BALANCE OF PAYMENTS

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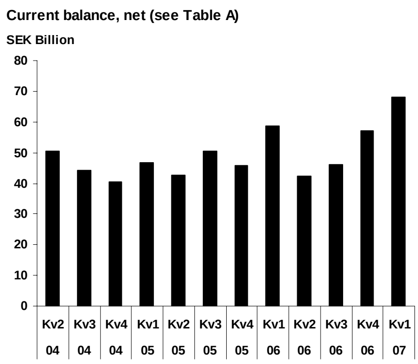
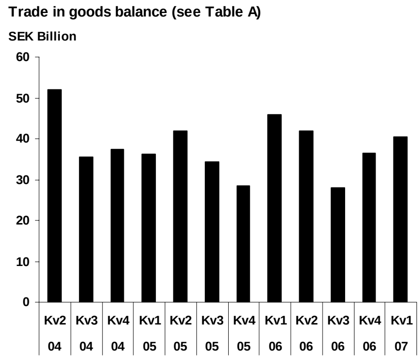
First quarter 2007

Current account

The current account showed a surplus of SEK 68.1 billion for 2007 Q1, which is an increase of SEK 9.4 billion compared with the same period in 2006. The current account surplus corresponds to a good 9 per cent of GDP. Trade in goods and services showed a surplus of SEK 63.1 billion, which can be broken down into SEK 40.5 billion for goods and SEK 22.6 billion for services. The surplus for income amounted to SEK 11.4 billion, while current transfers showed a deficit of SEK 6.4 billion.

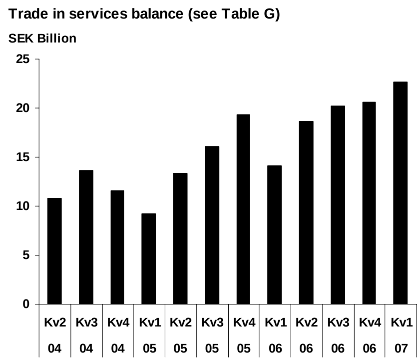


Trade in goods balance



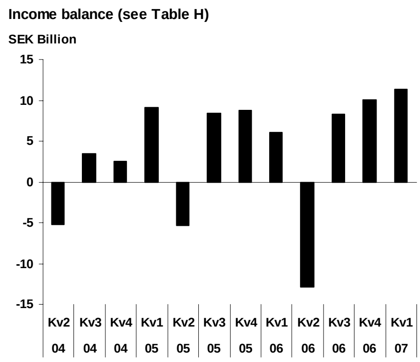
The surplus on trade in goods amounted in Q1 this year to SEK 40.5 billion, which is SEK 5.3 lower than in the corresponding period in 2006. However, the poorer result is due to a rise in both exports and imports. The increase in imports amounted to SEK 9.2 billion, while the corresponding increase in exports was SEK 14.4 billion.

Trade in services balance



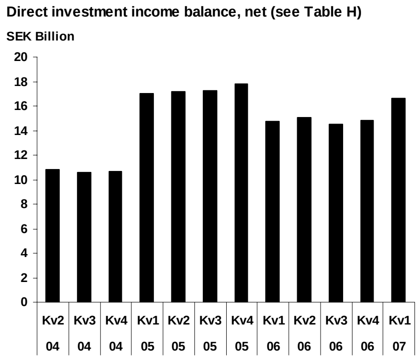
The surplus in trade in services amounted to SEK 22.6 billion for 2007 Q1, which is an improvement of SEK 8.5 billion on the same period last year. Transportation showed a surplus of SEK 4 billion, while travel gave a deficit of SEK 2.7 billion. The other types of services provided a surplus of SEK 21.3 billion. Within this group the item merchanting accounted for SEK 14.9 billion of the total surplus.
Merchanting refers to Swedish companies' purchase and further sale of goods abroad without the goods passing the Swedish borders.

