



# The Structure of Balance of Payments

Student 43-FC group  
O. Antonenko



# The balance of payments

(BoP)

- is a statistical statement that systematically summarises, over a given period of time, all the transactions of an economy with the rest of the world.



# Transaction

- The balance of payments records all economic transactions undertaken between the *residents and non-residents* of a country during a given period

## Transaction

an economic flow that reflects the creation, transformation, exchange, transfer, or extinction of economic value and involves changes in ownership of goods and/or financial assets, the provision of services, or the provision of labour and capital





- BoP is an important macro-economic indicator used to assess the position of an economy (of credit or debit) towards the external world.







- The balance of payment record is maintained in a standard double-entry book-keeping method. International transactions enter in to the record as credit or debit. The payments received from foreign countries enter as credit and payments made to other countries as debit.





- Balance of Payment is a record pertaining to a period of time; usually it is all annual statement. All the transactions entering the balance of payments can be grouped under three broad accounts;
  - Current Account,
  - Capital Account,
  - Official International Reserve Account.
- However, it can be vertically divided into many categories as per the requirement.





<i>Receipts (Credits)</i>	<i>Payments (Debits)</i>
1) Exports of goods	1) Imports of goods
<b><i>Trade Account Balance</i></b>	
2) Exports of services	2) Imports of services
3) Interests, profits and dividends received	3) Interests, profits and dividends paid
4) Unilateral receipts	4) Unilateral Payments
<b><i>Current Account Balance</i></b> <b><i>(1 to 4)</i></b>	
5) Foreign Investments	5) Investments abroad
6) Short term borrowing	6) Short term lending
7) Medium and long term borrowing	7) Medium and long term lending
8)	Statistical discrepancy (Errors and omission)
<b><i>Capital Account Balance</i></b> <b><i>(5 to 8)</i></b>	
9) Change in reserves (+)	9) Change in reserves
<b><i>Total Receipts = Total payments</i></b>	

Structure of Balance of Payment (BOP)

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# 1. Trade Account Balance

- It is the difference between exports and imports of goods, usually referred as visible or tangible items. Till recently goods dominated international trade. Trade account balance tells as whether a country enjoys a surplus or deficit on that account. **An industrial country with its industrial products comprising consumer and capital goods always had an advantageous position.** Developing countries with its export of primary goods had most of the time suffered from a deficit in their balance of payments. **Most of the OPEC countries are in better position on trade account balance.**
- The Balance of Trade is also referred as the 'Balance of Visible Trade' or 'Balance of Merchandise Trade'.





# 2. Current Account Balance

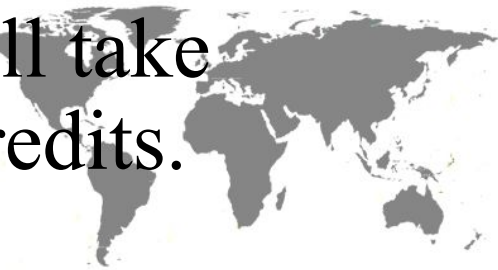
- It is difference between the receipts and payments on account of current account which includes trade balance. The current account includes export of services, interests, profits, dividends and unilateral receipts from abroad, and the import of services, interests, profits, dividends and unilateral Payments to abroad.
- **There can be either surplus or deficit in current account. The deficit will take place when the debits are more than credits or when payments are more than receipts and the current account surplus will take place when the credits are more than debits.**





# 3. Capital Account Balance

- It is difference between the receipts and payments on account of capital account. The capital account involves inflows and outflows relating to investments, short term borrowings/lending, and medium term to long term borrowing/lending.
- There can be surplus or deficit in capital account.
- The surplus will take place when the credits are more than debits and the deficit will take place when the debits are more than credits.





# 4. Foreign Exchange Reserves

- Foreign exchange reserves shows the reserves which are held in the form of foreign currencies usually in hard currencies like dollar, pound etc., gold and Special Drawing Rights (SDRs).
- Foreign exchange reserves are analogous to an individual's holding of cash. They increase when the individual has a surplus in his transactions and decrease when he has a deficit.
- When a country enjoys a net surplus both in current account & capital account, it increases foreign exchange reserves. Whenever current account deficit exceeds the inflow in capital account, foreign exchange from the reserve accounts is used to meet the deficit. If a country's foreign exchange reserves rise, that transaction is shown as minus in that country's balance of payments accounts because money is been transferred to the foreign exchange reserves.







- Foreign exchange reserves (forex) are used to meet the deficit in the balance of payments. The entry is in the receipt side as we receive the forex for the particular year by reducing the balance from the reserves. When surplus is transferred to the foreign exchange reserve, it is shown as minus in that particular year's balance of payment account. The minus sign (-) indicates an increase in forex and plus sign (+) shows the borrowing of foreign exchange from the forex account to meet the deficit.





