History of balance of payment (BOP):

Prior to the 19th century, international transaction were denominated in gold, providing little flexiblity for countries experiencing trade defecits. Growth was low, so, stimulating trade defecits surplus was the primary method of strengthening a nation financial position. National economies were not well integrated with each other, however, so steep trade imbalance rarely provoked crises. The industrial revolution increased international economic integration and balance of payment crises began to occur more frequently.

The great depression led countries to abondan the gold standard and engage in competitive devaluation of their currencies, but the Bretton wood system that prevailed from the end of World War II until the 1970 introduced a gold convertible dollar with fixed exchange rates to other countries.

Bretton wood system

As the US money supply increased at its trade deficit deepend. however the government became unable to fully redeem foreign central bank's dollar reserves for gold and the system was abondoned.

Nixon shock

Since the Nixon shock - as the end of the dollar's convertiblity to gold is known currencies have floated freely, meaning that country

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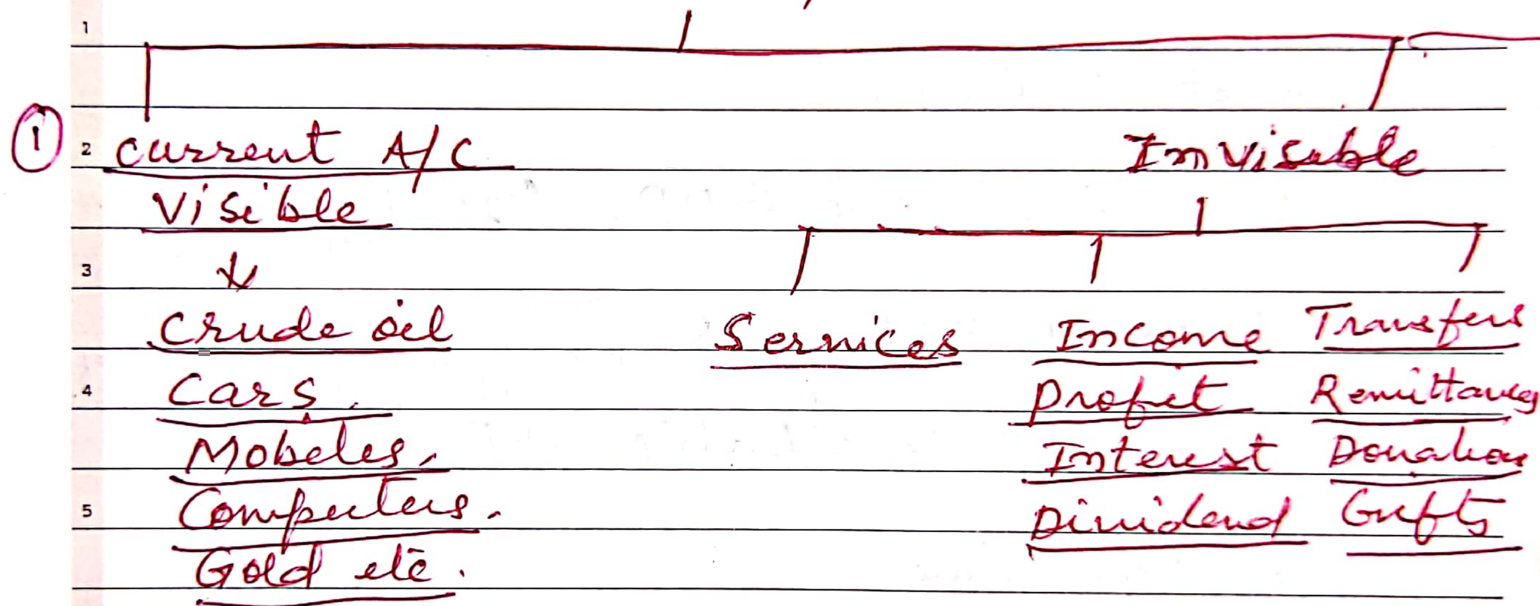
experiencing a trade deficit can artificially depress its currency by hoarding foreign reserve. For example making its product more attractive and increasing its exports.
" Due to the increased mobility of capital across borders, balance of payments crises sometimes occur, causing sharp currency devaluation such as the ones that struck in South east Asian countries in 1998.
During the great Recession several countries devaluation of their curriencies to try to boost their exports. All of the world major central banks responded to the financial crises at the time executing expansionary ~~monte~~ monetary policy. This led to other nations curriencies, especially in emerging market, appreci-ating against the U.S dollar and other major curriencies. Many of those nation responded by further loosening the reins on their own monetary policy in order to support their export. Especially those whose exports were under pressure from stagnant global demand during the great Recession.

