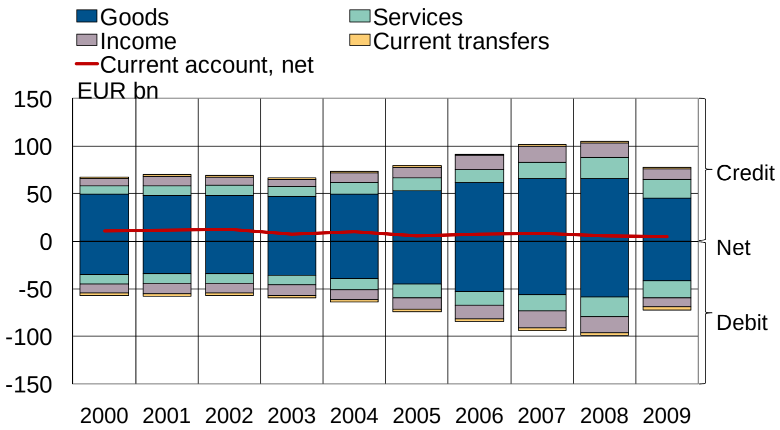
Finland's Balance of Payments

Annual Review 2009 and 2010/I–II

Distiribution of credit and debit in current account, 2000–2009



Source: Bank of Finland.

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Contents

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List of charts

List of tables

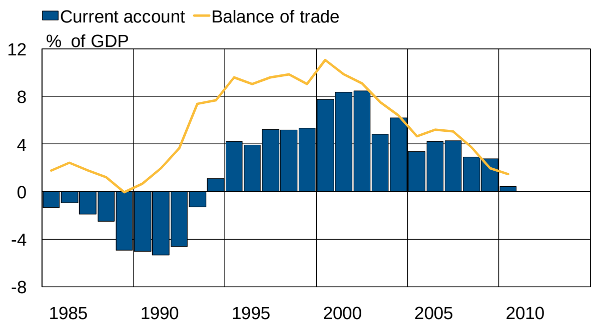
1 Current account surplus broadly unchanged in 2009

The current account surplus amounted to EUR 4.7 billion in 2009, representing about 2.7% of GDP. In 2008 the current account posted a surplus of EUR 5.4 bn. The improvement in the current account, based on preliminary data, was mainly attributable to net investment income[1] which, after a recent revision based on annual investment survey data, hit a record high. In 2009, these inflows of investment income exceeded outflows from Finland by EUR 1.7 bn. Even though the trade balance dipped in 2009, the increase in investment income provided an offset in the overall current account, so that no major contraction occurred.

1.1 Balance of trade deteriorated in 2009

In BOP terms, the balance-of-trade surplus [2] was halved in 2009 from that of the previous year, and amounted to EUR 3.4 bn. Both imports and exports of goods contracted by about one-third on 2008. Exports amounted to EUR 45.1 billion (EUR 65.6 billion in 2008) and imports to EUR 41.7 billion (EUR 58.7 in 2008). Despite the completion of a large cruise liner contract in October, for the year as a whole, exports declined more than imports, which had a weakening effect on the trade balance. In 2009, Finland’s major export countries were Germany, Sweden, Russia and the United States, and its major import countries, in BOP terms, were Germany, Russia, Sweden and the Netherlands.

Chart 1. Current account and trade balances, 1985–2010/I–II



Source: Bank of Finland and Statistics Finland.

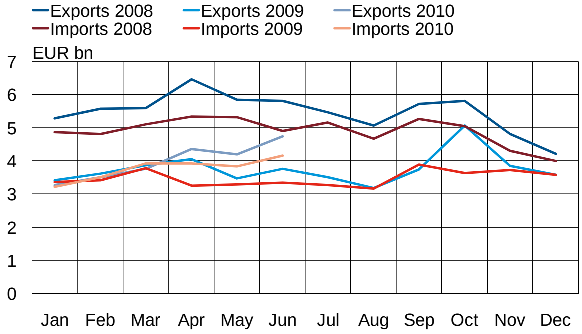
Finnish exports grew rapidly in the latter stages of the first half of 2010, but by June had not reached the levels recorded before the collapse of exports in 2008. While total exports in first half of 2010 were up slightly on the year-earlier period, the levels recorded for May and June were markedly higher. Export growth was particularly strong in the forest and metal and engineering industries. Exports to Finland’s traditional trading partners, eg Sweden and Germany, were buoyant.

[1] The income account consists of inflows and outflows of interest and dividend payments as well as compensation of employees.

[2] BOP goods trade data differ from the Board of Customs’ foreign trade statistics because of freight and insurance cost adjustments: in BOP statistics, the share of foreign carriers and insurers is deducted from the Board of Customs' cif-based goods imports and entered in transportation and insurance costs. In 2009, 6.8% and 0.4% of goods imports were transferred to transportation and insurance costs respectively.

Finnish exports also picked up in the 12 months to June. Import levels, as well as exports, were up by about a forth on June 2009. In BOP terms, however, the trade balance contracted substantially from the previous year. In January–June 2010, the trade balance posted a surplus of EUR 1.3 bn, compared with surpluses of EUR 1.7 billion and EUR 4.2 billion in the corresponding periods in 2009 and 2008.

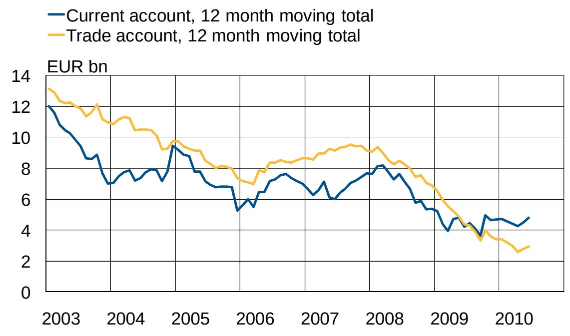
Chart 2. Finnish trade in goods, monthly data, 2008–2010/I–II



Source: Bank of Finland.

By the end of June 2010, the protracted decline in the 12-month moving total of the current account had come to halt. In BOP terms, the 12-month moving total of the trade balance had also started to creep upward.

Chart 3. Current account balance and balance of trade, 12 month moving total, 2003–2010/I–II



Source: Bank of Finland.

1.2 Current account improvement due to investment income

The current account surplus in 2009 increased to EUR 4.7 billion after an upward revision of net investment income, which hit a record high. Income on direct investment, in particular, was revised upward after the new annual direct investment survey data became available. Income on both inward and outward investment was revised, as the preliminary figures had been based on actual results from the previous year. In 2009, foreign investors' income on direct investment in Finland amounted to EUR 1.8 (EUR 5.3 billion in 2008) and Finnish investors' income on direct investment abroad to EUR 6.2 billion (EUR 7.2 billion in 2008).

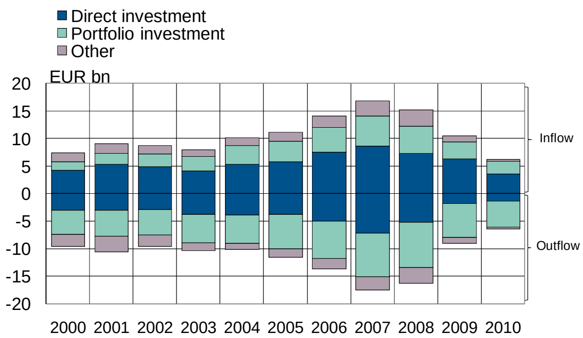
Interest and dividend payments on portfolio investment were outward on net in 2009, in the amount of EUR 3.1 bn, which was slightly less than in the previous year. In 2009, foreign investors' income on portfolio investment in Finland amounted to EUR 6.2 billion (EUR 8.2 billion in 2008) and Finnish investors' income on portfolio investment abroad to EUR 3.1 billion (EUR 4.9 billion in 2008). Income on portfolio investment and direct investment income are discussed in more detail in sections 2 and 3. Income inflows and outflows on other investments (loans, deposits and trade credits) were in balance, at both EUR 1.1 bn.

In the first half of 2010, investment income outflows exceeded inflows by EUR 214 million. Estimated net income on direct investment was EUR 2.1 billion. The data are preliminary and will be revised in autumn 2011 when annual direct investment survey data become available.

In the first half of 2010, outward dividend and interest payments on portfolio investment exceeded inward payments by EUR 2.4 bn. As in earlier years, most outward dividend payments were made in April–May. At that time, interest and dividends were paid to foreign investors in the total amount of approximately EUR 2 bn.