# 5. Errors and Omission

- The errors may be due to statistical discrepancies & omission may be due to certain transactions may not be recorded.



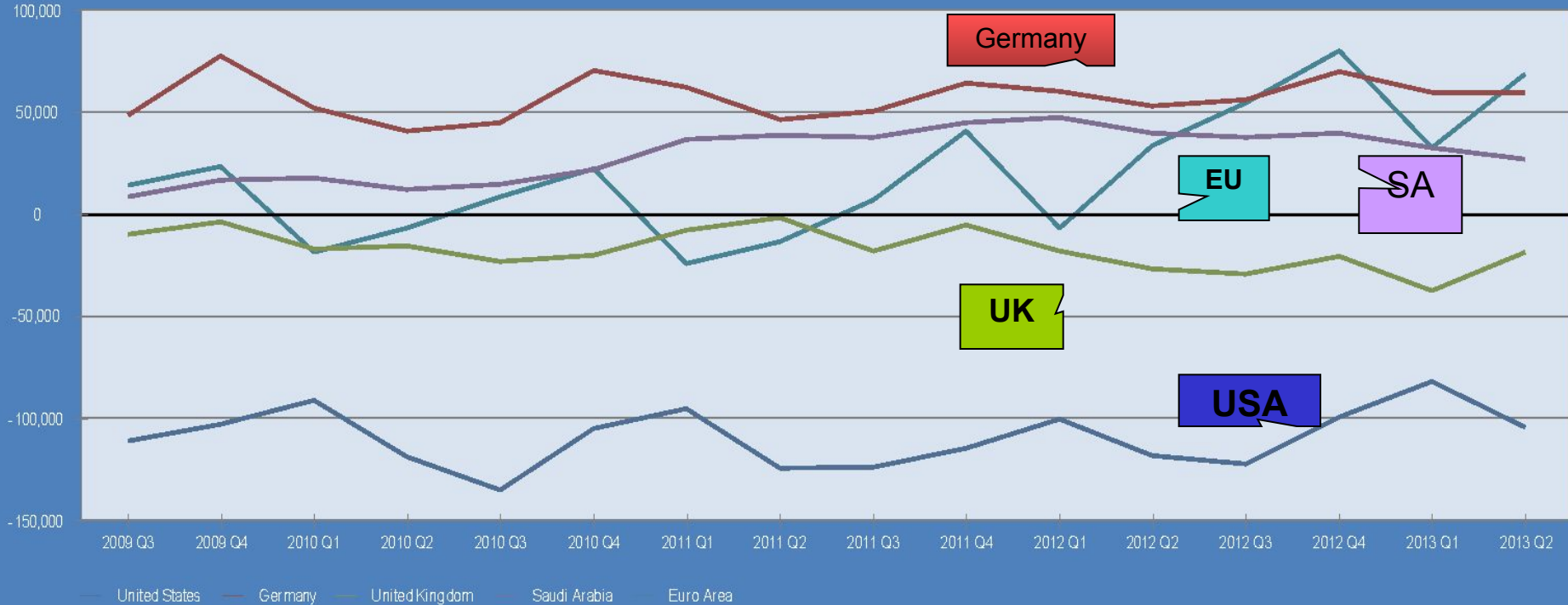




# Current Account Balance Top Countries 2013 Q1



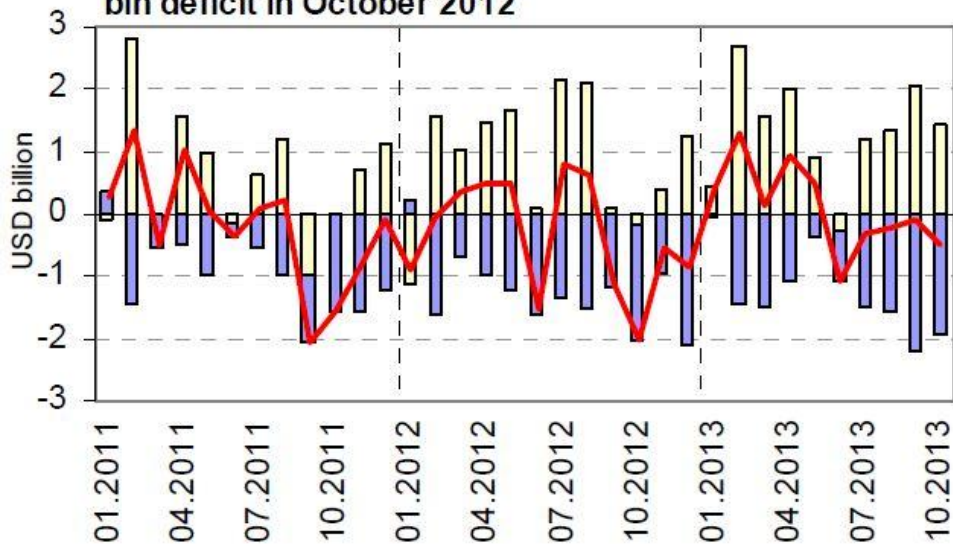
US Dollars, Millions



	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
<b>United States</b>	-100 433,00	-118 337,00	-122 476,00	-99 177,00	-82 056,00	-104 567,00
<b>Germany</b>	60 053,41	53 032,78	55 891,65	69 732,90	59 589,81	59 930,56
<b>United Kingdom</b>	-18 108,12	-26 776,15	-29 134,69	-20 538,87	-37 304,26	-18 744,46
<b>Saudi Arabia</b>	47 681,62	39 619,79	37 508,66	39 953,59	32 698,28	26 824,48