BALANCE OF PAYMENT (BOP)

The balance of payment - is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

Balance of payment (BOP)



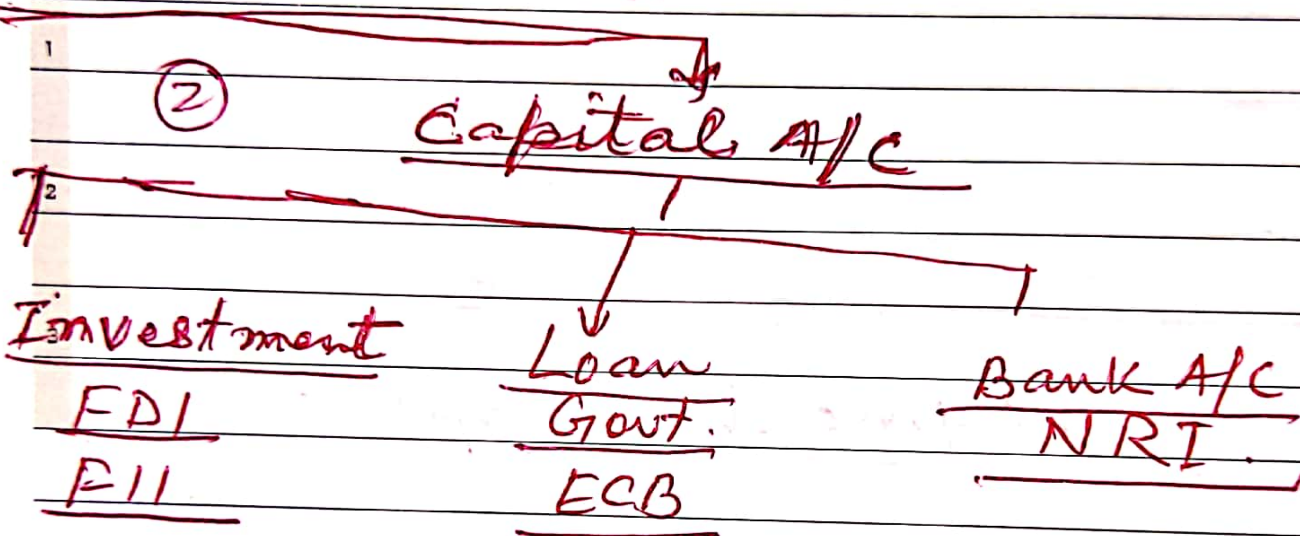
(Import - Export)

Balance of Trade (Trade Deficit)
= Net defference between Import and Export.

Current A/C Deficit
Capital A/C Surplus

1. Visible – Goods.
2. Invisible.
3. Unilateral
4. Capital A/C.

Credit – inflow of foreign exchange
Debit – outside goods import.



The Defference between

Balance of payment Defecet –

- The Country imports more goods & Services & Capital than its exports.
- It must borrow from other Countries to pay for its imports.
- In the Short term, this fuels economic growth
- In the long term, It will have to go into debt to pay for Consumption.

Balance of payments Surplus:

- The Country exports more than it import
- Country provides enough Capital to pay for all domestic production.
- A surplus boosts economic growth in the Short term.
- In the long run, it becomes too dependent on export – driven growth.

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17 18 19 20 21 22 23
24 25 26 27 28 29 30

Balance of payments (BOP) –

What is the balance of payments (BOP)?

The balance of payments is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

KEY NOTES:

- The balance of payments include both the current account and capital account.

- The current account includes a nation's net trade in goods and services. It net's earnings on cross-border investments. its net's transfer payments.

- The capital account consists of a nation's transaction in financial instrument and central bank reserves.

- The sum of all transaction recorded in the balance of payments should be zero. However, exchange rate fluctuations and differences in accounting practises may hinder this in practise.

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understanding the Balance of payments (BOP)

The balance of payments (BOP), also known as balance of international payments, It summarizes all transactions that a country individuals, companies, and govt bodies complete with individual, companies and govt bodies outside the country. These transactions consist of imports and exports of goods, services and capital, as well as transfer payments, such as as foreign aid and remittances.

A country's balance of payments and its international investment position together constitute its international accounts. The balance of payments divides transactions in two accounts, the current account and the capital account.

Sometimes the capital account is called the financial account, with a separate, usually very small, capital account listed separately.

The current account includes transaction in goods, services, investment income, and current transfers.

The capital account defined broadly, includes transactions in financial instrument and central bank RBI reserve.

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Narrowly defined, it includes only transactions in financial instruments. The current account is included in calculations of national output, while the capital account is not.

The sum of all transactions recorded in the balance of payment must be zero, as long as capital account is defined broadly. The reason is that every credit appearing in the current account has a corresponding debit in the capital account, vice versa.

If a country exports an item (a current account transaction). it effective imports foreign capital when that item is paid for (capital account transactions).

If a country can not fund its imports through export of capital. It must do so by running down its reserves. This situation is often referred to as a balance of payment deficit using the narrow definition of the capital account that excludes central bank reserve. However the broadly defined the balance of payments must add up to zero by definition.

Reserve fund created by the country

In practise, statistical discrepencies arise due to the difficulty of accurately counting every transaction between an economy and the rest of the world, including discrepancies caused by foreign currency transactions.

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Economic Policy and the balance of payments :-

Balance of payments and international investment position data are critical in formulating national and international economic policy. Certain aspects of the balance of payments data, such as payment imbalances and foreign direct investment, are key issues that nation policy makers seek to address.

Economic policies are often targeted at specific objectives that in turn, impact the balance of payments for example, one country might adopt policies specifically designed to attract foreign investment in a particular sector. while another might attempt to keep its currency at an artificially low level in order to stimulate exports and build up its currency reserves. The impact of these policies is ultimately captured in the balance of payments data.

Imbalance between Countries -

while a nation balance of payment necessarily zeroes out the current and capital accounts, imbalances can do appear between different countries current account. According to the world bank, the US had the largest current account deficit in 2019, at $498 billion, Germany had the world largest surplus at $275 billion

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