In the first half of 2010, the current account showed a surplus of EUR 0.4 bn, broadly the same as in the first half of 2009. Each spring, dividend payments abroad increase the current account debits and reduce the surplus.

Chart 4. Net investment income by investment type 2000–2010/I–II



Source: Bank of Finland.

1.3 Services account surplus improved slightly

The services account posted a surplus of EUR 1.3 billion in 2009, up by just 1.1 billion on 2008. However, both services exports and imports contracted from the previous year. The services account is made up of transportation, travel and other services.

In 2009, the transportation account posted a deficit of EUR 1.4 bn. Travel expenditures exceeded travel incomes by EUR 1.1 bn, just over EUR 200 million higher than in the previous year. Looking at the other services account, the computer services surplus remained the largest, even though it was down by a third (EUR 2.9 bn) compared to 2008. The prior deficit on royalty and licence fees became a surplus of 0.3 EUR bn.

Table 1. Current account, 2005–2010/I–II

EUR m

		2005	2006	2007	2008	2009	January–June 2010
Current account	Net	5 274	6 997	7 650	5 376	4 696	369
Goods	Net	7 352	8 628	9 128	6 879	3 395	1 264
	Credit	52 586	61 436	65 744	65 637	45 103	23 839
	Debit	45 234	52 808	56 616	58 758	41 708	22 576
Services	Net	-606	-913	455	1 055	1 329	266
	Credit	13 666	13 945	16 977	21 792	19 783	8 562
	Debit	14 272	14 858	16 522	20 738	18 454	8 296
Income	Net	-245	640	-521	-944	1 661	-215
	Credit	11 580	14 620	17 335	15 707	11 063	6 443
	Debit	11 825	13 979	17 855	16 652	9 402	6 658
Current transfers	Net	-1 226	-1 358	-1 412	-1 613	-1 689	-946
	Credit	1 637	1 600	1 665	1 663	1 625	818
	Debit	2 863	2 958	3 077	3 276	3 314	1 764

Source: Bank of Finland.

2 Foreign investors' income on direct investment in Finland fell sharply in 2009

As a result of the international financial crisis, direct investment[3] inflows and outflows were modest in 2009. Weakening results of Finnish investment enterprises and a decline in retained earnings reduced the value of nonresidents' investments in Finland.

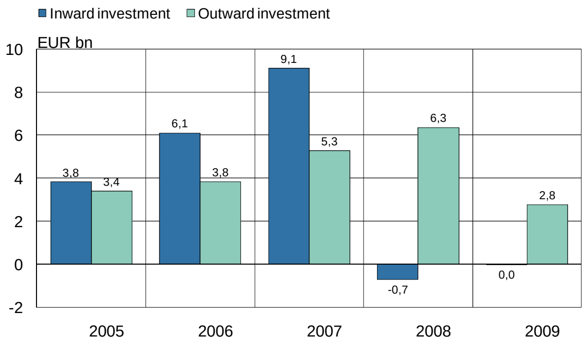
2.1 Direct investment declined

Finnish outward direct investment totalled EUR 2.8 billion in 2009. Finnish financial and insurance companies, in particular, increased their investments abroad. Inward direct investment was nil. Investment in Finnish service companies amounted to EUR 1.1 billion, and EUR 1 billion of investment capital was repatriated from Finnish manufacturing companies.

Compared to 2005–2008, direct investment inflows and outflows were both modest in 2009. As a consequence of the global financial crisis, no large international corporate acquisitions were made that would have boosted investment flows in 2009. Nor did investors provide significant financing for previously acquired enterprises.

[3] A direct investment relationship exists between an investor and an enterprise resident in another country when the investor has control (over 50% of the voting power) or influence (10–50% of voting power) over the enterprise. The direction of the investment (*inward* or *outward*) is determined in the statistics on the basis of the direction of the control/influence between parties.

Chart 5. Direct investment, net capital flows, 2005–2009



Source: Bank of Finland.

2.2 Direct investment income contracted

In 2009, **foreign investors'** income on direct investment in Finland totalled EUR 1.8 billion. Of this, EUR 1.1 billion was return on equity[4] and EUR 0.7 billion interest on other capital. Income on inward investment fell sharply, and was EUR 3.5 billion less than in 2008. This major change was mainly due to the weaker results of a few individual investment companies.

[4] Return on equity (ROE) in a direct investment enterprise reflects the investor's share in the earnings of the enterprise.

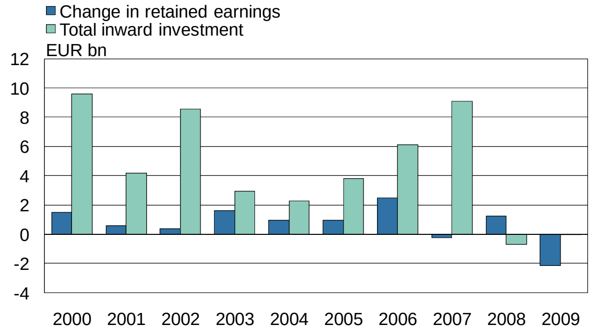
Chart 6. Direct investment income, 2000–2009

Source: Bank of Finland.

In 2009, dividends were distributed to foreign investors[5] in the amount of EUR 3.3 billion. The difference between return on equity and dividends paid was a negative EUR 2.2 billion. This is also the amount by which retained earnings of Finnish investment enterprises declined in 2009. The losses posted by Finnish investment enterprises account partly for the reduction in retained earnings. Moreover, some of the profit-making enterprises distributed dividends (based on profits in 2008) in excess of their profits in 2009. It is seldom that retained earnings of Finnish investment enterprises decline, especially by so much. More often earnings after dividends are retained in order to boost foreign investors' investments in Finland. The decline in retained earnings explains in part the small inflow of direct investment in Finland.

[5] For statistical purposes, dividends are attributed to the year in which they are paid. The amount of dividends distributed is based mainly on the results of the previous year.

Chart 7. Change in retained earnings of investment enterprises in Finland as part of net inward investment, 2000–2009



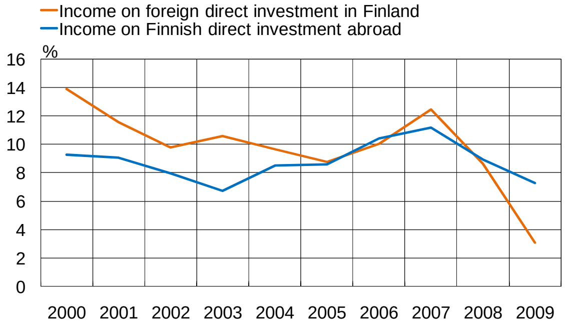
Source: Bank of Finland.

Income received by Finnish investors on direct investment abroad totalled EUR 6.2 billion in 2009, of which income on equity capital was EUR 5.8 billion and interest on other capital was EUR 0.4 billion. Of the equity capital income, EUR 2.1 billion was reinvested in foreign investment enterprises and EUR 3.7 billion was paid as dividends to Finnish investors. Income received from abroad was EUR 1 billion less than in the previous year.

In previous years, the average income on inward direct investment[6] has generally been higher than the average income on outward direct investment, albeit from 2005 onward, income received from abroad has almost matched income from Finland. In 2009, the average rate of return on outward investment exceeded that on inward investment by a full 4 percentage points. The average annual income on outward investment contracted from 8.9% in 2008 to 7.3% in 2009, while the average annual income on inward investment fell from 8.6% to 3.1% in the same period. The average annual income on investment in manufacturing companies actually declined from a positive 8.6% to a negative 3.2%.

[6] The average annual income on investment is the sum of annual income divided by the average of investment stocks at the start and end of the year.

Chart 8. Direct investment income relative to average stock, 2000–2009

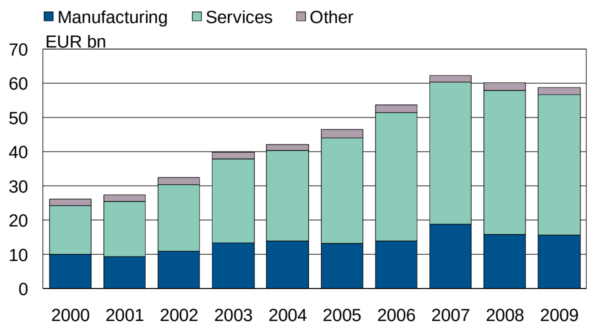


Source: Bank of Finland.