<b>Euro Area</b>	-6 995,94	33 550,47	54 402,85	80 288,62	32 471,53	69 006,19
<b>Netherlands</b>	21 388,94	17 017,77	15 477,09	18 849,18	27 825,92	17 712,25
<b>Russian Federation</b>	39 489,40	16 034,80	5 872,50	10 035,20	25 100,80	...
<b>Brazil</b>	-12 062,66	-13 182,06	-8 892,07	-20 109,60	-24 812,38	-18 641,54
<b>Switzerland</b>	12 617,74	19 477,33	14 640,05	17 084,04	18 903,64	31 681,24
<b>India</b>	-21 704,95	-16 932,70	-20 976,41	-31 857,19	-18 077,91	...

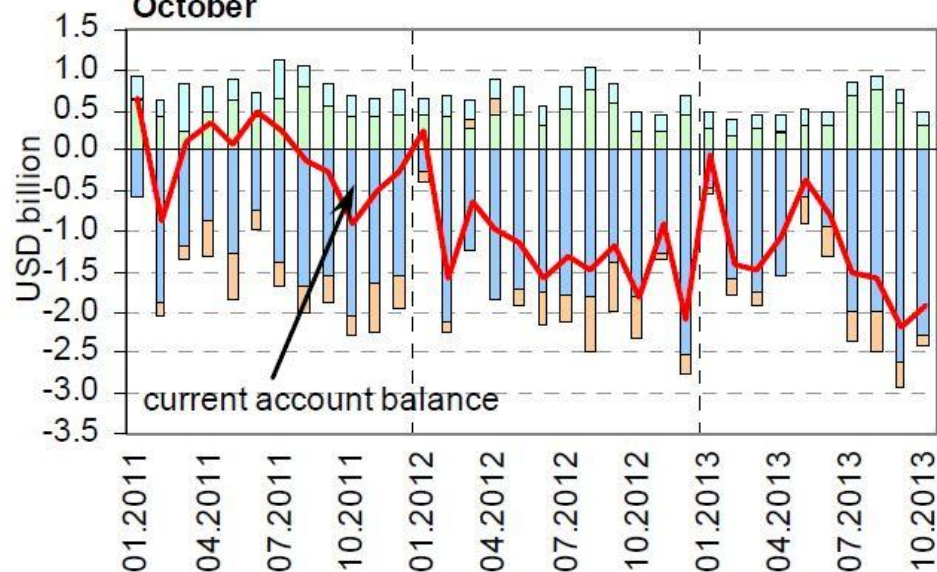


**The overall balance of payments deficit decreased to USD 0.5 bln compared with USD 2 bln deficit in October 2012**



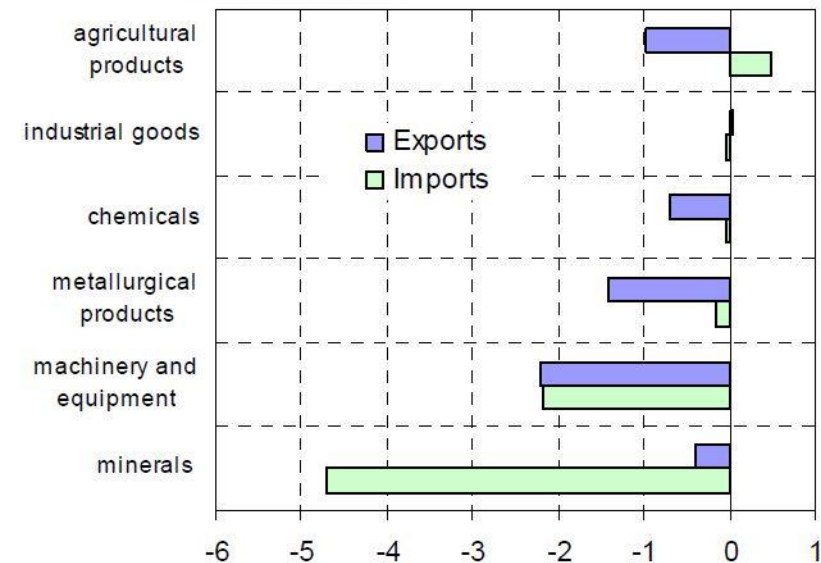
■ current account balance  
■ financial account balance  
— overall balance

