# Balance of Payments

## First quarter 2010

Statistiska centralbyrån Statistics Sweden

# Balance of Payments
## First quarter 2010

Statistics Sweden
2010

# Balance of Payments. First quarter 2010

Statistics Sweden
2010

---

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



Cover: Ateljén, SCB

URN:NBN:SE:SCB-2010-FM04BR1002ENG_pdf (pdf)

This publication will only be published on www.scb.se.

## Foreword

The balance of payments has been compiled and summarised by Statistics Sweden on behalf of the Swedish 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.

The report comprises the results of the first quarter of 2010.

Statistics Sweden, June 2010

Folke Carlsson

Christina Ekblom

# Contents

Foreword....3

**Balance of payments ....7**
Current account ....8
  Foreign trade in goods and services ....8
  Income....9
  Current transfers....12
Capital account ....13
Financial account ....14
  Direct investments....14
  Portfolio investment....15
  Financial derivatives ....15
  Other investments ....16
  International investment position, net ....17
What is the balance of payments? ....18
  Derivation of the balance of payments ....18
  The connection to the international investment position....20

# Balance of payments

The surplus in the current account was strengthened during the quarter and amounted to SEK 63.6 billion. Foreign trade in goods and services amounted to SEK 46.0 billion, which is SEK 7.3 billion lower compared to the first quarter of 2009. Above all, the sharp recovery of imports of goods contributed to the lower net trade. Exports of goods also made a recovery, but not to the same extent as imports. The increase in exports and imports of goods was strongest in trade with EU countries.

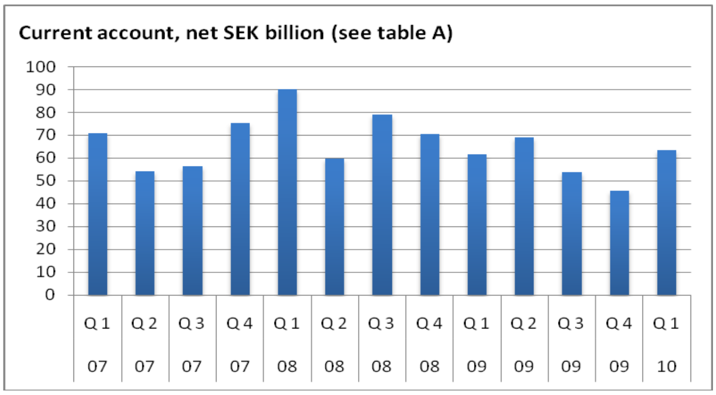
Investment income resulted in a net inflow of SEK 24.1 billion, of which income on direct investments accounted for a net inflow of SEK 22.8 billion. Income on portfolio investments resulted in a weak net inflow of SEK 0.3 billion, and income on other investments in a net inflow of SEK 1.6 billion.

The financial account resulted in a net outflow of SEK 140.3 billion. Other investments and portfolio investments showed large net flows where other investments accounted for a net outflow of SEK 261.3 billion and portfolio investments in a net inflow of SEK 166.0 billion. A continued foreign demand for Swedish debt securities during the quarter caused the large net inflow in portfolio investments. Foreign investors made net purchases of Swedish bonds and certificates at a value of SEK 209.4 billion.

Direct investments generated a net outflow of SEK 54.4 billion. Swedish direct investments abroad resulted in a net outflow of SEK 69.5 billion, while foreign direct investments in Sweden resulted in a net inflow of SEK 15.2 billion.

Transactions in financial derivatives resulted in a net inflow of SEK 14.0 billion in the first quarter of 2010.