2.3 Stock of investment virtually unchanged

The stock of **inward** direct investment was EUR 59 billion at the end of 2009. Of this, equity capital accounted for EUR 47 billion and other capital for EUR 12 billion. The steady investment growth in previous years came to a halt in 2008–2009. By economic activity, service companies accounted for 70% of the stock of inward investment at the end of 2009.

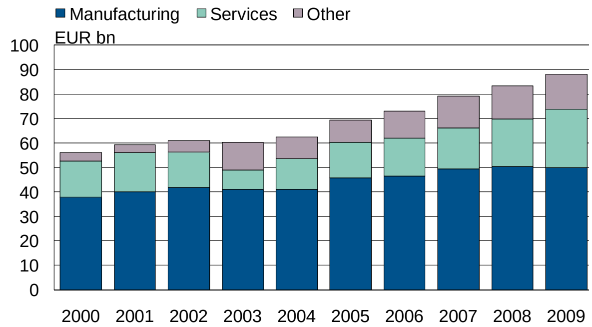
Chart 9. Foreign direct investment in Finland, 2000–2009: investment stock by economic activity



Source: Bank of Finland.

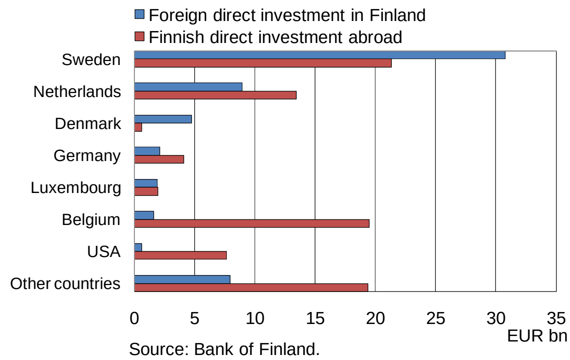
The stock of **outward** direct investment was EUR 88 billion at the end of 2009. Of this, equity capital accounted for EUR 86 billion and other capital for EUR 2 billion. In contrast to inward direct investment, the stock of outward direct investment continued to grow at a modest rate in 2008–2009. At the end of 2009, manufacturing companies were the investor group for almost 60% of outward direct investment. In the past few years, service companies have slightly increased their share of total outward direct investment stock, as financial and insurance companies have increased their direct investment abroad.

Chart 10. Finnish direct investment abroad, 2000–2009: investment stock by economic activity



Source: Bank of Finland

Chart 11. Direct investment stock by country at the end of 2009



Source: Bank of Finland.

By country[7], capital from Sweden accounted for the largest share by far of inward direct investment at the end of 2009, ie EUR 31 billion or 52% of the stock. Other major investor countries were the Netherlands and Denmark. The EU countries accounted for 93% of the stock of inward direct investment. Of outward direct investment, the major host country was Sweden,

[7] Inward direct investment: immediate investor country. Outward direct investment: immediate host country.

which accounted for 24% of the stock of outward direct investment. Other significant host countries were Belgium and the Netherlands. The EU countries accounted for 79% of the stock of outward direct investment.

A country analysis of inward and outward direct investment stocks at the end of 2009 reveals that the capital invested in Finland from Sweden and Denmark exceeds on net the Finnish capital invested in these countries. By contrast, the Finnish capital invested in Belgium, the United States and the Netherlands exceeds the capital invested in Finland from these countries.

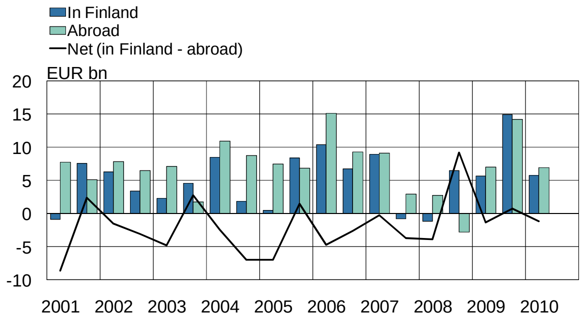
3 Moderate net outflow of portfolio investment in early 2010

Capital outflows and inflows of portfolio investment were brisk throughout January–June 2010, but have subsequently subsided from the peak levels of end-2009 and net flows have turned outward on net. The stock of outward investment grew, boosted by capital flows and changes in exchange rates. Decreases in Finnish share prices restrained the rise in the value of inward investment. In recent years, employment pension funds have increased their investments in foreign investment fund shares.

3.1 Significant capital flows and value changes in investment in January–June 2010

In January–June 2010, Finnish investors' investment in foreign securities rose to EUR 6.9 billion compared to EUR 5.8 billion invested by foreign investors in Finnish securities. Thus, the net outflow of portfolio investment was EUR 1.2 billion in the first half of the year. In the same period in 2009, outflows and inflows were roughly equal. However, a comparison with the second half of 2009 shows that investment flows subsided significantly and the net capital flow changed direction.

Chart 12. Portfolio investment net flows 2001–2010/I–II

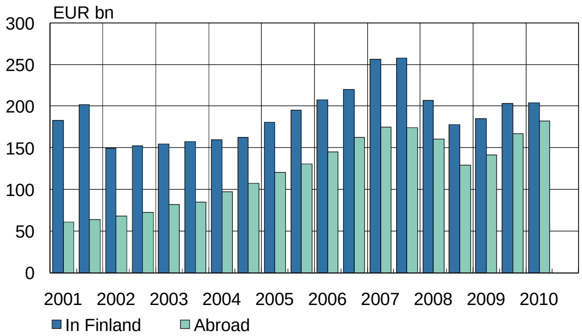


Source: Bank of Finland.

In the first half of the year, the capital outflow of Finnish investors was dominated by investment fund shares registered abroad, the net purchases of which amounted to EUR 5.3 billion, or more than three fourths of total investment. Investment in debt instruments and shares totalled only EUR 0.9 billion and EUR 0.7 billion, respectively. Of the domestic sectors, monetary financial institutions exported the most capital, EUR 3.9 billion. Capital outflow of monetary financial institutions included net purchases of bonds by the Bank of Finland amounting to EUR 2.8 billion. Net investments of investment funds registered in Finland and of employment pension funds and other social security funds totalled EUR 2.0 billion and EUR 1.4 billion, respectively. Insurance companies reduced their foreign investment by EUR 0.5 billion.

By the end of June 2010, Finland's outward portfolio investment had grown to EUR 182.3 billion. In addition to capital outflow, the market value was boosted by valuation changes, which in January–June added a total of EUR 8.5 billion to the stock of investment (Table 2). Valuation changes were primarily due to the weakening of the euro, particularly against the US dollar.

Chart 13. Stock of portfolio investment, semi annually 2001–2010/II



Source: Bank of Finland.

Foreign bonds accounted for slightly more than half of the stock of Finland's portfolio investment abroad (55%), acquired mainly by monetary financial institutions. A breakdown by sector shows that employment pension funds and other social security funds were the most significant domestic group of investors, their share of the total value of investment accounting for 42%. The corresponding share of monetary financial institutions was 23%, of investment funds registered in Finland 19%, and of insurance companies 13%.

In the first half of 2010, Finnish investors' interest and dividend earnings from investments in foreign securities totalled EUR 2.3 billion, up 36% on the corresponding period in 2009. The growth is a reflection of developments in the stock of investment.

Capital inflows consisted primarily of investments in Finnish bonds, the net sales of which abroad totalled EUR 10.1 billion. The Finnish government organised several bond auctions in the first half of the year, as a result of which foreign investment in Finnish government bonds rose to EUR 9.6 billion. In contrast, money market instruments issued by the government and monetary financial institutions were paid off and repurchased from abroad to a significant extent, in the amount of EUR 5.2 billion. Sales of investment fund shares abroad by investment funds registered in Finland totalled EUR 1.6 billion. Repurchases from abroad of Finnish shares totalled EUR 1.0 billion.

The market value of inward portfolio investment was EUR 203.8 billion at the end of June 2010, ie almost the same as at end-2009. Growth was greatly restricted by valuation changes of the same magnitude as the capital inflow but in the opposite direction, thus reducing the market value by EUR 5.5 billion. Valuation changes were due to lower prices of shares held by foreign investors. In the first half of the year, Nokia fell by nearly 25% on the Helsinki Stock Exchange, even though the OMX Helsinki index fell only 3%.