**The current account deficit remained almost unchanged and amounted to USD 1.9 bln in October**

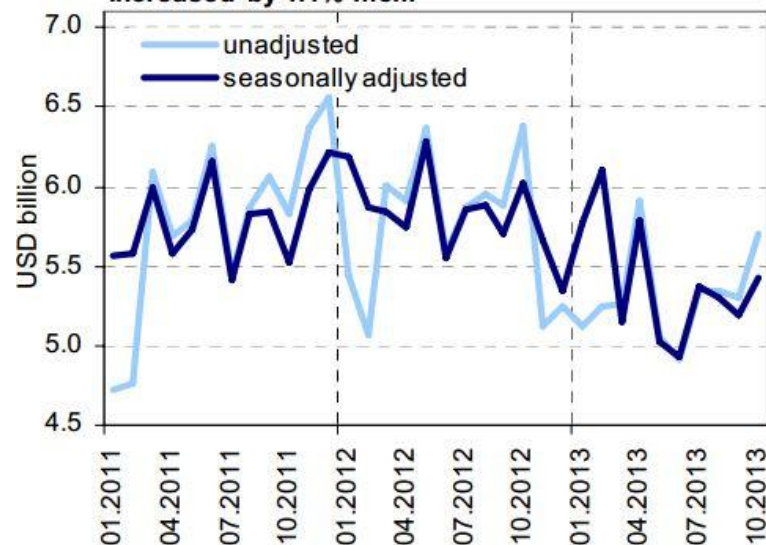


■ merchandise trade balance ■ services (net)  
■ income (net) ■ current transfers (net)