Income balance



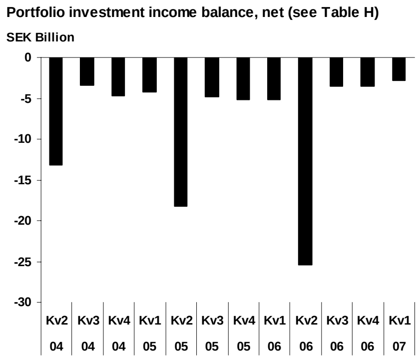
Income, which consists of compensation of employees and investment income, showed a surplus of SEK 11.4 billion during 2007 Q1, which is a rise of SEK 5.3 billion compared with the same period last year.

Direct investment income balance, net



The net income on direct investment for 2007 Q1 gave a surplus of SEK 16.6 billion. This is an increase compared with 2006, when income was measured at SEK 14.8 billion. Income from direct investment abroad amounted to SEK 59.9 billion, while income on direct investment in Sweden totalled SEK 43.3 billion. A positive earnings trend in companies has provided an increase in income on direct investment abroad of SEK 8.2 billion and on direct investment in Sweden of SEK 6.4 billion compared with 2006 Q1.

Portfolio investment income balance, net



Portfolio investment income, which consists of share dividends and interest payments, showed a deficit of SEK 2.8 billion during 2007 Q1. This means a reduction in the deficit of SEK 2.4 billion compared with the corresponding period last year.

Dividends on Swedish shares gave an outflow of SEK 4.5 billion during the first quarter of the year, while dividends on foreign shares gave inflows of SEK 10.8 billion.

Interest expenses for Swedish debt securities amounted to SEK 18.8 billion, while holdings of foreign bonds and money market instruments generated income of SEK 9.8 billion.

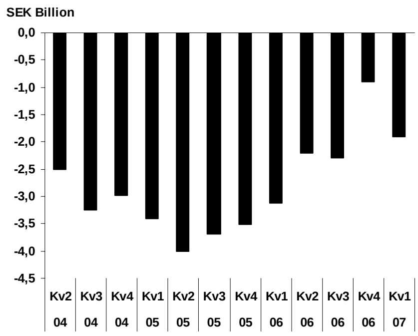
Other investment income balance, net

Income on other capital provided a net outflow of SEK 1.9 billion during 2007 Q1, which can be compared with a net outflow of SEK 3.1 billion during the same quarter in 2006.

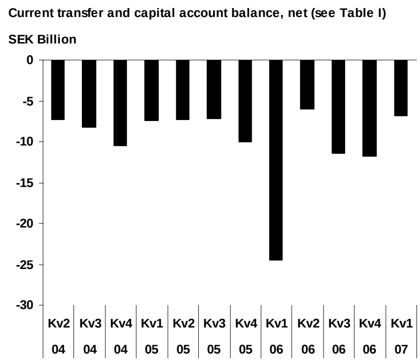
During 2007 Q1 income on other capital gave rise to income of SEK 14.2 billion and expenditure of SEK 16.1 billion. Compared with the corresponding quarter in 2006, both income and expenditure increased, which was primarily due to Swedish banks increasing their borrowing and their lending abroad substantially since then.

Income from other investment consists of earnings on loans and bank deposits, etc. The largest contributions to this item come from Swedish banks' income from assets and liabilities abroad.

Other investment income balance, net (see Table H)

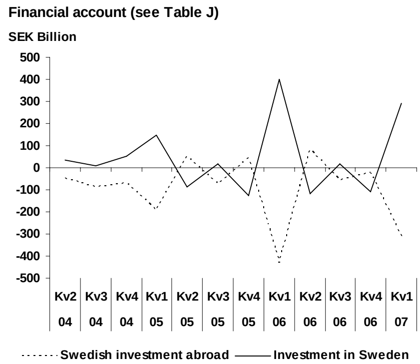


Current transfer and capital account balance, net



The net sum of current transfers and the capital balance gave a deficit of SEK 6.8 billion during Q1 this year.
The deficit can be broken down into SEK 1.0 billion for EU transfers, SEK 1.5 billion for foreign aid and SEK 4.2 billion for other transfers.

Financial account



The financial account gave a net outflow of SEK 21.6 billion during 2007 Q1. Other investment and direct investment accounted for the largest outflows, SEK 108.5 billion, respective SEK 29.0 billion, which is largely balanced by an inflow of portfolio investment of SEK 121.8 billion.