Inward portfolio investment stocks were also dominated by bonds, with their share accounting for 56%. Central government was the primary issuer of bonds, in the amount of EUR 61.0 billion. Due to heavy issuance in the first half of the year, the central government accounted for slightly more than a third of total inward portfolio investment at the end of June 2010. For the first time in many years, government became the most significant issuer of securities, with the corporate sector accounting for less than a third, due to share repurchases and declines in market value.

In the first half of the year, investment income outlays abroad on Finnish securities grew to EUR 4.7 billion. Together companies and investment funds paid dividends abroad to the total value of EUR 2.5 billion, ie only slightly more than last year. In contrast, interest expenses related to debt securities increased by 14%, primarily due to the increase in bonds outstanding.

Table 2. Portfolio investment abroad and in Finland by investment type in the first half of 2010

EUR m	Investment stock, 31 December 2009	Net capital flows, January-June 2010	Exchange rate and other valuation changes, January-June 2010	Investment stock, 30 June 2010	Dividends and interest, January-June 2010
Finnish portfolio investment abroad					
Equity securities	26 318	740	2 070	29 127	450
Fund shares	40 494	5 287	4 129	49 910	152
Bonds and notes	97 923	1 000	2 097	101 021	1 662
Money market instruments	2 141	-91	230	2 280	8
Total	166 877	6 935	8 526	182 338	2 273
Foreign portfolio investment in Finland					
Equity and fund shares	74 814	657	-9 656	65 816	2 528
Bonds and notes	100 990	10 143	2 298	113 431	2 015
Money market instruments	27 678	-5 009	1 885	24 555	133
Total	203 483	5 791	-5 473	203 802	4 676

Source: Bank of Finland.

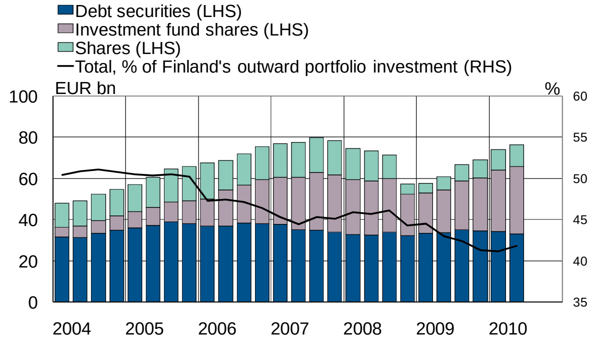
3.2 Employment pension funds have increased their investment in investment fund shares and reduced their investment in bonds

At the end of June 2010, the market value of Finnish employment pension funds’ and other social security funds’ portfolio investment abroad was EUR 76.3 billion. Broken down by instrument, employment pension funds held EUR 33.1 billion in foreign debt securities, EUR 32.6 billion in investment fund shares and EUR 10.5 billion in shares .[8] This sector has held a relatively steady share of the value of stock of foreign securities, varying from slightly more than 50% to slightly more than 40% (Chart 14). However, the trend has been gradually downward, especially in the second half of the decade. At the end of June 2010, the stock of foreign investment, according to balance of payments statistics, accounted for slightly less than 60% of the total stock of investment (domestic and international) by employment pension funds and other social security funds. [9]

[8] Nearly all investment in debt securities consisted of bonds; money market instruments accounted for only 0.2% of debt securities at the end of June 2010. Fund units include investment in private equity funds.

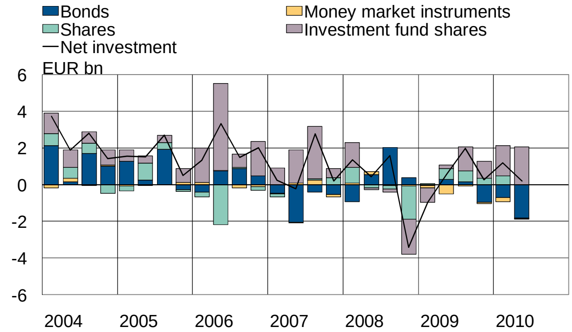
[9] Source: The Finnish Pension Alliance TELA (23 August 2010).

Chart 14. Stocks of outward portfolio investment by employment pension funds and other social security funds; quarterly, 2004/I–2010/II



Source: Bank of Finland.

Chart 15. Flows of outward portfolio investment by employment pension funds and other social security funds; quarterly, 2004/I–2010/II



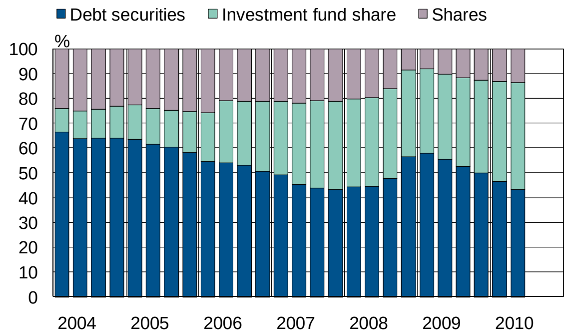
Source: Bank of Finland.

Capital exports, or net outward investment flow by employment pension funds and other social security funds have remained steady for a number of years (Chart 15). On a quarterly basis, significant capital imports, or inflows from the unwinding of foreign investment have occurred only in the last quarter of 2008 and first quarter of 2009. The financial crisis of 2008 and the subsequent fall in market values resulted in a major reselling of shares and investment fund shares abroad. At the end of spring 2009, investment flows turned outward, a trend that continued in early 2010.

However, a breakdown by instrument reveals clear differences in recent flows. Employment pension funds and other social security funds have increased their investment particularly in foreign investment fund shares and to an extent in foreign shares. In contrast, they have sold foreign bonds and money market instruments. Bond sales began in the last quarter of 2009 and were stepped up in late spring 2010, following escalation of the Euro area debt crisis.

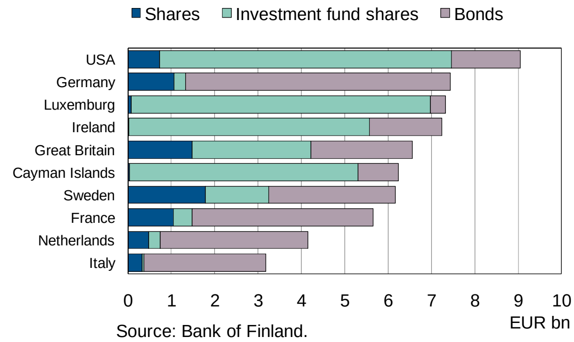
The increased importance of investment fund shares exemplifies the changes in employment pension funds' long-term investment strategies. The share of investment fund shares in the stock of foreign investment has increased steadily from the slightly less than 10% at the beginning of 2004 to nearly 43% at the end of June 2010 (Chart 16). In contrast, the share of debt instruments (in practice, bonds) has declined from about two thirds to slightly more than 43%. At the time of the financial crisis in late 2008 and early 2009, the debt instruments temporarily gained in importance, but their share has subsequently continued to decline. Previously accounting for almost a fourth, shares now account for slightly less than 14%, despite a slight increase since the crash of 2008. As each investment fund in turn allocates its funds across different investment outlets, in line with its own investment policy, direct purchases of shares and bonds by employment pension funds have been overshadowed by indirect investment in these instruments via investment funds.

Chart 16. Stocks of outward portfolio investment by employment pension funds and other social security funds; total share of instrument in stock, 2004/I–2010/II



Source: Bank of Finland.

Chart 17. Stocks of outward portfolio investment by employment pension funds and other social security funds by country 30 June 2010 (10 major)

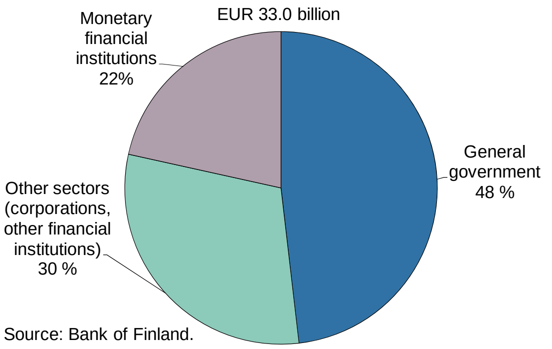


Source: Bank of Finland.

The geographic distribution of the stock of investment in foreign securities by employment pension funds and other social security funds at the end of June 2010 deviates somewhat from the distribution of investment for all Finnish sectors (Chart 17 and Chart 36 in Appendix 1). The most significant change is that the USA appears as the number one outlet for investment by employment pension funds and other social security funds and Sweden drops to number seven. This change is explained by the fact that employment pension funds have acquired investment fund shares particularly from the USA. Investment in investment funds has also upgraded the role of Luxembourg, Ireland and Cayman Islands as investment outlets. Investment in shares has primarily been in Sweden, UK and Germany. Bonds are mainly issues of Germany, France and the Netherlands.