**Merchandise exports and imports, yoy growth in 10M13, USD bln.**

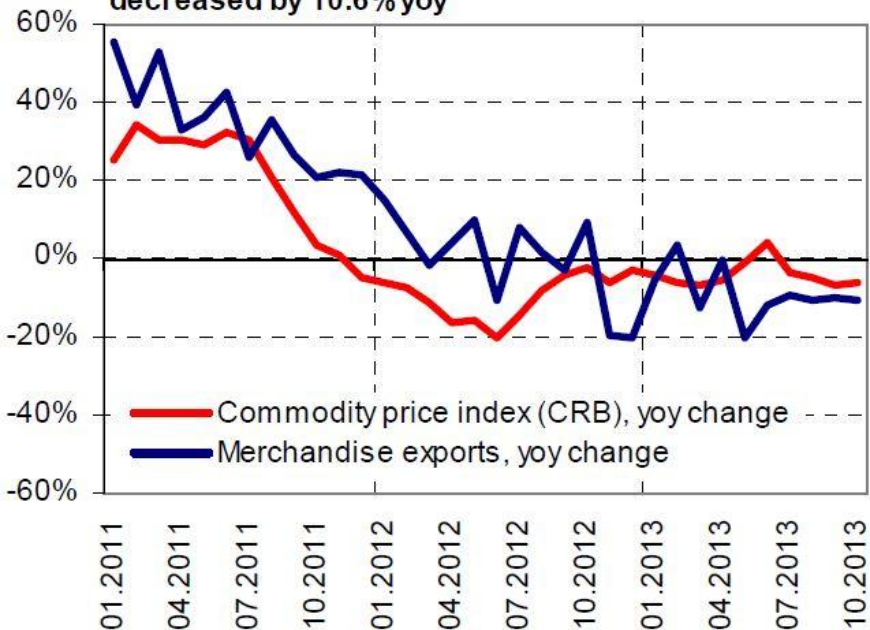


**In October 2013, seasonally adjusted exports increased by 4.4% mom**

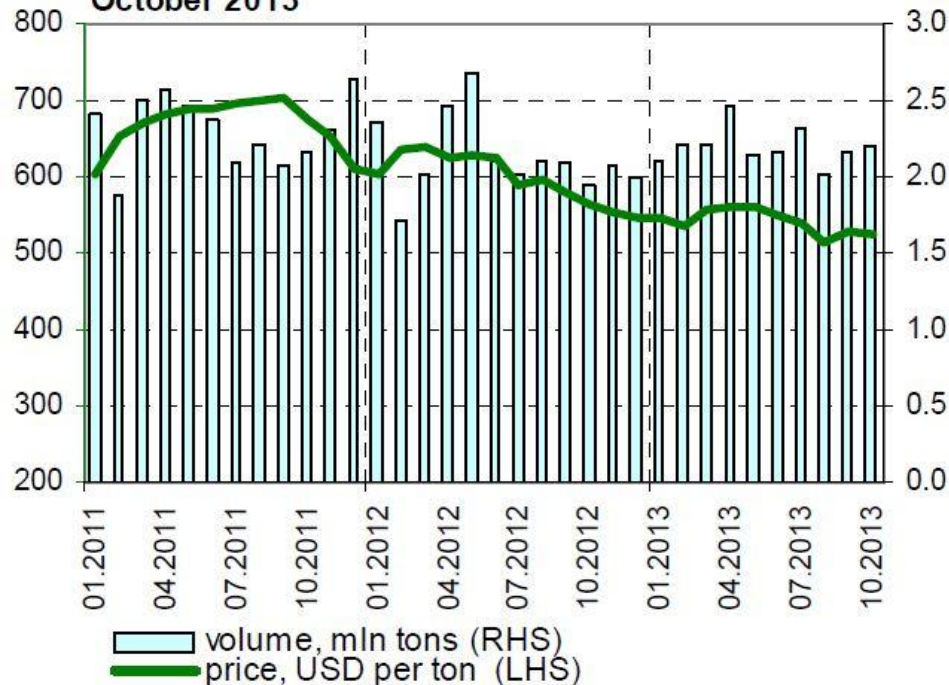




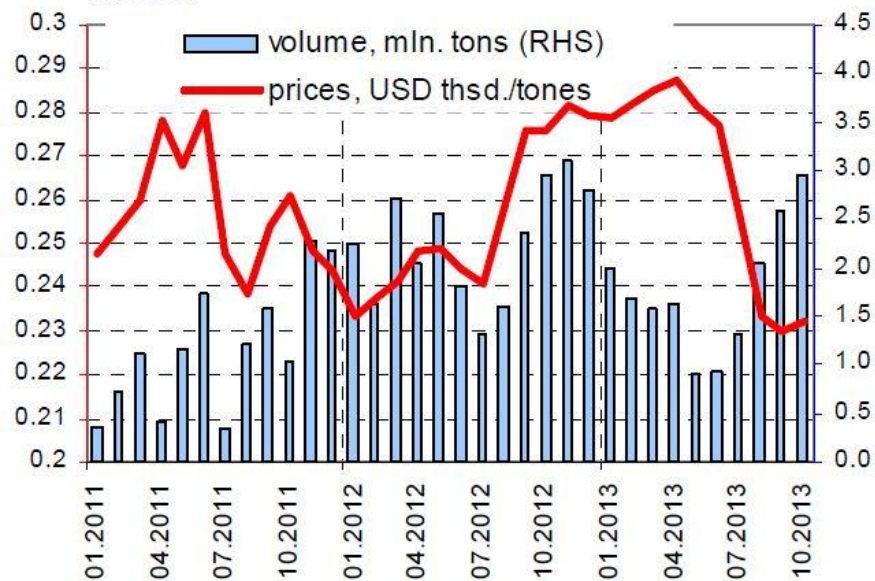
**In October 2013, merchandise exports decreased by 10.6% yoy**



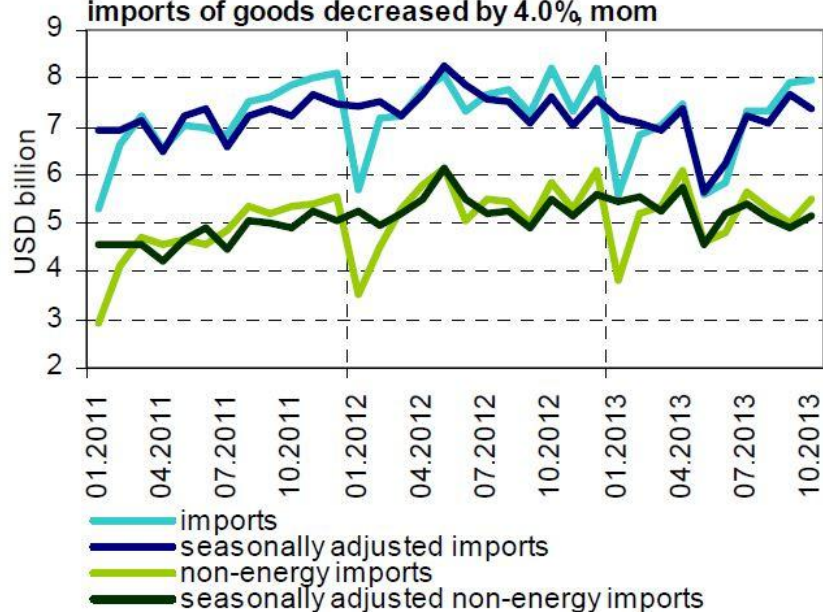
**Ferrous metal exports increased by 5.4% yoy in October 2013**