The surplus on the current account for 2007 of SEK 68.1 billion, a slightly negative capital balance and the negative financial account of SEK 21.6 billion gave rise to a negative errors and omissions item of SEK 46.1 billion. The errors and omissions item describes the net total of the transactions for which there was no explanation, and thus consists of various deficiencies in the data. One of the most important explanations for the errors and omissions item during separate quarters is periodisation errors. As the data in the balance of payments are gathered from different sources, the periodisation of transactions may differ for items that are balanced against one another. In the longer term, however, the errors and omissions should offset one another.

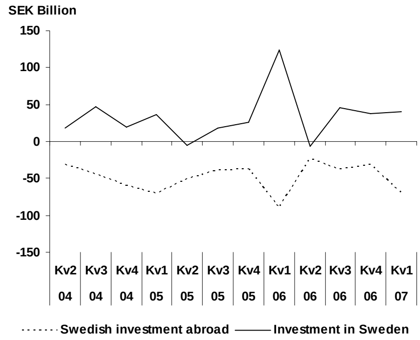
Direct investment

Direct investment gave a net outflow of SEK 29.0 billion during 2007 Q1, which can be compared with a net inflow of SEK 33.9 billion during 2006 Q1.

Swedish investment abroad gave an outflow of SEK 69.8 billion during the first quarter of the year, while foreign investment in Sweden added up to an inflow of SEK 40.8 billion. In the same period in 2006, Swedish investment abroad gave an outflow of SEK 89.7 billion and foreign investment in Sweden resulted in an inflow of SEK 123.6 billion.

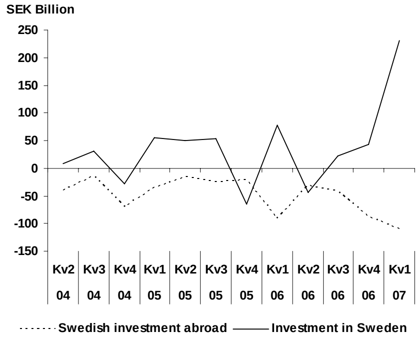
With regard to both direct investment abroad and direct investment in Sweden, a large share of the net flows consisted of reinvested earnings, that is, earnings not paid out as dividends to shareholders but retained within the company. It is important to note that the figures for reinvested earnings are a forecast and can be subject to revision during autumn 2007, when the results of the Riksbank's annual direct investment survey are obtained.

Direct investment (see Table J)



Portfolio investment

Portfolio investment (see Table J)



Cross-border portfolio investment generated capital inflows of SEK 121.8 billion during 2007 Q1. This can be compared with the previous quarter, when portfolio investment instead gave a net outflow of SEK 44.2 billion.

Foreign investors showed considerable interest in Swedish debt securities. Most of the large capital inflow can be attributed to issues directly abroad by Swedish banks and mortgage institutions as well as the corporate sector. In all, foreign investors purchased Swedish debt securities to a net total of SEK 222.9 billion.

Swedish investors increased their holdings of foreign bonds and money market instruments by SEK 80.3 billion. The net purchases were primarily in US and British securities.

Equity trading gave rise to net outflows. Swedish investors continued net purchases of foreign equity and mutual fund units to a value of SEK 29.0 billion, while foreign investors purchased Swedish equity to a net total of SEK 8.1 billion.

Revisions have been made to earlier published values for secondary market trading in Swedish debt securities denominated in foreign currencies. Behind these revisions are a change in methods and also corrections of previously reported values.

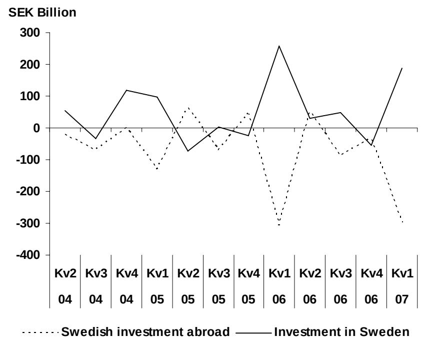
Other investment

The item other investment covers transactions regarding deposits and borrowing, lending, repo transactions, etc.