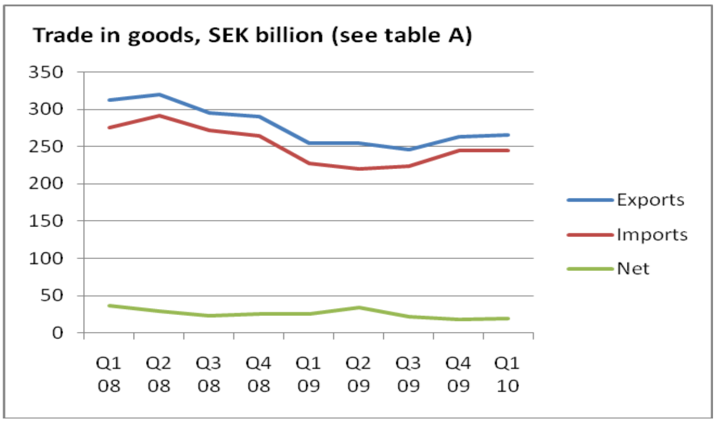
# Current account



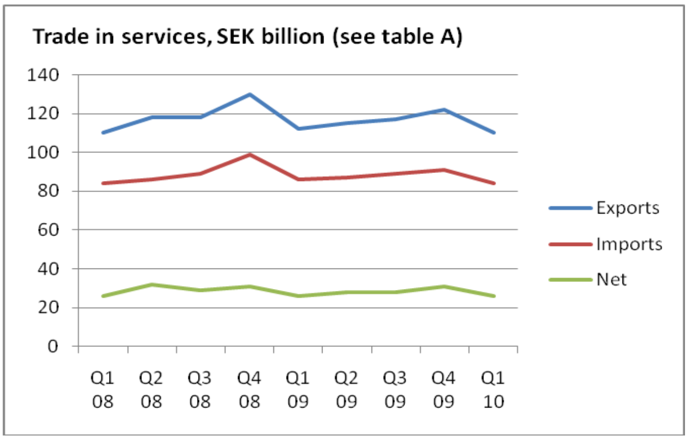

The surplus in the current account amounted to SEK 63.6 billion in the first quarter. This is a strengthening of SEK 17.9 billion compared to the previous quarter, and SEK 2.2 billion compared to the first quarter of 2009.

## Foreign trade in goods and services

The current account comprises largely of trade in goods and services, which generated a net inflow of SEK 46.0 billion. The economic downturn has above all affected trade in goods, with a decreased demand during 2008 and 2009, while trade in services has not been affected as sharply. During the first quarter however, both imports and exports of goods have recovered and increased in value by 8 percent and 4 percent respectively, compared to the first quarter of 2009. The stronger development of imports has thus led to a weaker trade in goods during the first quarter of 2010. The increase of exports and imports was strongest in trade with EU countries.



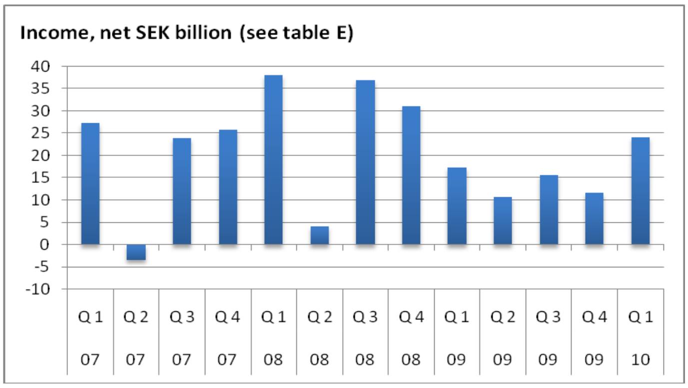

Trade in services amounted to SEK 25.9 billion during the quarter, which is a decrease of SEK 4.5 billion from the previous quarter, but at the level of the first quarter of 2009. *Transports* contribute to a large part of the decline from the previous quarter when exports of all types of transport except air transport dropped during the quarter, while imports were nearly unchanged.




The item *travel* generated a net outflow of SEK 2.8 billion during the quarter. Comparisons are best made to the corresponding period of the last year because this item is subject to sharp seasonal variation. At that time, travel resulted in a net outflow of SEK 1.8 billion. The export of travel, consisting of the foreign travellers' consumption while travelling in Sweden, increased marginally compared to the first quarter of 2009. Imports, i.e. expenses of Swedes when travelling abroad, increased by 6 percent.

