CHAPTER 24 : Balance of Payments

Key terms

1. Balance of payments account : a record all financial deals over a period of time between economic agents of one country and all other countries. It consists of the balance of trade in goods and services, the primary income account, the secondary account , the capital account and the financial account.
2. Balance of trade : the value of export minus the value of imports.
3. Balance of trade deficit or surplus : a deficit exists when the value of imports is greater than the value of exports. A surplus exists when the value of exports is greater than the value of imports.
4. Capital and financial account : that part of the balance of payments account where flows of saving, investment and currency are recorded.
5. Current account : part of the balance of payments. The current account has four components : the trade in goods, trade in services, primary income, secondary income accounts.
6. Current account balance : records the overall difference between credits and debits on each separate part of the current account- the balance of trade in goods, the balance of trade in services, the primary income balance and secondary income balance.
7. Current account deficit or surplus : a deficit exists when overall debits exceed credits on the current account. A surplus exists when overall credits exceed debits on the current account.
8. Primary income : income that results from the loan of factors of production abroad.
9. Secondary income : income transfers between countries that occurs without any corresponding output.

1. Balance of payment

: the capital inflow and outflow of a country from international transaction of trade, loan, share and investment over the period of time.

BOP = Current account + Capital account + Financial account

1.1 Current account : is itself split into several components

- **Trade in goods** : The difference between value of visible export and visible import
- If value of visible export > value of visible import = Trade in goods surplus
- If value of visible import > value of visible export = Trade in goods deficit
- **Trade in services** : The difference between value of invisible export and invisible import
- If value of invisible export > value of invisible import = Trade in services surplus
- If value of invisible import > value of invisible export = Trade in services deficit
- **Primary income** : results from the loan of factors of production abroad. For an economy, income is generated from interest, profits and dividends on assets owned abroad. Equally, interest, profits and dividends on an economy's assets owned by foreigners have to be paid out.
- **Secondary income** : is when income is transferred between countries. Money is received without a corresponding output.

1.2 Capital account

: The capital inflow and outflow of a country from international transaction of trade of fixed asset. Eg. Machines / Equipment / Factory etc.

1.3 Financial account

: A record of the transfer of financial asset between the country and the rest of the world. Eg. Direct Inward investment, Inward portfolio investment