Balance of Payments

Fourth quarter 2010

Statistiska centralbyrån   Statistics Sweden

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Statistics Sweden
2011

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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 fourth quarter 2010.

Statistics Sweden, March 2011

Folke Carlsson

Christina Ekblom

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Summary

The current account for the fourth quarter of 2010 amounted to SEK 53.3 billion, which is an improvement of SEK 13.4 billion compared to the same period in 2009. Above all, trade in goods has contributed to the improvement.

Foreign trade in goods resulted in a surplus of SEK 28.3 billion, a clear improvement compared to the same quarter of 2009 when the corresponding surplus was SEK 16.5 billion. This is also a clear improvement compared to the previous quarter. 2010 ended strongly but from the perspective of the entire year, the trade in goods was weaker than in 2009.

Consumption by Swedes when travelling abroad resulted in a net outflow of SEK 24.9 billion while consumption of foreign travellers in Sweden gave a net inflow of SEK 18.0 billion during the fourth quarter. These factors resulted in a relatively high net outflow of SEK 6.9 billion.

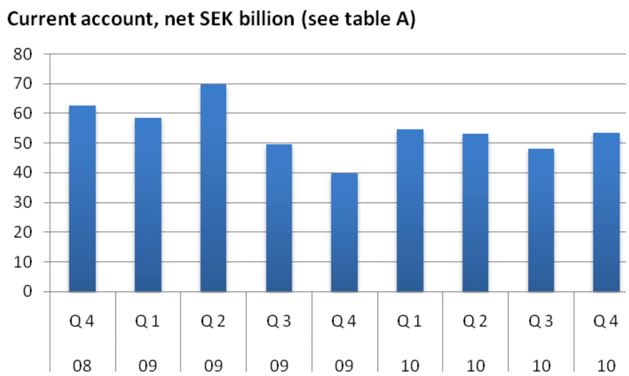
The financial account resulted in a net outflow of SEK 17.4 billion. Considerable capital outflows are found both within direct investments and other investments, while portfolio investments resulted in large capital inflows. Within direct investments, lending to foreign subsidiaries was the major item, but acquisitions of companies abroad also contributed. Outflows within other investments are mainly due to repayment of debts to foreign counterparts. In contrast, cross-border trade with securities resulted in large inflows.

Balance of Payments – Fourth quarter 2010

The balance of payments for the fourth quarter of 2010 produced a surplus in the current account of SEK 53.3 billion and a capital outflow of SEK 17.4 billion in the financial account. The capital account resulted in a relatively large deficit, due to significant funding of foreign aid. The current account showed a somewhat weaker surplus for all of 2010, compared to the previous year when it fell from SEK 217.6 billion to 209.1 billion.

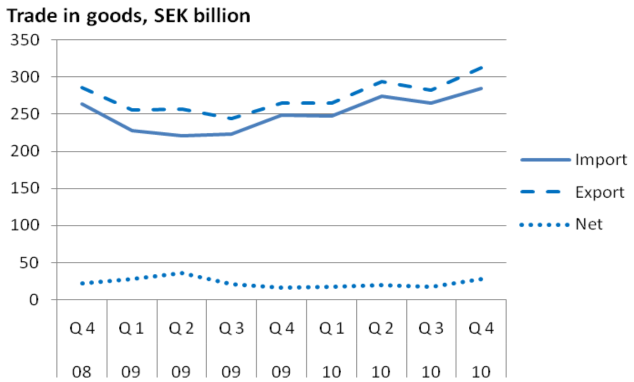
Current account

The current account resulted in a surplus of SEK 53.3 billion net for the last quarter of the year, which is an improvement of SEK 5.3 billion compared to the previous quarter. The development of trade in goods contributed considerably to the rising surplus in the current account, and resulted in a capital inflow of SEK 28.3 billion during the quarter. During the year, the surplus in trade in goods dropped somewhat, while trade in services instead increased compared to all of 2009.