The *other types of services* resulted in a net inflow of SEK 26.7 billion in the first quarter. Exports and imports have both developed negatively since the previous quarter and the first quarter of 2009. Since the development is about the same for exports and imports, the change in net trade of other services is marginal. Of the other types of services, *other business services* has nevertheless developed positively since the previous quarter, resulting in a net inflow of SEK 13.7 billion. Likewise, *financial services* has increased somewhat. This has been counteracted by the remaining types of services that have developed negatively. *Computer and information services* accounts for the largest net decrease.

## Income

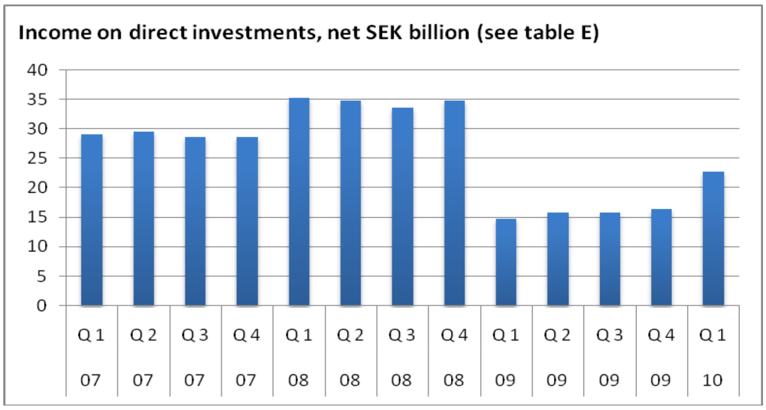



Income has a considerable influence on the result of the current account and consists of compensation of employees and investment income. Income amounted to SEK 24.1 billion during the quarter, and can be compared to SEK 11.6 billion in the previous quarter and SEK 17.3 billion in the first quarter of 2009.

Total investment income from investments abroad amounted to SEK 95.3 billion, or SEK 20.5 billion more than the previous quarter. Investment income from foreign investments in Sweden amounted to SEK 70.7 billion during the quarter.

The item *compensation of employees* generated a net outflow of SEK 0.6 billion, in line with the first quarter of 2009.

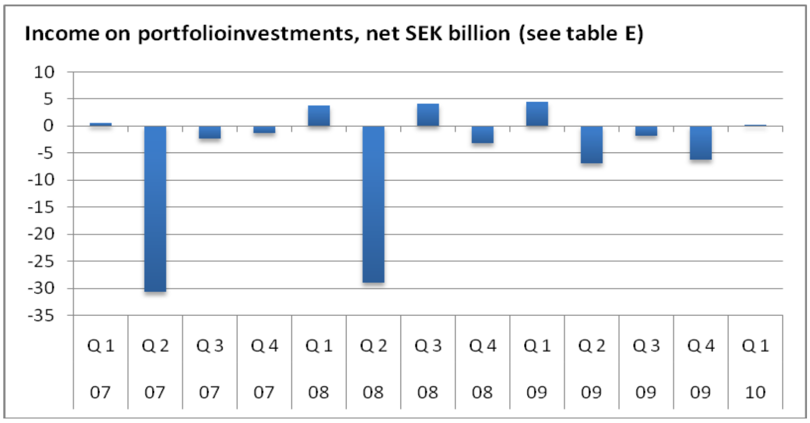
### Income on direct investments




Income on direct investments generated a net inflow of SEK 22.8 billion during the first quarter. This can be compared to a net inflow of SEK 14.7 billion in the first quarter of 2009. Income on direct investments abroad amounted to SEK 61.9 billion, compared to SEK 49.7 billion in the first quarter of 2009. Income on direct investments in Sweden amounted to SEK 39.2 billion, which was an increase of SEK 4.2 billion from the first quarter of 2009.