**In October 2013, grain exports decreased by 15.8% mainly due to price decline in the world market**

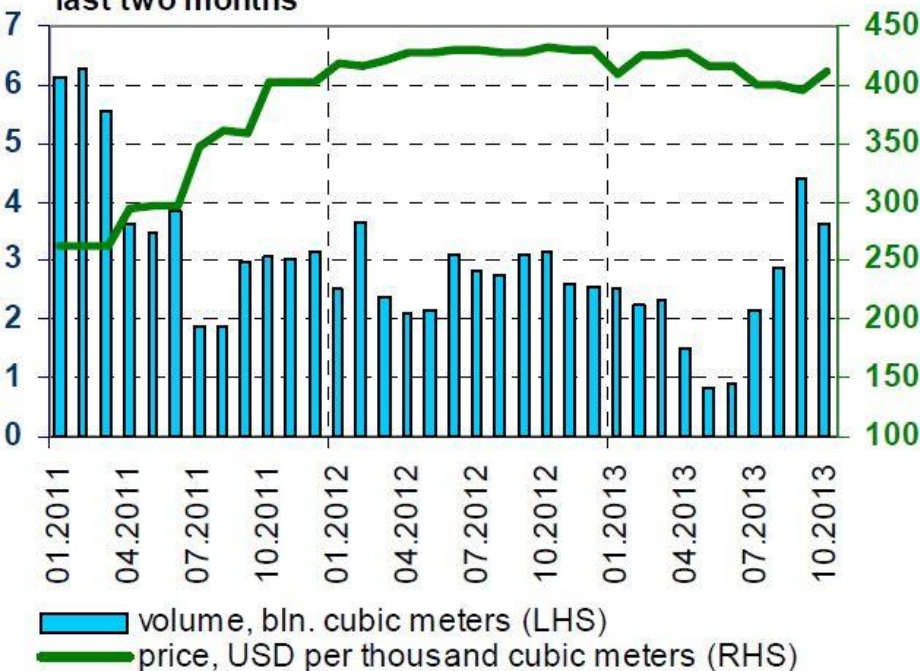


**In October, seasonally adjusted merchandise imports of goods decreased by 4.0% mom**

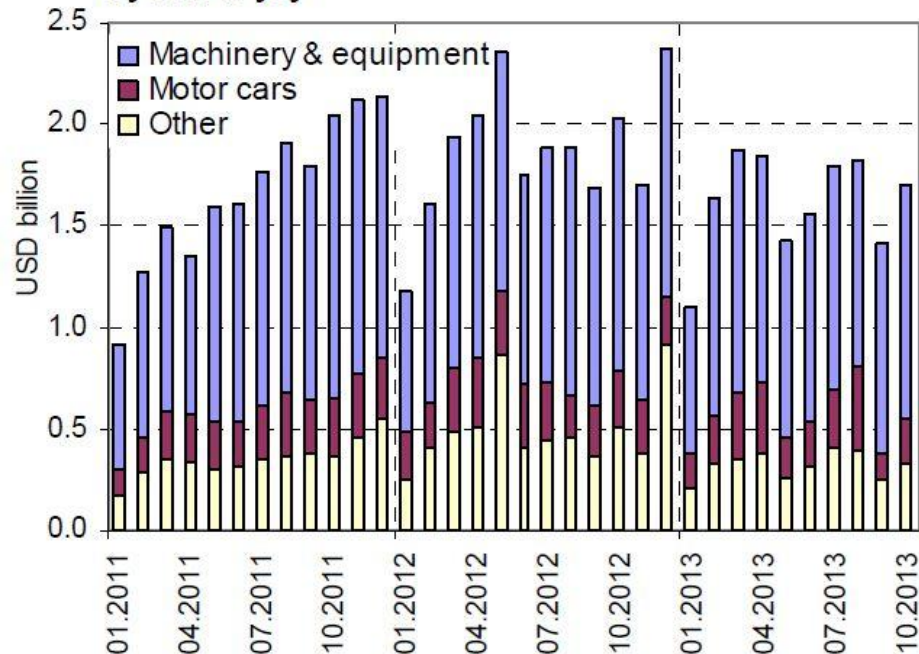




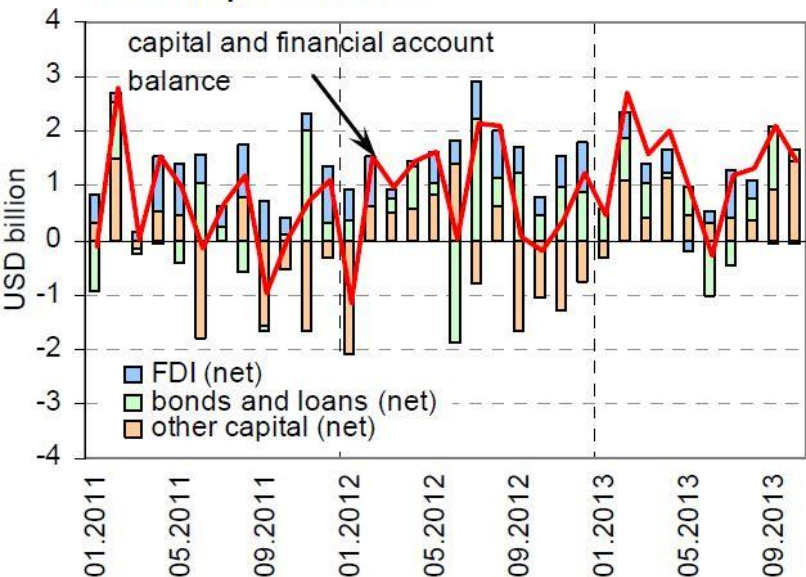