The item other investment gave rise to a net outflow of SEK 108.5 billion during 2007 Q1. Swedish investment abroad showed a net outflow of SEK 295.9 billion while the corresponding foreign investment in Sweden gave rise to a net outflow of SEK 187.4 billion. Swedish banks account for most of these flows. They have substantially increased both short-term borrowing and lending in foreign currencies, primarily during the month of March.

The value of investment in other capital varies considerably from one quarter to the next and it is usually short-term capital movements between banks in Sweden and counterparties abroad, often in the same group, which have created these fluctuations.

Other investment (see Table J)



International investment position, net

Sweden's total external net debt amounted to SEK 403 billion in December 2006. Compared with 2005, the net debt has declined by SEK 167 billion.

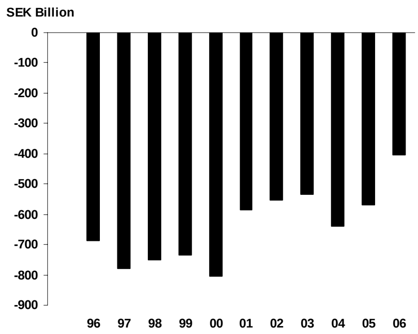
Net assets in the form of direct investment have been forecast at SEK 306 billion, which is slightly higher than in 2005.

Net debt in the form of portfolio investment is calculated to have fallen slightly, to SEK 606 billion in 2006. Behind this change are an increase in the assets in foreign equity and debt securities of SEK 164 billion and an increase in foreign investors' holdings of Swedish securities of SEK 146 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 external position is published as a complement, where the market value of direct investment has also been calculated. According to this, Sweden's net foreign debt amounted to SEK 78 billion in 2006.

It is important to note that several sub-items in the international investment position for 2006, such as direct investment and portfolio shares, are forecasts. The figures should therefore be interpreted with caution.

International investment position, net (see Table E)



What is the balance of payments?

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 balance on the current account, which shows trade in goods and services, wages, earnings on financial assets and liabilities as well as current transfers, such as EU subsidies and contributions.
- The capital balance, which covers EU subsidies and foreign aid for real investment as well as the purchase and sale of rights, such as patents.
- The financial balance, which can be divided into direct investment, portfolio investment, financial derivatives, other capital and the foreign currency reserve. The financial balance 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 factor incomes, F_t, i.e. Swedish factor income earned abroad (Swedish wage-earners' remuneration abroad and earnings on Swedish capital abroad) minus foreign factor income earned in Sweden (foreign wage-earners' remuneration in Sweden and earnings on foreign capital in 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:

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

[1] This relationship is called an identity because it must by definition be fulfilled in every individual time period.
[2] These factor incomes are often called primary incomes. Net factor incomes consist of wages, capital earnings and current transfers.

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 (3):

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

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 balance of trade. $X_t - M_t + F_t$ is the current account balance. Equation (4) thus shows that there is a simple connection between net investments and the balance of trade. For a given net factor 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 balance of trade 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 balance. A growing deficit in the current account balance 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.

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

where A_t is 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 balance and the financial balance. 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 the balance of trade and net factor 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 balance and the financial balance will show a net deficit, i.e. $A_t - A_{t+1} < 0$. Equation (7) thus means that the sum of the current account balance, the capital balance and the financial balance is always identical to zero.[6]

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[3] This means that the national savings are identical to the sum of the public sector savings and households' savings.
[4] Net factor 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 balance of trade during certain periods of time.
[6] As a number of different sources are used to measure the items in the balance of payments, both measurement errors and periodisation errors can arise, and a residual is therefore included in the form of an errors and omissions item.

The connection to the international investment position

As the financial balance measures external net lending, a change in the balance on 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 balance. 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 balance 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. 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 balance, into direct investment, portfolio investment, financial derivatives, other capital and the foreign currency reserve.[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 balance 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**

Sources and methods

There are several documents on the Riksbank's website describing which sources and methods are used to compile the balance of payments and the international investment position. The address is www.riksbank.se/statistics and choose balance of payments. Here you can also find surveys, statistics published earlier and articles.[8]

[7] In certain cases the book value is used instead of the market value, because the base for calculating market value is insufficient.
[8] This section is entirely based on one of these articles: "What role does the balance of payments play in economic analysis?", (2001) by Ericsson, Victoria and Lindström, Tomas.