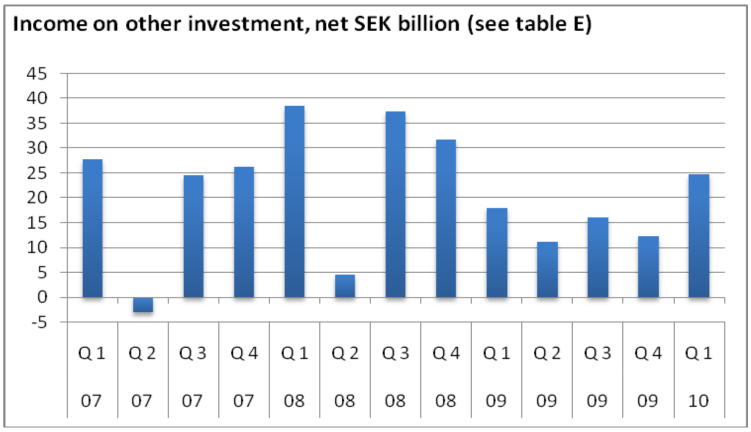
Income for direct investment companies is preliminary up until it is replaced by the result of the annual survey in direct investments.

### Income on portfolio investments



Income on portfolio investments consist partly of dividends on shares and mutual funds and partly of interest from debt securities. This income together amounted to a net inflow of SEK 0.3 billion. The statistics show that dividends on share holdings resulted in an inflow of capital to Sweden, while holdings in debt securities resulted in an outflow to other countries. This is well reflected in the relationship that Sweden has towards other countries concerning portfolio investments. That is to say, Sweden has net assets in the form of shares and mutual funds at the same time that the country has considerable net debts in the form of debt securities.

### Income on other investments

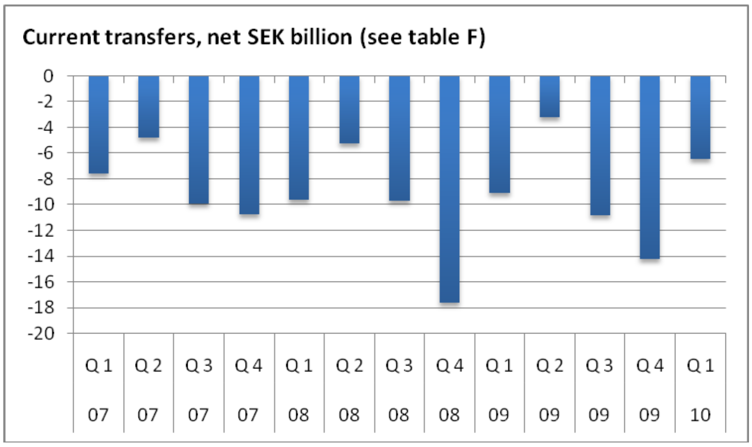



Income on other investments gave rise to a net inflow of SEK 1.6 billion during the first quarter, compared to the net outflow of SEK 1.3 billion during the same period in 2009. Income on other investments abroad amounted to SEK 7.5 billion and income in Sweden amounted to SEK 5.9 billion.

The gross flows are significantly lower compared to the first quarter of 2009 when income on other investments abroad amounted to SEK 17.4 billion and SEK 18.8 billion in Sweden.

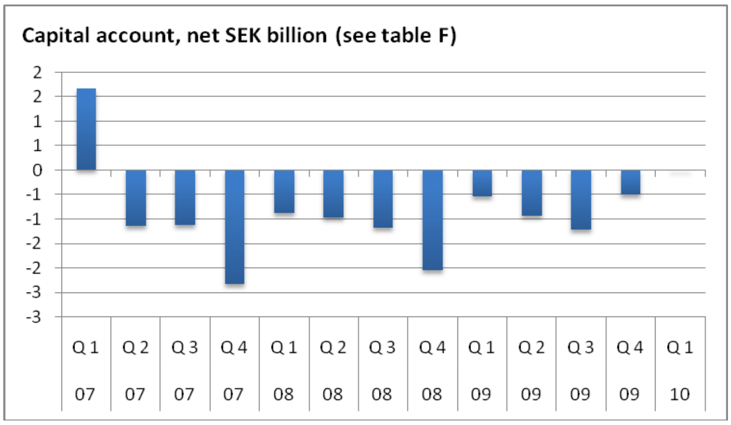
Income from other investments consist of income on loans and bank deposits etc.  The largest contributions to this item come from Swedish banks' income on their assets and liabilities towards counterparts abroad.