Although the role of bonds in the stock of outward investment by employment pension funds and other social security funds has gradually declined, bonds continued to be the most important instrument in terms of market value at the end of June 2010. Broken down by issuing sector, employment pension funds' investment in foreign general government bonds amounts to EUR 15.9 billion, or half of their investment in bonds (Chart 18). In practice, general government bonds were mainly issued by central governments. Bonds issued by foreign monetary financial institutions accounted for a good fifth; the majority of these were bonds issued by the banking sector. The remainder of investment in bonds consisted of issues of the corporate sector and other monetary financial institutions.

Chart 18. Stocks of outward investment in bonds by employment pension funds and other social security funds by issuing sector, 30 June 2010



Source: Bank of Finland.

Employment pension funds' investment in foreign general government bonds are mainly issues of Germany, which accounted for approximately 30% of the stock of general government bonds at the end of June 2010. The respective shares of Italy, now the second largest outlet, and France were 15% and slightly more than 14%.

Box 1. Monetary presentation of the balance of payments

The European Central Bank (ECB) regularly publishes a monetary presentation of the euro area balance of payments as Table 7.4 in its Monthly Bulletin. The monetary presentation of the balance of payments is discussed in greater detail in the ECB's Monthly Bulletin of June 2003. Further information can be found on the ECB's website under *Statistics* and in the ECB's August 1999 Monthly Bulletin. This box introduces the monetary presentation of the balance of payments and examines it from the perspective of Finland's balance of payments.

1.1 Theoretical framework for the monetary presentation

In the balance of payments, a distinction can be made between the external transactions of the MFI sector and those of the non-MFI sector (Table 3). This distinction characterises the monetary presentation of the balance of payments, which can be used for analysing the external counterpart of the monetary aggregate M3.[10] A presentation of M3 in terms of its counterparts is obtained by calculating M3 on the basis of the consolidated balance sheet of the MFI sector (Table 4). In this context, a change in the net external assets of the MFI sector (external counterpart of M3) is a direct component of a change in the amount of money in circulation (M3), which makes it an interesting topic for analysis. Based on the monetary presentation of the balance of payments, a change[11] in the net external assets of the MFI sector is the same as the balance of payments of the non-MFI sector. Accordingly, changes in the external counterpart of M3 can be analysed using the balance of payments of the non-MFI sector, derived from the monetary presentation of the balance of payments. Account should be taken of the fact that the presentation of M3 in terms of its counterparts is an accounting identity and does not reflect a causal relationship between M3 and its counterparts.

Table 3. Monetary presentation of the balance of payments

External transactions of the non-MFI sector:
Current account
+ Capital account
+ Balance of financial transactions by the non-MFI sector
+ Errors and omissions
= Balance of payments of the non-MFI sector
External transactions of the MFI sector:
Balance of financial transactions of the central bank
+ Balance of financial transactions by other MFIs
= Balance of payments f of the MFI sector
Balance of payments of the non-MFI sector
= – Balance of payments of the MFI sector
= Change in the net external assets of the MFI sector

Source: European Central Bank, Monthly Bulletin 8/1999.

[10] M3 includes currency in circulation, overnight deposits, deposits with an agreed maturity of up to two years, deposits redeemable at notice of up to three months, repurchase agreements made by MFIs and debt securities issued by MFIs with a maturity of up to two years, and money market fund shares/units.

[11] Corrected for valuation changes and other adjustments.

Table 4. Consolidated balance sheet of the MFI sector

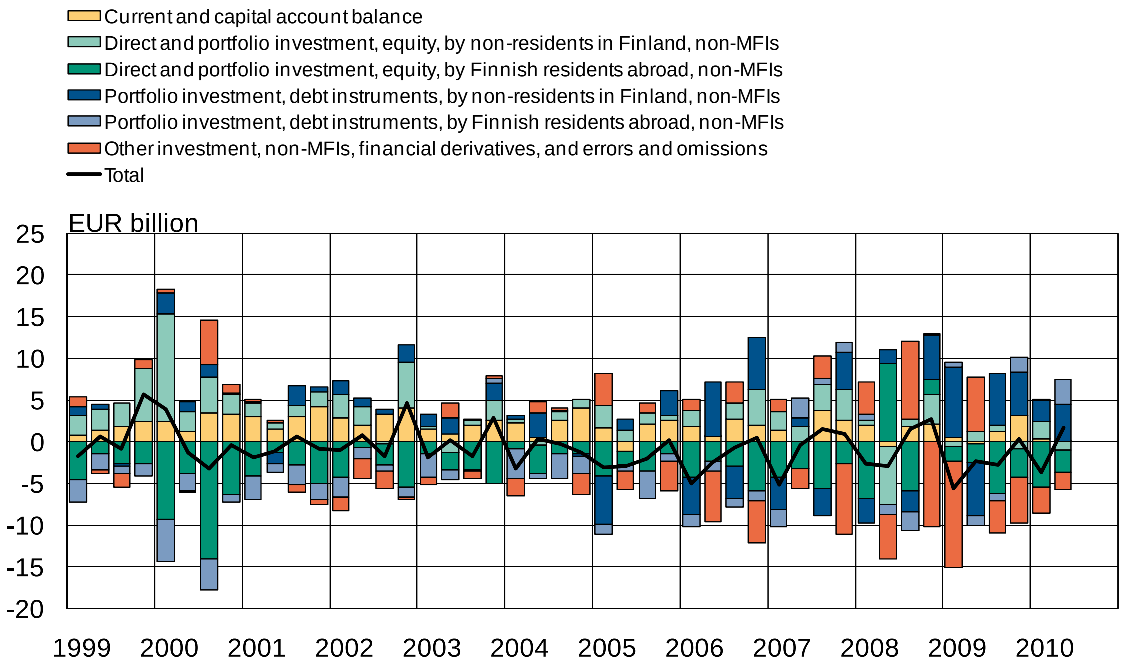
Assets	Liabilities
Credit to residents	M3
Claims on non-residents (external assets)	Longer-term financial liabilities
Other assets (including fixed assets)	Liabilities to non-residents (external liabilities)
	Other liabilities (including deposits held by the central government)

⇒ M3 = Credit to residents + net external assets – longer-term financial liabilities + other counterparts (net)

Source: European Central Bank, Monthly Bulletin 8/1999.

External transactions by non-MFIs resident in a particular country have a direct impact on the external assets and liabilities of the MFI sector, to the extent that the transactions are settled via resident banks. Thus transactions of non-MFIs are reflected in the balance of payments as counterparts to MFI transactions. If, for example, a resident of a particular country (a non-MFI) purchases a bond issued by a non-resident, the external liabilities of a resident bank will increase by the same amount if the proceeds received by the seller of the bond are held in an account with that bank. For this reason, external transactions by MFIs (balance of payments of the MFI sector) reflect, in mirror image, external transactions by resident non-MFIs (balance of payments of the non-MFI sector). The overall impact of external transactions by MFIs is likewise consistent with changes in the net external asset position of the MFI sector, again in mirror image. This is the case because a change in the net asset position is calculated on the basis of the difference between the change in assets and the change in liabilities, whereas the balance of payments of the MFI sector is obtained from the difference between the change in liabilities and the change in assets. Combining these two elements produces the result that the change in the net external assets of the MFI sector is the same as the balance of payments of the non-MFI sector. In practice, a perfect identity is not obtained, owing to differences in compilation and methodology. Moreover, in this monetary presentation of the balance of payments, transactions by non-MFIs include some transactions by MFIs. These are items that are not included in changes in the net external assets of the MFI sector, as shown in the consolidated balance sheet of the MFI sector, or are not broken down by sector. In other words, these items include MFI current and capital account balances, MFI financial derivatives transactions, and the errors and omissions in the balance of payments related to MFI external transactions.

Chart 19. Monetary presentation of Finland's balance of payments,1999/I–2010/II



Source: Bank of Finland.