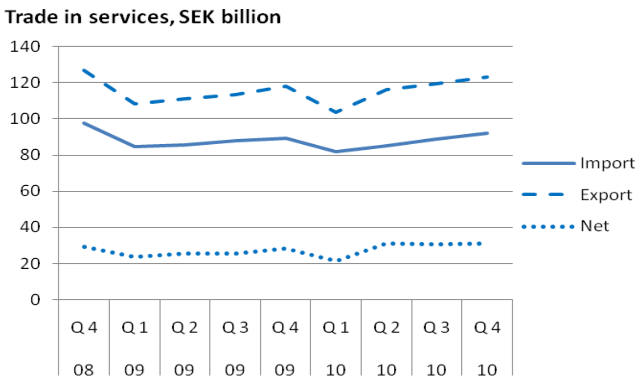
Foreign trade in goods and services

The exchange rate for the krona rose during the entire year, and by the end of December had reached record levels, particularly against the euro. The euro has not been so inexpensive since the end of 2006. Trade in goods is highly influenced by the exchange rate of the krona, resulting in reduced exports while it becomes cheaper for Swedes to consume abroad. Trade in goods once again resulted in a relatively large surplus during the quarter; compared to the same period in 2009 the amount had doubled. But the picture looks a bit different if we look at the entire year. The surplus is then reduced by roughly 13 percent, because imports increase to a greater extent than exports.



Trade in services during the quarter is in line with what has been shown earlier during the year and amounted to SEK 30.9 billion. Compared to the corresponding quarter of the previous year, this is an increase of roughly SEK 2.4 billion.

The increase from the previous year is mainly due to the development of the items licenses and royalties, as well as other business services that increased by SEK 2.6 and 2.4 billion respectively. Other business services include among other things marketing, internal business services and merchanting. Above all, exports of the two first-mentioned sub-items have risen significantly. Imports have also risen, but we can also see a clear decrease in research and development. Exports of other business services tend to be at a high level during the last quarter of the year.

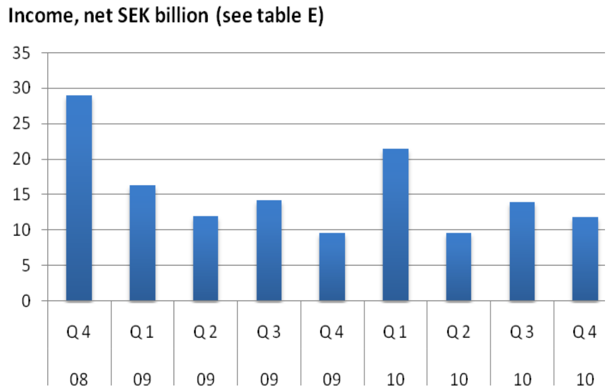


Consumption of Swedes abroad has historically exceeded what foreigners spend in Sweden, and this was so this quarter as well. Seen over a longer period, these levels have become closer to each other, but now imports of travel have increased at the same time as exports have decreased. Both cases are compared to the same period the year before. One probable reason is the strong krona that makes it cheaper for Swedes to travel abroad.

Exports of travel consist of foreign travellers' consumption when travelling in Sweden while imports correspond to expenses of Swedes when travelling abroad. The item for travel is highly affected by the seasons, and comparisons are best made with the corresponding quarter of the previous year.

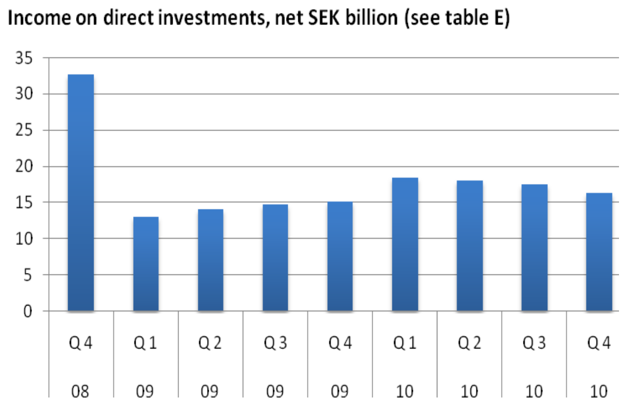
Income

Income consists of both wages/salaries for work and earnings on invested capital, which together resulted in a capital inflow of SEK 11.9 billion. This is a slight increase compared to the same period of the previous year. The item *wages/salaries* gave a net outflow of SEK 0.4 billion, which is also the lowest measured level since the fourth quarter of 2006. Return on capital in turn consists of earnings on direct investment, portfolio investments as well as other investments.



Earnings on direct investments

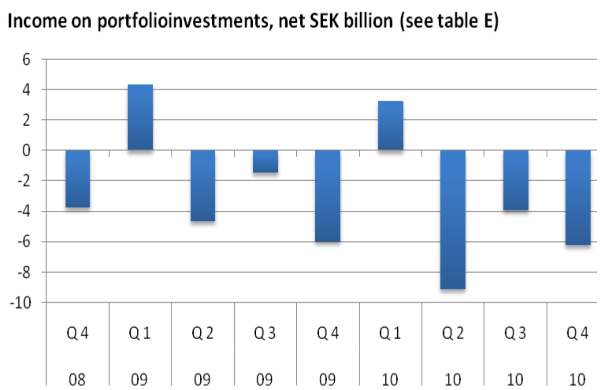
After the profits of companies collapsed during the economic downturn, an upward turn has now begun. Earnings on capital for companies in direct investment relationships are the results from the annual survey on direct investments. Earnings in 2009 were SEK 56.9 billion. According to Statistics Sweden's estimations, profits have improved in 2010.