## Current transfers




The deficit in current transfers amounted to SEK 6.5 billion during the quarter. This is after EU transfers resulted in a weak net outflow of SEK 0.8 billion, foreign aid a net outflow of SEK 2.2 billion and that the other transfers, that were not associated to the EU or foreign aid, resulted in a net outflow of SEK 3.5 billion. Compared to the first quarter last year, this is a reduced deficit of the regular transfers by SEK 2.6 billion. The deficit has dropped compared to the previous quarter mainly because EU subsidies have increased during the quarter.

## Capital account

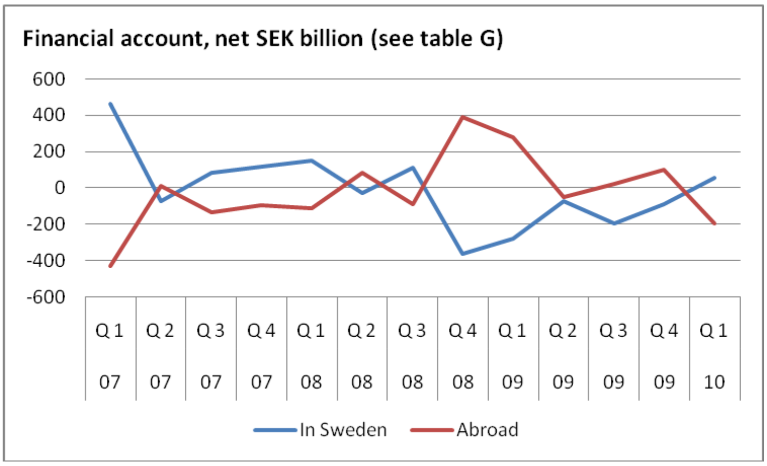



The capital account has two main components: capital transfers as well as transfer of rights etc. Transfers in the capital account are different from those in the regular transfers in the current account because the purpose of EU subsidies, gifts etc. is so that the recipient makes a real investment. Inheritance and migration are also included in the capital transfers.

Another type of transaction that is presented in the capital account is acquisition/sale of non-produced non-financial assets, such as transfer of rights.

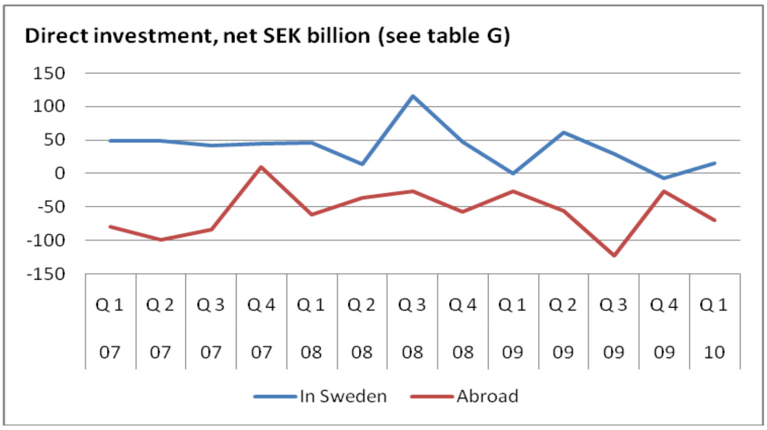
EU subsidies for investments amounted to SEK 0.1 billion during the quarter, on the level with the first quarter of 2009. Compared to the previous quarter, these subsidies decreased by SEK 1.2 billion. Foreign aid for investments generated an outflow of SEK 0.2 billion. The gross flows in the capital account cancelled each other out on a net basis.