**The volume of gas imports increased over the last two months**



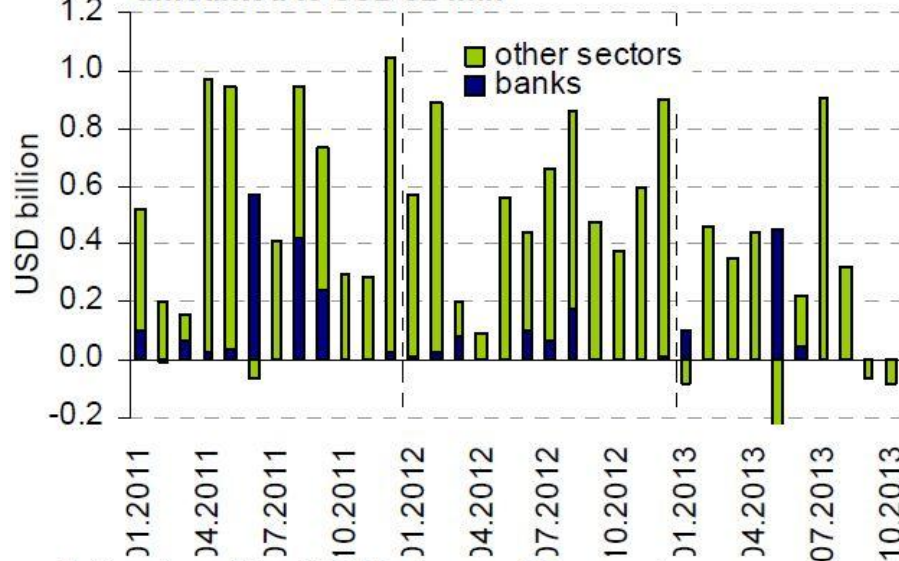
**In October 2013, machinery imports decreased by 16.0% yoy**



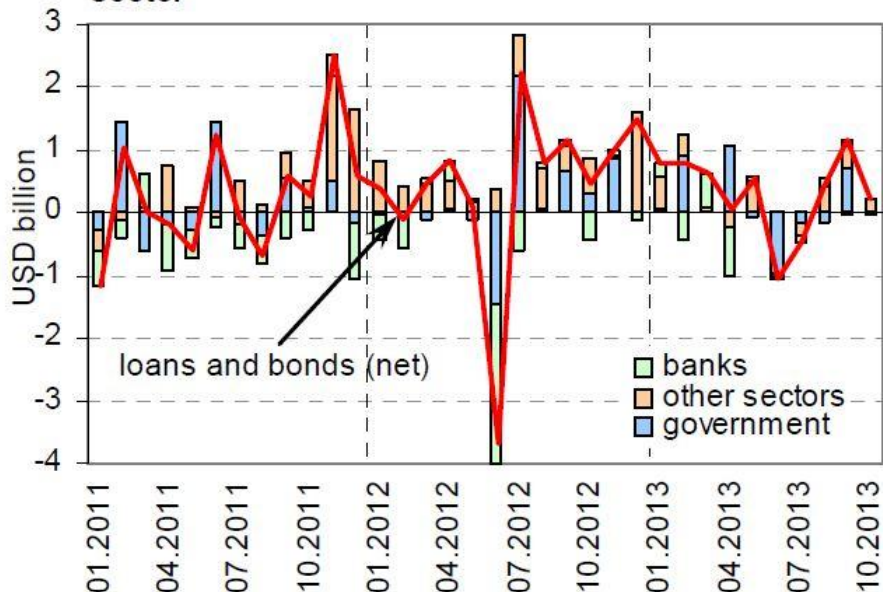
**The capital and financial account recorded USD 1.4 bln surplus in October**



