled SEK 121 billion in 2009.

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 ($X_t - M_t$):

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

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**