## Financial account



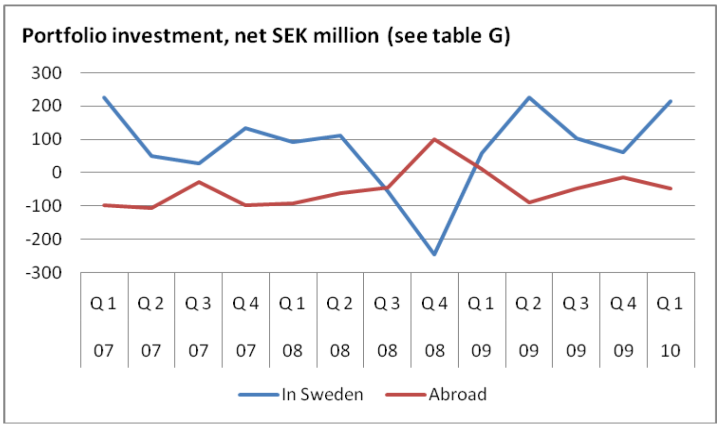

The financial account resulted in a surplus of SEK 140.3 billion for the first quarter of 2010. This can be compared to a net inflow of SEK 0.3 billion for the corresponding quarter of 2009. Other investments and portfolio investments have shown significant net flows during the quarter. Other investments accounted for the largest flow with a net outflow of SEK 261.3 billion, while portfolio investments resulted in a net inflow of SEK 166.0 billion. Direct investments generated a net outflow of SEK 54.4 billion. Financial derivatives resulted in a net inflow while reserve assets gave less of a net outflow.

### Direct investments




Swedish direct investments abroad resulted in a net outflow of SEK 69.5 billion for the first quarter of 2010. Equity showed a net outflow while loans showed a net inflow. These flows are mainly due to conversion of loans to equity. Foreign direct investments in Sweden resulted in a net inflow of SEK 15.2 billion for the first quarter of 2010. This is mainly because reinvested earnings generated a high inflow during the quarter.

## Portfolio investment

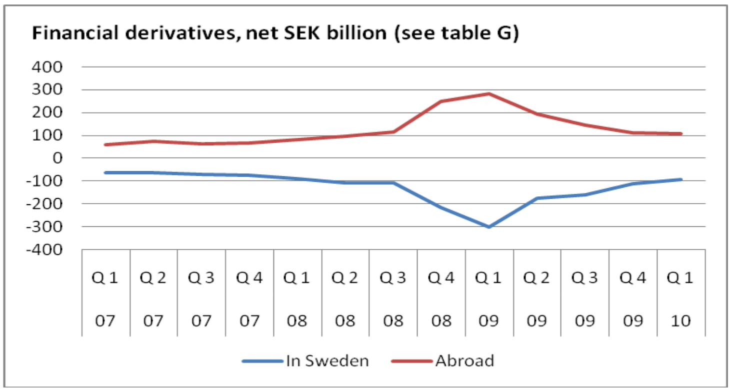



Portfolio investments resulted in a net inflow of SEK 166.0 billion in the first quarter of 2010. This is a relatively large net inflow and is mainly due to a larger inflow of Swedish debt securities.

Swedish portfolio investments abroad resulted in a net outflow of SEK 47.6 billion for the first quarter of 2010. Both shares and debt securities resulted in outflows. Swedish investors made net purchases of foreign shares for SEK 7.4 billion and net purchases of foreign debt securities for SEK 40.2 billion.