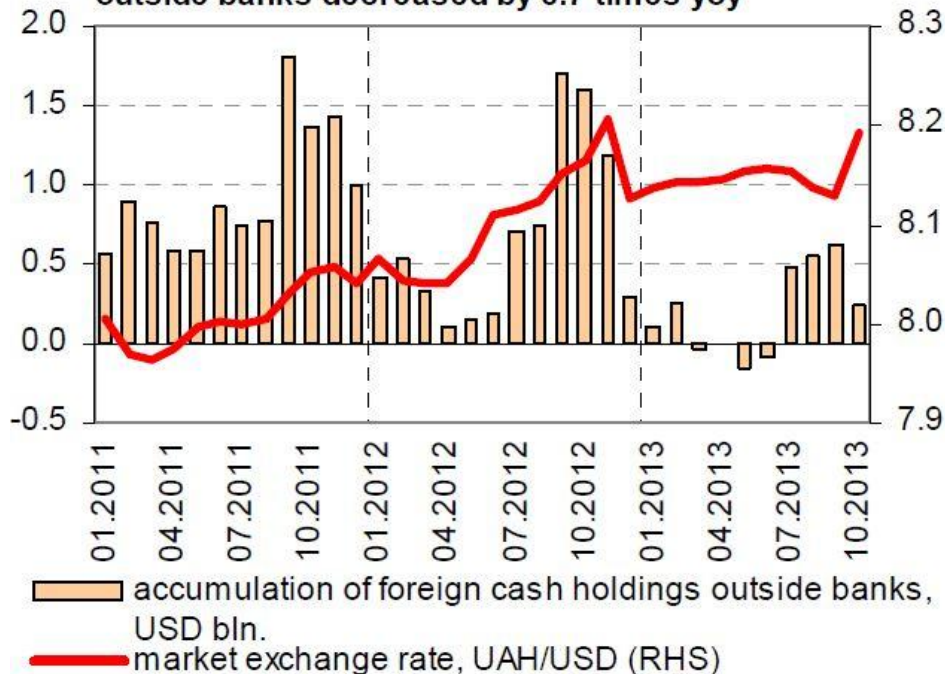
**In October net outflow of FDI from Ukraine amounted to USD 82 mln**



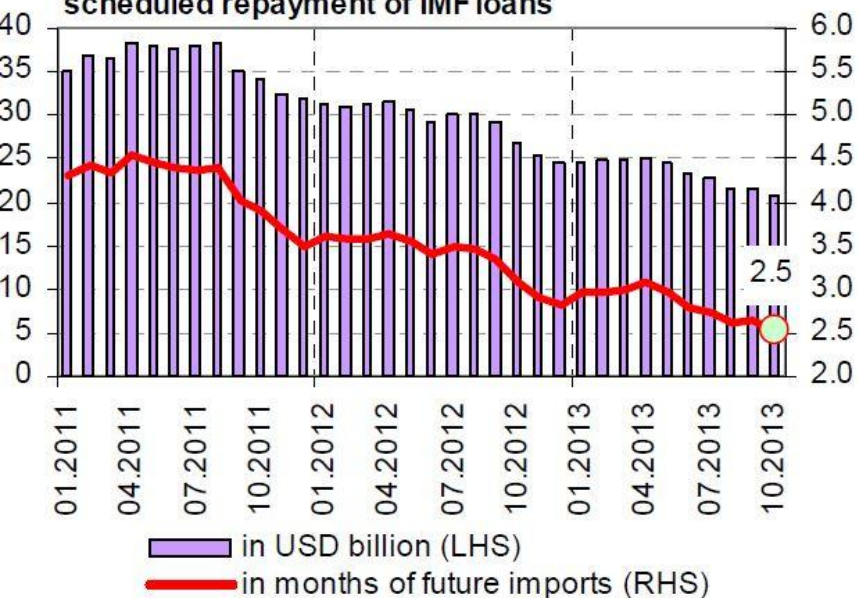
**The surplus on loans and bonds amounted to USD 222 bln mainly due to borrowing by the real sector**



**The net accumulation of foreign cash holdings outside banks decreased by 6.7 times yoy**



**As of November 1, 2013, the international reserves decreased to USD 20.6 bln because of scheduled repayment of IMF loans**







Thank you!