1.2 Monetary presentation of Finland's balance of payments

The overall impact of BOP items related to transactions by non-MFIs is usually negative, ie capital flows for non-MFIs have been outward on net (Chart 19 and Table 5). Occasionally, however, the overall impact has been positive, often then for the fourth quarter of the year. The current account surplus has meant fairly strong capital flows into Finland. Likewise, direct investments by non-residents in Finland and portfolio investments by non-residents in Finnish equities and debt instruments are, from the perspective of the monetary presentation of the balance of payments, key positive factors in the money supply. Correspondingly, direct investments by Finnish residents abroad and portfolio investments by Finnish residents in foreign equities and debt instruments are important negative factors in the money supply. The financial crisis has caused the current account surplus to contract or move into deficit, which has reduced the money supply. On the other hand, investments by non-residents in Finnish debt instruments have increased in the same period, thereby providing a boost to the money supply.

Table 5. Monetary presentation of Finland's balance of payments,1999/I–2010/II

Bop items mirroring net transactions by MFIs, EUR billion

	Total	Current and capital account balance	Transactions by non-MFIs								Financial derivatives	Errors and omissions
			Direct investment		Portfolio investment				Other investment			
			By resident units abroad	By non-resident units in Finland	Assets		Liabilities		Assets	Liabilities		
					Equity	Debt instruments	Equity	Debt instruments				
1999/I	-1,7	0,8	-3,3	1,4	-1,3	-2,6	0,9	1,0	-0,7	0,9	0,0	1,1
1999/II	0,7	1,4	-0,3	1,5	-1,1	-2,0	1,1	0,5	-0,7	0,6	-0,1	-0,2
1999/III	-0,8	1,9	-1,4	0,9	-1,2	-0,9	1,9	-0,2	0,3	0,5	-0,1	-2,3
1999/IV	5,6	2,5	-1,2	0,4	-1,5	-1,4	5,9	0,0	-0,1	0,3	-0,1	0,9
2000/I	4,0	2,3	-5,2	5,6	-4,2	-5,0	7,4	2,5	-0,4	-0,3	-0,2	1,3
2000/II	-1,2	1,2	-2,5	0,8	-1,4	-2,1	1,6	1,2	-0,2	0,7	-0,2	-0,4
2000/III	-3,2	3,5	-13,1	2,1	-1,0	-3,7	2,2	1,4	-0,6	5,9	0,0	0,2
2000/IV	-0,5	3,3	-5,3	0,9	-1,0	-0,9	1,5	0,1	-0,3	3,2	-0,3	-1,6
2001/I	-1,9	3,1	-2,6	0,7	-1,5	-2,8	0,9	0,1	0,3	0,1	0,2	-0,3
2001/II	-1,1	1,5	0,9	0,4	-2,2	-0,9	0,3	-1,5	-2,5	-1,2	-0,4	4,3
2001/III	0,7	3,0	-1,8	0,7	-1,0	-2,3	0,7	2,3	0,2	0,3	0,0	-1,3
2001/IV	-0,9	4,1	-3,9	-0,6	-1,1	-2,0	2,5	0,6	-0,3	1,2	0,2	-1,7
2002/I	-1,0	2,9	-2,6	1,9	-1,6	-2,4	1,0	1,5	-0,4	0,3	0,0	-1,6
2002/II	0,8	1,9	1,3	0,9	-2,0	-1,4	1,3	1,2	-1,9	-0,1	-0,2	-0,1
2002/III	-1,7	3,3	-1,8	-0,2	-0,8	-0,8	0,0	0,6	-0,5	-0,1	-0,1	-1,3
2002/IV	4,7	4,1	-4,2	5,1	-1,3	-1,2	0,4	2,1	1,3	0,1	-0,1	-1,7
2003/I	-1,8	1,6	-0,4	0,6	-1,1	-2,8	-0,3	1,4	-1,4	-0,9	0,3	1,1
2003/II	0,2	0,9	-0,9	-1,3	-1,1	-1,1	0,0	2,0	-1,9	0,5	0,6	2,6
2003/III	-1,8	2,0	-1,8	0,5	-1,5	0,1	0,1	-0,2	1,0	0,0	1,2	-3,0
2003/IV	2,9	2,5	-3,9	2,9	-1,1	0,6	-0,5	2,1	0,2	0,8	-0,5	-0,2
2004/I	-3,3	2,3	2,2	1,1	-3,0	-3,6	-0,7	0,4	3,1	-2,7	0,6	-3,1
2004/II	0,4	0,5	-1,3	-0,6	-2,2	-0,6	0,2	2,9	-1,9	0,2	0,1	3,0
2004/III	-0,3	2,5	0,0	1,1	-1,4	-3,0	0,0	0,1	-0,1	-0,1	0,2	0,3
2004/IV	-1,2	4,1	0,0	0,7	-1,5	-2,1	0,3	-0,3	-1,7	1,0	-0,4	-1,4
2005/I	-3,0	1,6	-3,1	1,9	-1,0	-1,2	0,8	-5,9	4,6	-1,2	-0,2	0,6
2005/II	-3,0	-1,1	0,6	-0,8	-2,3	-0,8	2,2	1,3	-2,8	1,4	0,8	-1,4
2005/III	-2,0	2,2	-0,8	0,6	-2,7	-3,1	0,6	-0,1	0,6	0,1	0,7	-0,1
2005/IV	0,2	2,5	0,1	1,0	-1,5	-0,9	-0,4	3,0	-2,4	0,1	0,5	-1,8
2006/I	-5,1	1,9	-0,4	1,1	-3,8	-1,4	0,8	-4,5	2,3	-0,9	-0,1	0,1
2006/II	-2,5	0,6	-0,1	-0,4	-2,2	-1,2	0,5	6,5	-6,0	0,1	0,1	-0,4
2006/III	-0,7	2,6	-1,1	1,6	-1,8	-1,0	0,4	-3,8	4,6	0,3	0,5	-2,9
2006/IV	0,5	1,9	-2,3	2,8	-3,6	-1,1	1,7	6,2	-4,2	-0,3	-0,5	0,0
2007/I	-5,2	1,4	-2,1	1,4	-2,2	-2,1	0,8	-3,8	3,9	1,9	-0,4	-4,0
2007/II	-0,4	0,0	-0,5	0,7	-2,7	2,3	1,1	1,1	-4,8	0,3	0,2	1,9
2007/III	1,4	3,7	-2,0	1,3	-3,7	0,7	1,9	-3,1	3,2	0,1	0,1	-0,8
2007/IV	0,9	2,5	-1,2	4,0	-1,4	1,3	-0,3	4,4	-3,5	0,6	-0,6	-5,0
2008/I	-2,6	2,0	-4,8	0,5	-2,0	0,8	0,0	-3,0	1,5	2,9	-1,9	1,3
2008/II	-3,0	-0,5	8,6	-6,6	0,8	-1,2	-0,3	1,6	-4,2	1,7	-0,2	-2,7
2008/III	1,5	1,8	-7,0	1,3	1,0	-2,3	-0,4	-2,4	6,9	1,9	0,5	0,1
2008/IV	2,7	2,1	-3,0	3,7	4,7	0,1	-0,1	5,4	-1,1	1,3	3,0	-13,4
2009/I	-5,6	0,5	-1,2	0,5	-0,6	0,6	-1,1	8,4	-10,1	1,4	1,6	-5,7
2009/II	-2,3	-0,3	0,4	-0,6	-2,6	-1,1	1,8	-6,4	10,0	-0,6	-0,3	-2,5
2009/III	-2,7	1,3	-2,0	1,4	-4,2	-0,9	-0,7	6,3	-4,0	-1,9	0,6	1,4
2009/IV	0,4	3,2	0,0	-1,0	-3,4	1,7	0,1	5,2	3,2	0,0	0,3	-9,0
2010/I	-3,6	0,3	-0,5	1,1	-4,9	0,1	1,1	2,5	-0,3	-0,9	0,1	-2,1
2010/II	1,7	0,1	-1,5	-0,5	-1,1	2,9	-0,5	4,4	-5,4	1,7	-0,4	2,0

Source: Bank of Finland.

The monetary presentation of the balance of payments is useful in analysing the structure of changes in the external counterpart of M3. This is not directly possible via the standard presentation of the balance of payments. Consideration should also be given to the fact that a national monetary presentation of the balance of payments enables an analysis of changes in the external counterpart of M3 relative to a virtual national monetary aggregate rather than relative to the national contribution to a euro area monetary aggregate. But it has been found that, for a small open economy, it is not very useful to undertake a detailed analysis of changes in the money supply.

Box 2. Trade credits as part of financial account's other investments

Trade credits in connection with foreign trade in goods and services is one of the subitems of the financial account's 'other investments'. Foreign trade credit liabilities comprise export advances and import-related suppliers' credit. Trade credit assets comprise export claims and import advances.