Income on portfolio investments
Earnings on portfolio investments generated a capital outflow of SEK 6.3 billion net, which is in line with the same period last year.

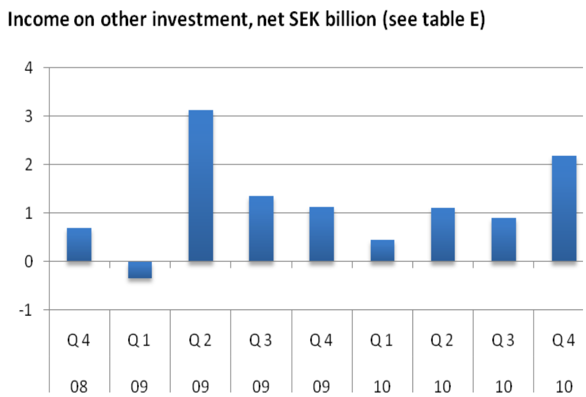
Both foreign holdings of Swedish debt securities and Swedes' holdings of foreign securities increased during the year; this is reflected in the increase of the total interest amounts. Earnings on short-term instruments continued to drop.

Dividends on foreign shares increased somewhat; at the same time no dividends on Swedish shares were measured this quarter. Earnings on foreign funds accounted for a third of the capital inflow.



Income on other investments
Earnings on other investments resulted in a capital inflow of SEK 2.2 billion net, a relatively high amount compared to previous periods.

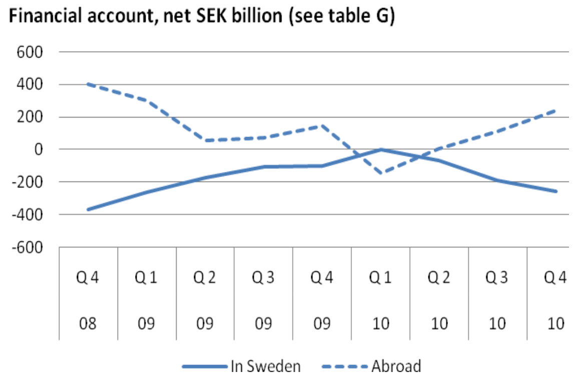
Income from other investments consists of earnings on loans and bank deposits etc. The largest contributions to this item come from Swedish banks' earnings on their assets and liabilities towards counterparts abroad.



Financial account

Transactions in the financial account resulted in a net outflow of SEK 17.4 billion during the fourth quarter. Direct investments and other investments resulted in a net outflow while portfolio investments, financial derivatives and the foreign exchange reserve resulted in a net inflow.

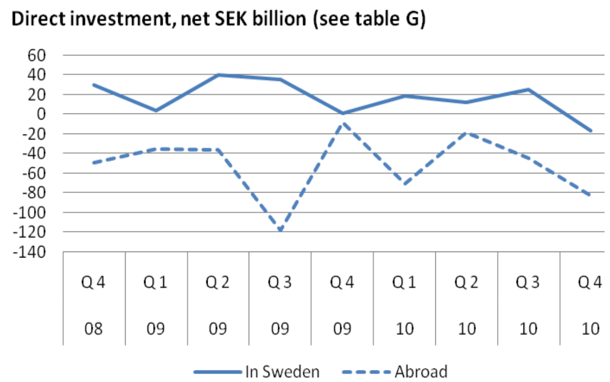
The financial account has shown a net outflow during all quarters of 2010 and resulted in a net outflow of SEK 306.6 billion for all of 2010. The net outflow of the financial account for all of 2009 was SEK 71.3 billion.



Direct investments

Direct investments resulted in a net outflow of SEK 100.3 billion during the fourth quarter. The fourth quarter is usually marked by many transactions and gross flows were higher during the fourth quarter compared to previous quarters of the year. However, seen over the entire year, gross flows within direct investments continued to drop compared to the previous year.

Swedish direct investments abroad resulted in a net outflow of SEK 83.1 billion. This is mainly due to considerable lending to foreign subsidiaries, but also because many Swedish companies make acquisitions abroad, which is presented in the statistics as a net outflow within equity.



