

Balance of Payment

The balance of payments (BOP) records all the transactions, be they in goods, services or assets, of the concerned country with the rest of the world. All such transactions over a specified time period, usually a year, are kept track of in this way. In other words, the aim is to determine how much money is going in and out of the country's economy.

According with Analyst Prep, the balance of payments consists of three broad groups:

- Current account
- Financial account
- Capital account

The Current Account captures the inflow and outflow of goods and services. It also includes public and private gains on investments. Moreover, current accounts deal with credit and debit on merchandise trade, including raw materials and manufactured goods, and services such as transport and consultation fees.

Generally, the current account is decomposed into four sub-accounts, namely:

1. **The merchandise trade:** this includes all commodities and manufactured goods bought, sold or given away.
2. **Services:** these include fees for transportation, tourism, engineering, consultation, etc.
3. **Income receipt:** this includes the income derived from the ownership of assets, such as income for foreign investments and dividends and interest payments.
4. **Unilateral transfer:** unilateral transfers refer to earnings sent by individuals who are based abroad to their respective countries. It also includes foreign aid provided by other countries.

The Capital includes recordings of international capital transfers. It refers to the acquisition or disposal of non-financial and non-produced assets required for production. The capital account is broken down into two sub-accounts.

The two sub-accounts included in the capital account are discussed below.

1. Capital transfers include monetary flows that emanate from debt forgiveness, transfer of goods and financial assets when leaving or getting into a country.

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2. Sales and purchase of non-produced, non-financed assets such as the sale and purchase of intangible assets such as copyrights, leases, and trademarks.

The financial account is sub-divided into:

1. Financial Assets Abroad: these are further divided into official reserve assets, government reserve, and private assets. Examples of these assets are gold and foreign currencies.
2. Foreign-owned Assets: similarly, these are divided into official and other foreign assets. Examples of these assets are direct investments and securities issued by the reporting country's government and private sectors.

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