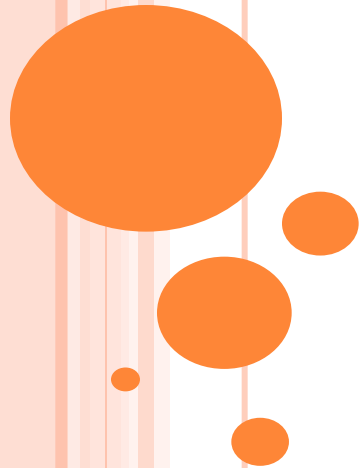


# BALANCE OF PAYMENT



# DEFINITION

According to Kindle Berger:

"The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time".



# BALANCE OF PAYMENTS

## MEANING

- It takes into account the export and import of both **visible and invisible** items.
- It reflects all payments and liabilities to foreigners (debits) and all payments and obligations received from foreigners (credits).



- Balance of payments is one of the major indicators of a country's status in international trade.



# BOP STATEMENT INCLUDES

- All the receipts on account of goods exported
- Services rendered
- Capital received by residents
- Payments of residents
- Capital transferred to foreign



# STRUCTURE OF BALANCE OF PAYMENT

<i>Receipts (Credits)</i>	<i>Payments (Debits)</i>
1) Exports of goods	1) Imports of goods
<i>Trade Account Balance</i>	
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
<i>Current Account Balance</i> <i>(1 to 4)</i>	
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)
<i>Capital Account Balance</i> <i>(5 to 8)</i>	
9) Change in reserves (+)	9) Change in reserves
<i>Total Receipts = Total payments</i>	



# BALANCE OF TRADE (BOT)



# BALANCE OF TRADE (BOT)

- It deals with exports and imports of **visible items only**.
- It takes into account only merchandise exports & imports only.



# BOP CONSISTS OF...

- **The Current Account**
- **The Capital Account**
- **Official Reserves Account (Foreign exchange)**



## In Short...

- **Current Account** - flow of goods and services.
- **Capital Account** - flow of investment and lending.
- **Official reserves account** - Changes in holdings of gold and reserve assets by official monetary institutions.



# DISEQUILLIBRIUM OF BOP

**MEANING**:- Very often, debit exceeds credit or the credit exceeds debit causing an imbalance in the balance of payment account. Such an imbalance is called the disequilibrium.

Disequilibrium may take place either in the form of *deficit* or in the form of *surplus*.

**DEFICIT**:- Disequilibrium of **Deficit** arises when our receipts from the foreigners fall below our payment to foreigners. It arises when the effective demand for foreign exchange of the country exceeds its supply at a given rate of exchange. This is called an '**unfavourable balance**'.

**SURPLUS**:- Disequilibrium of **Surplus** arises when the receipts of the country exceed its payments. This is called '**favourable balance**'.



# CAUSES OF DISEQUILIBRIUM IN BALANCE OF PAYMENTS

- 1) Temporary causes
- 2) National Income
- 3) Inflation
- 4) Economic Development
- 5) Borrowing and Lending
- 6) Change in exchange rate
- 7) Political factors-like instable govt.



- 1) **Temporary Causes-** Temporary causes may arise due to variations in the trade, effect of weather on agriculture production etc.
- 2) **National Income -** Another cause is the change in country's national income. If the national income of a country increases, it will lead to an increase in imports thereby creating a deficit in balance of payments.



**3) Inflation-** Inflation is another cause of disequilibrium in the balance of payment. If there is inflation in the country prices of exports increase, thus increase in export prices leading to decline in exports and rise in imports result in adverse.

**4) Economic Development-** A country's balance of payments also depends on its stage of economic development. If a country is developing it will have a deficit in its balance of payments.



**5) Borrowing and lending-** A country which gives loans and grants on a large scale to other countries has a deficit in its balance of payments on capital account. On the other hand, a developing country borrowing large funds from other countries may have a favourable balance of payments.



**6) Change in exchange rate** – This change arise due to change in exports and imports. If exports of the country are more then imports the demand for its currency increase so that the rate of exchange moves in favours.

On the other hand if imports are more than exports the demand for the foreign currency increase and the rate of exchange will against the country.

**7) Political factors-like instable govt.**