In the balance of payments statistics, data on trade credits are collected in connection with the monthly survey on foreign assets and liabilities. In addition, an estimate is made of trade credits of enterprises not covered by the monthly survey, which is then added to the figure from the monthly survey. The estimate is revised every few years by means of a more extensive survey focusing exclusively on trade credits.

This box briefly reviews the results of the trade credits survey conducted in summer 2010 and addresses some of the problems relating to the statistics on trade credits. The previous survey was carried out by the Bank of Finland in 2005.

Basis of the survey

The group of respondents was derived from data collected by the National Board of Customs, which lists all enterprises that imported or exported goods in 2009. All the major import and export enterprises were taken to the survey. In addition, as representative a sample as possible was drawn from smaller enterprises, in order to determine whether small enterprises involved in goods importing or exporting had any trade credits.

A total of 655 enterprises were selected for the group of respondents. Data provided by the monthly reporting enterprises were also used. Together, these enterprises covered over 70% of Finland's goods imports and over 85% of goods exports in 2009.[12]

The data collected by Customs include some foreign enterprises that import or export goods to or from Finland. These enterprises do not however release financial statements in Finland. The statistics on goods trade record imports and exports when the goods cross the Finnish border. This means that, for example, no changes in ownership or payment transfers are necessary for the data to be included in the statistics. This caused some problems in the selection of the respondent group for the trade credits survey, since foreign enterprises are not obliged to report data to the Bank of Finland. For this reason, the coverage of the respondent group can actually be even better than stated above when enterprises not subject to the reporting obligation are excluded.

Survey results

At the end of 2009, trade credit liabilities totalled EUR 4.2 billion and trade credit assets EUR 4.5 billion.[13] The response rate in the summer 2010 survey was about 90%. A total of 395 respondent enterprises had trade credits: 365 enterprises had trade credit liabilities and 301 enterprises had trade credit assets.

Trade credit assets consisted almost entirely of export claims, whereas trade credit liabilities are divided about evenly between imports and exports. Foreign trade credit liabilities have fluctuated closely

[12] If all small enterprises (of which a sample was selected, as explained previously) were taken into account, the coverage is markedly over 90% for both imports and exports.

[13] The figures are not yet included in the balance of payments statistics released on 15 September 2010.

in line with good exports in recent years. The contraction in exports due to the financial crisis is also clearly reflected in the shrinkage of trade credit assets.

Chart 20. Trade credit assets and liabilities and goods trade, 2004/I–2010/II

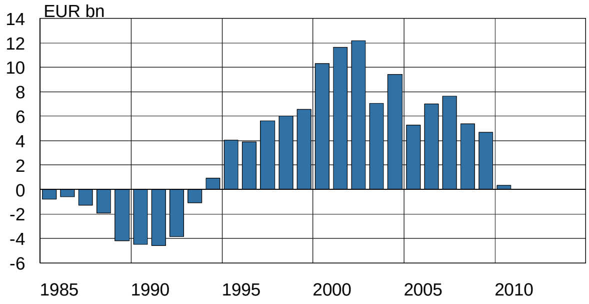
Source: Bank of Finland.

Improvements in balance of payments statistics

The Bank of Finland's statistics unit has already begun to revaluate the compilation method for trade credits data, and data collection will be a focal point in the development of surveys in the near future. It was also observed in connection with this survey that the terminology used in the statistics does not always accord with accounting terminology, and this should be taken into account in the surveys. It is also being discussed whether trade credits data should be collected in connection with the annual survey on foreign assets and liabilities and whether the less frequent and more extensive trade credit survey should be discontinued. For the time being, trade credits data will be collected on a monthly basis from a small group of enterprises, and a more extensive survey will be carried out every few years.

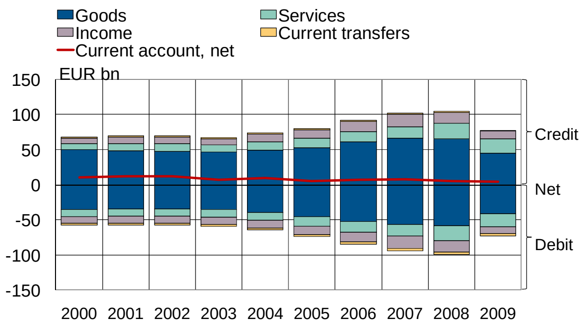
Appendix 1. Charts

Chart 21. Current account, 1985–2010/I–II



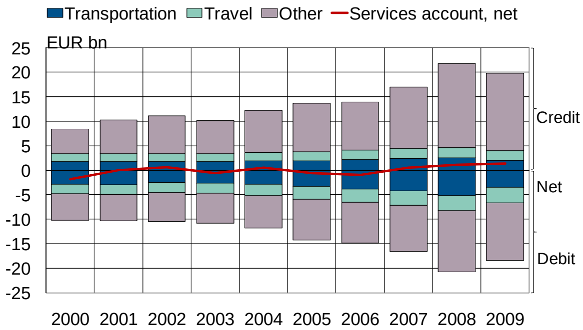
Source: Bank of Finland.

Chart 22. Distiribution of credit and debit in current account, 2000–2009



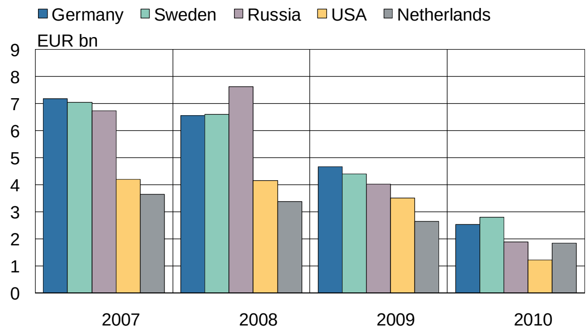
Source: Bank of Finland.

Chart 23. Current account in 2000–2009: breakdown of services exports and imports



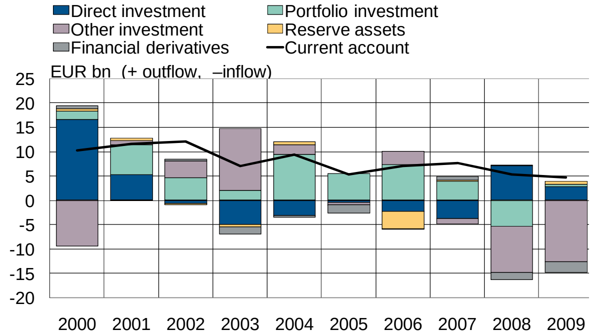
Sources: Bank of Finland and Statistics Finland.

Chart 24. Goods exports by country, 5 largest countries, 2007–2010



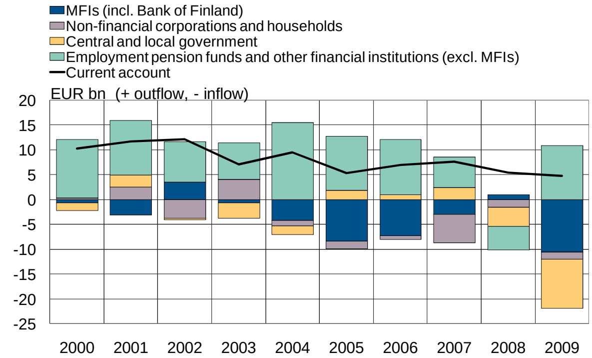
Source: Bank of Finland.

Chart 25. Capital movements by investment type, 2000–2009



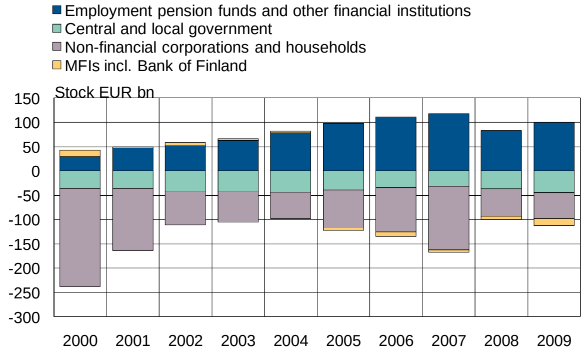
Source: Bank of Finland.