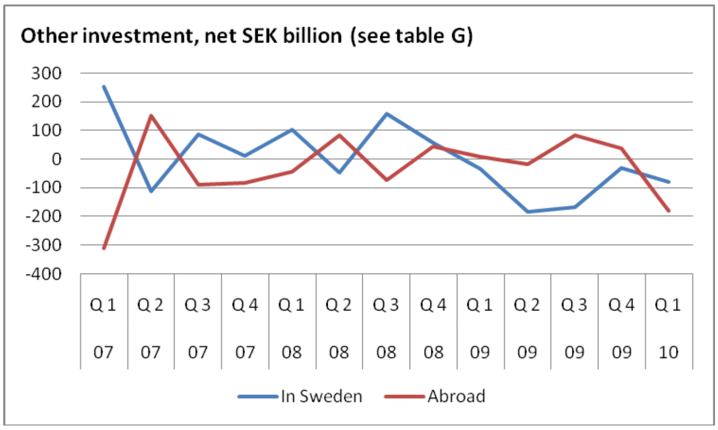
Foreign portfolio investments in Sweden resulted in a net inflow of SEK 213.6 billion for the first quarter of 2010. It is mainly debt securities that account for the net inflow since foreign investors made net purchases of debt securities in Sweden for SEK 209.4 billion. Foreign investors made net purchases of Swedish interest securities for a total of SEK 4.2 billion during the quarter.

## Financial derivatives




Transactions in financial derivatives resulted in a net inflow of SEK 14.0 billion in the first quarter of 2010. The krona became stronger during the quarter, causing a reduction in the balance for derivative contracts. Lower market values for derivative contracts have in turn generated lower gross flows. At the same time as the krona has become stronger, flows and balance values have decreased.

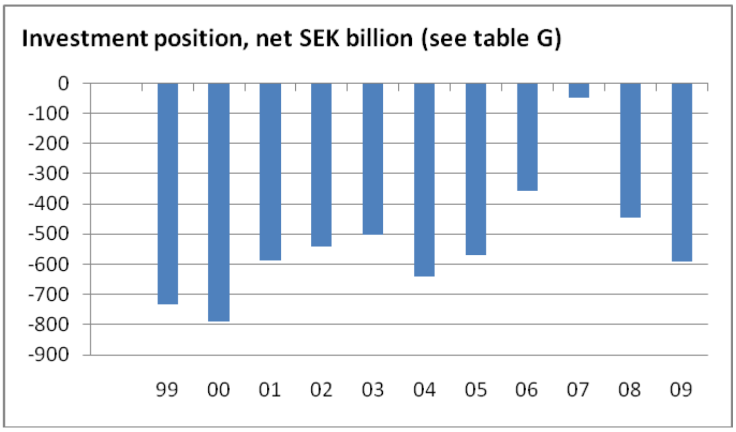
## Other investments




Other investments produced a net outflow of SEK 261.3 billion for the first quarter of 2010.

Swedish investment abroad resulted in a net outflow of SEK 180.8 billion while corresponding foreign investment in Sweden resulted in a net inflow of SEK 80.5 billion. Banks and housing credit institutions account for the bulk of the net flows.

## International investment position, net




The Swedish net liability to foreign countries amounted to SEK 592 billion at the end of 2009.

Net assets in the form of direct investment have been estimated at SEK 447 billion, which is an increase compared to 2008.

The net liability for portfolio investments increased sharply during 2009 and amounted to SEK 1 232 billion at the end of the year. The increase is mostly due to the inflow from abroad in Swedish securities.

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 391 billion. The corresponding balance values, i.e., contracts with negative market values, amounted to SEK 335 billion. This results in net assets of SEK 56 billion.

The net liability for other investments amounted to SEK 202 billion at the end of 2009, a decrease of liability by SEK 326 billion compared to 2008. Reserve assets 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 of 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 supplement, with calculations of the market value for direct investment. According to this compilation, Sweden's net liabilities abroad equalled SEK 124 billion in 2009.

Sweden's assets and liabilities is published separately every six months, and instruments are presented by sector. The next publication will be 9 September 2010.

# 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 ($X_t - M_t$):

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

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]

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

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:

---

[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** |