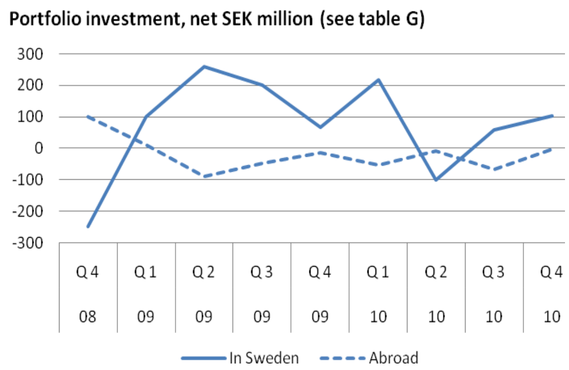
Foreign direct investments in Sweden resulted in a net outflow of SEK 17.2 billion during the quarter. The item for equity resulted in a net outflow of SEK 28.6 billion.

Swedish direct investments abroad resulted in a net outflow of SEK 216.7 for all of 2010. This can be compared to a net outflow of SEK 197.3 billion during 2009. Foreign direct investments in Sweden resulted in a net inflow of SEK 38.0 billion for all of 2010, which can be compared to a net inflow of SEK 79.0 billion during 2009.

Portfolio investments

Cross-border portfolio investments during the fourth quarter resulted in a net capital inflow of SEK 98.0 billion, mainly due to considerable foreign investments in Swedish securities. Foreign investors made net purchases of Swedish debt securities for SEK 78.3 billion and Swedish shares for SEK 24.0 billion. This large inflow in Swedish shares was largely due to Renault's sales of B shares in Volvo to foreign portfolio investors.

Portfolio investments resulted in a net inflow of SEK 142.4 billion during all of 2010. The net inflow is because foreign portfolio investments in Sweden showed a net inflow of SEK 276.7 billion while Swedish portfolio investments abroad resulted in a net outflow of SEK 134.3 billion. In 2009, portfolio investments resulted in a net inflow of SEK 487.0 billion, mainly due to increased indebtedness abroad, mainly in bonds.

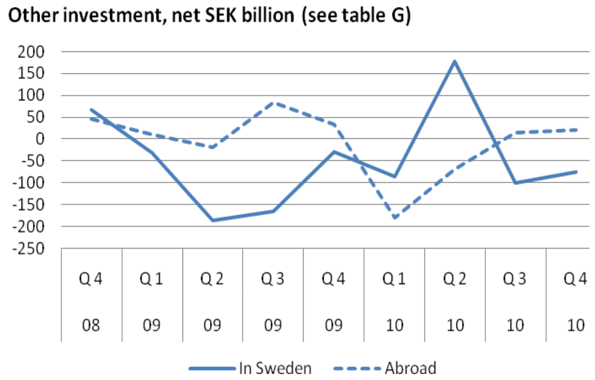


Other investments

Other investments produced a net outflow of SEK 54.5 billion for the quarter. The net outflow is mainly due to re-payment of debts against foreign counterparts.

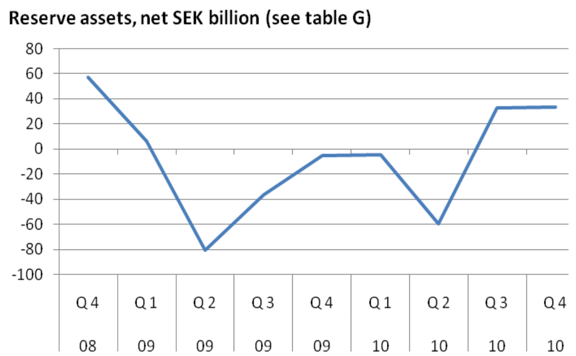
Other investments for all of 2010 resulted in a net outflow of SEK 300.1 billion. This is largely due to increased lending abroad, but also because of reduced borrowing abroad. This can be compared with 2009 when other investments resulted in a net outflow of SEK 303.5 billion. The net outflow during 2009 consisted of a sharp drop in debts abroad, at the same time as net lending abroad was negative.

Other investments mainly consist of loans of the bank sector to and from other countries, excluding loans of securities. Among other things this includes promissory note loans, deposits and repurchases.