Chart 26. Capital movements by sector, 2000–2009



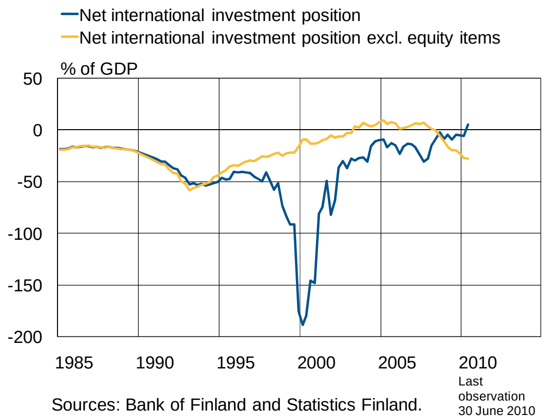
Source: Bank of Finland.

Chart 27. Finland's external assets and liabilities by sector, 2000–2009



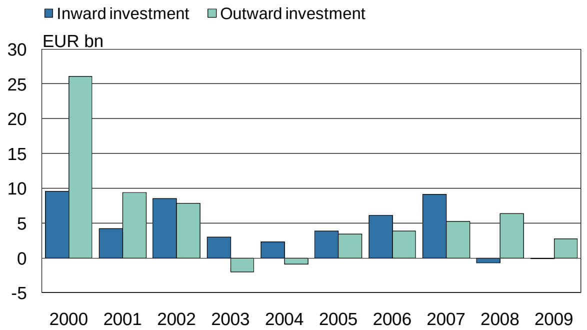
Source: Bank of Finland.

Chart 28. Finland's net international investment position (assets – liabilities), 1985–2010/II



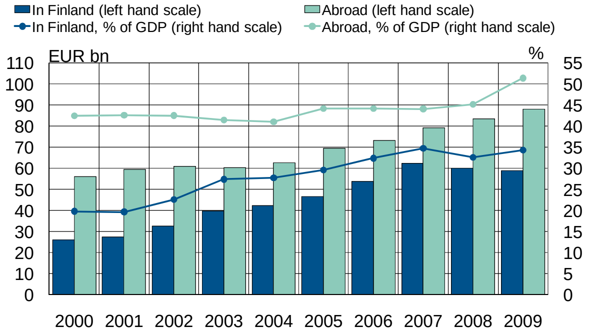
Sources: Bank of Finland and Statistics Finland.

Chart 29. Direct investment, net capital flows, 2000–2009



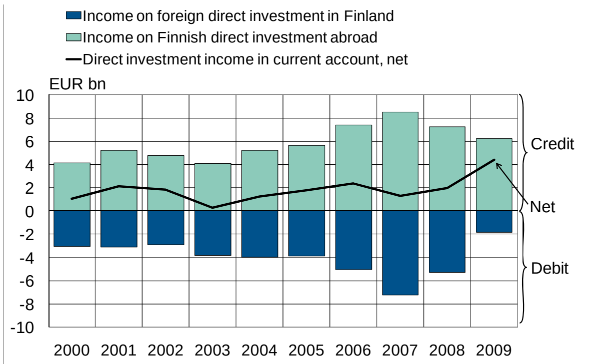
Source: Bank of Finland.

Chart 30. Direct investment, stock, 2000–2009



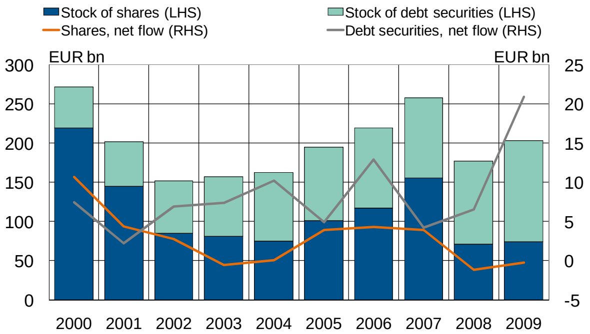
Source: Bank of Finland.

Chart 31. Direct investment income, 2000–2009



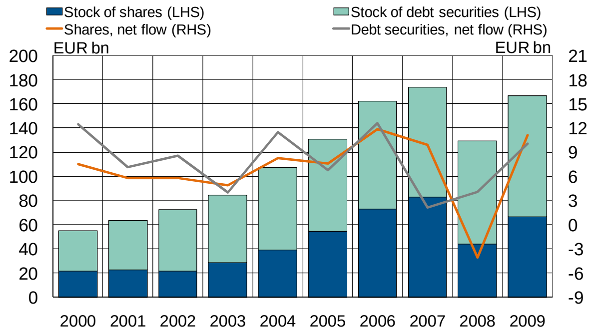
Source: Bank of Finland.

Chart 32. Inward portfolio investment in 2000–2009



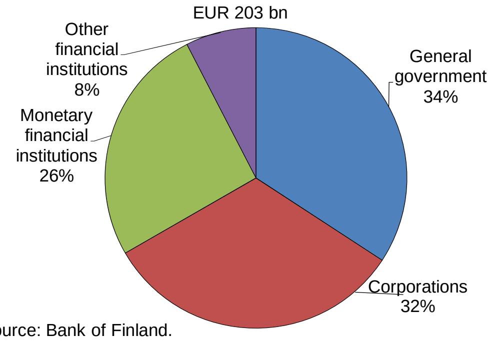
Source: Bank of Finland.

Chart 33. Ourward portfolio investment in 2000–2009



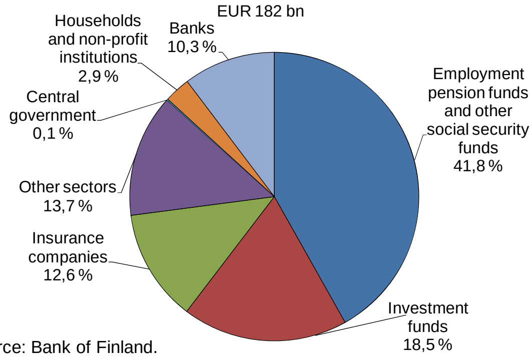
Source: Bank of Finland.

Chart 34. Inward portfolio investment by issuing sector: stock of investment at 30 June 2010



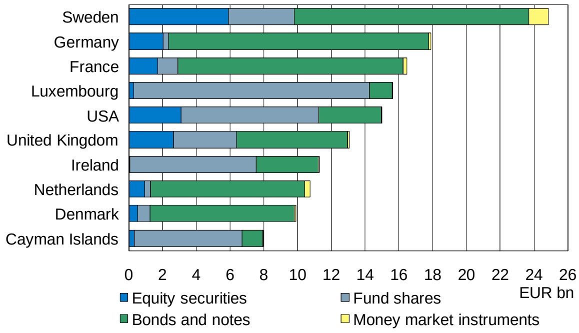
Source: Bank of Finland.

Chart 35. Finnish portfolio investment abroad by sector: stock of investment at 30 June 2010



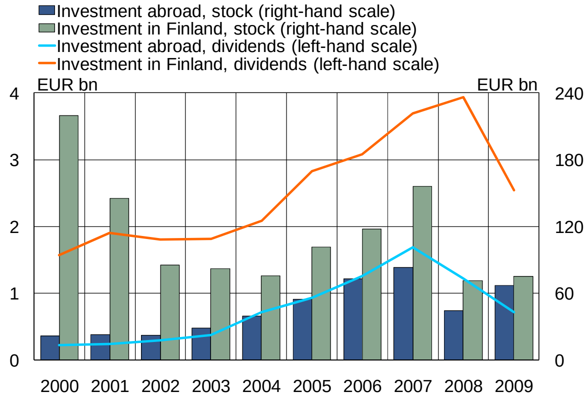
Source: Bank of Finland.

Chart 36. Geographical breakdown of Finnish portfolio investment abroad: stock 30 June 2010



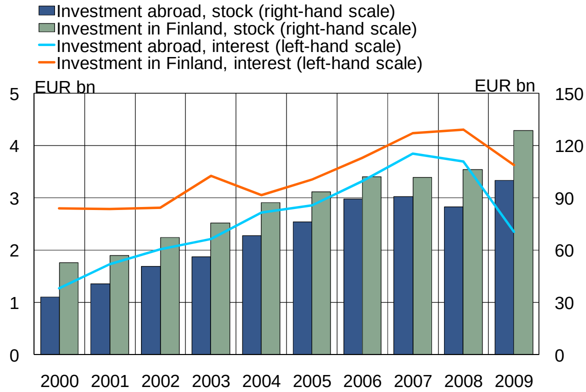
Source: Bank of Finland.

Chart 37. Portfolio investment, shares and investment fund shares, stock and dividends 2000–2009



Source: Bank of Finland.

Chart 38. Portfolio investment, debt securities, stock and interest 2000–2009



Source: Bank of Finland.