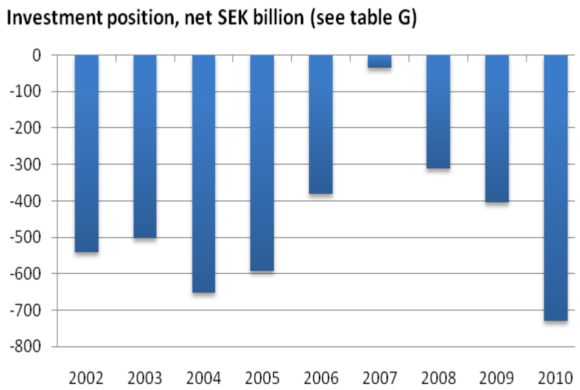
Reserve assets

Transactions in the reserve assets contributed to a net inflow of SEK 33.4 billion to the financial account during the quarter. This implies a decrease in the reserve assets. At the end of the year the reserve assets amounted to SEK 325 billion. This is a decrease compared to the end of 2009 when the reserve assets amounted to SEK 338 billion. The decrease in the reserve assets was mainly due to a stronger krona. The transactions of the Riksbank have decreased the reserve assets by SEK 2.1 billion during 2010. During 2009 the transactions of the Riksbank resulted in an outflow of SEK 116.0 billion, when the Riksbank sharply strengthened the reserve assets after borrowing capital in other currencies from the Swedish National Debt Office and the European Central Bank.



International investment position, net

Even though the current account resulted in a surplus of roughly SEK 209 billion, the total debt to other countries worsened to SEK 729 billion. This is an increase of SEK 324 billion compared to 2009. The stronger krona was a strong contributing factor to the increase of the foreign debt. This is because Sweden has considerably more assets than debts in different foreign currencies, which means that the assets, expressed in Swedish kronor, decreases more than the debts.



Three main factors influence the development of the total assets and debts with other countries. First of all, the size of the surplus or deficit in the current account influences. Another factor of importance is the development of the Swedish krona. In line with larger foreign assets and debts, fluctuations in the exchange rate have a greater impact. The third important factor is the price changes on different financial types of assets, mainly share prices but also changes in interest rates.

The increase in debts can also be attributed to portfolio investments where foreign holdings of Swedish shares rose in value during the year. The Swedish stock market growth accounts for most of the rise. Borrowing in Swedish debt securities also increased.

Another important factor is the rising stock market. The Swedish stock market's growth in value in 2009 was significantly greater than the average rise in value of the foreign stock markets, which was a contributing reason to the increased debt. Over the year the international stock markets increased by 22.8 percent while the Swedish stock market increased by 49.8 percent.

The net debt for other investments turned to a net asset of SEK 23 billion. This is the first time the item shows an asset abroad and is because debts have decreased during the year while assets have increased somewhat at the same time. Among other things, other investments consist of repos, loans and deposits, and above all, the banks' amortisations of loans abroad contribute to the break in the trend. The greater part of loans in foreign currency and the stronger krona thus cause these to drop, measured in kronor.

The net debt in direct investments has been estimated at SEK 115 billion.

Reserve assets decreased somewhat compared to the previous year, but is still at a high level, SEK 325 billion.

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. This is done in March every year when the market evaluation occurs for the entire year.

It is important to note that several sub items in the international investment position for 2010, such as direct investment and portfolio shares, are estimates. The figures should therefore be interpreted with caution.

Definitions and explanations
Sweden's assets and liabilities abroad. The net result of these assets and liabilities is a measurement of Sweden's wealth in relation to abroad. This should not be confused with the national debt, which is the total deficit and surplus in the central government budget over time.

What is the balance of payments?

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

The balance of payments can be divided into the following:

- The current account, 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 is divided into direct investments, portfolio investments, financial derivatives, other investments and the foreign exchange reserve. The financial account shows changes in external financial assets and liabilities.

Derivation of the balance of payments

A country's gross domestic product, BNP_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 sector fees 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 ($X_t - M_t$):

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

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-

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

earners' remuneration in Sweden and earnings on foreign capital in Sweden) it is possible to rewrite (1) in terms of gross national income, BNI_t:[2]

$$BNI_t = C_t + I_t + G_t + X_t - M_t + F_t . \tag{2}$$

Rewriting (2) gives:

$$BNI_t - C_t - G_t = S_t = I_t + X_t - M_t + F_t , \tag{3}$$

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, $BNI_t - T_t - C_t$.[3]

According to (3) the following applies:

$$S_t - I_t = X_t - M_t + F_t . \tag{4}$$

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 the trade account. $X_t - M_t + F_t$ 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

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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 the trade in goods during certain periods of time.

limited by the income in the same period and the country's possibilities to borrow:

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

where A_t are the net external assets during period t and $r_t A_t$ are 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):

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

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 in 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 reserve assets, 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 services 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. 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]

[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.

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 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**