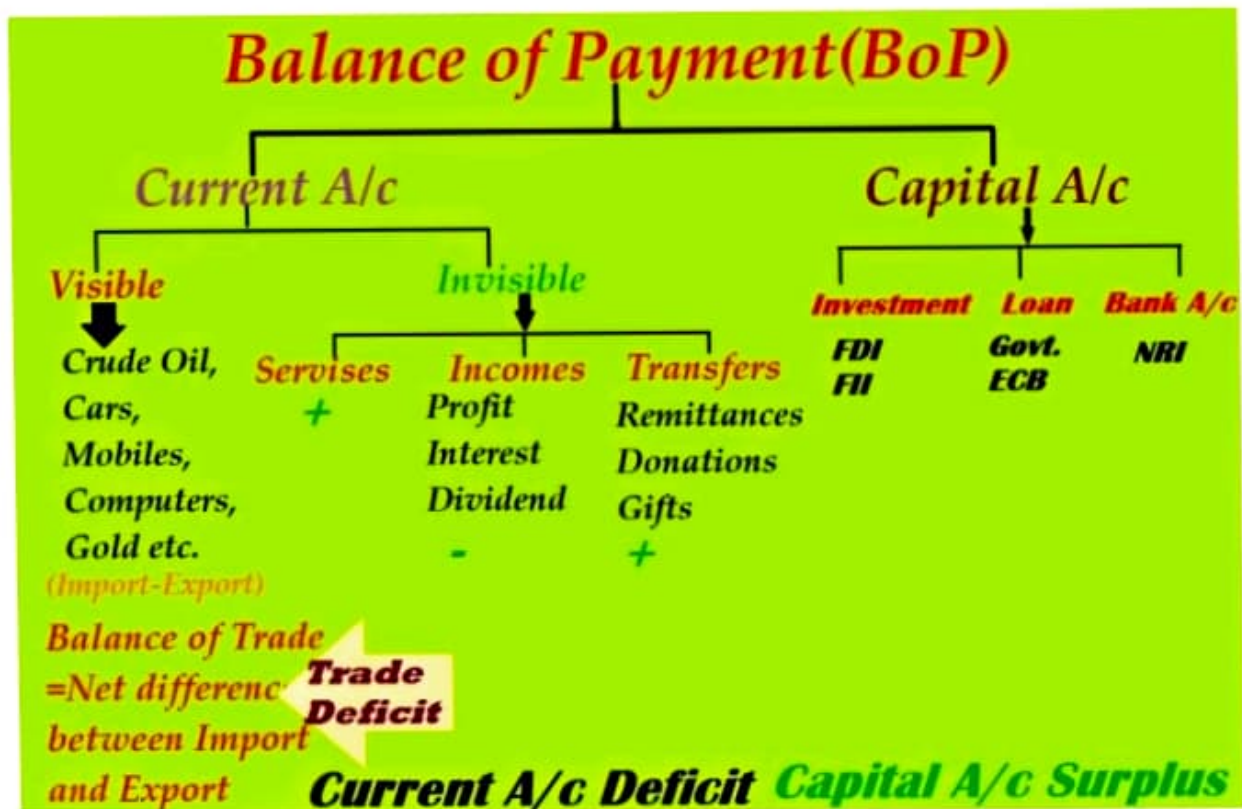


## Balance of Payment



The balance of payments (BOP) 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. In other words, Balance Of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy. When all the elements are correctly included in the BOP, it should sum up to zero in a perfect scenario. This means the inflows and outflows of funds should balance out.

**Components of BOP:**

## Components of BOP

Various entries grouped under **4 categories or accounts (parts)**

- A) Current Account
- B) Capital Account
- C) Unilateral Payments Account
- D) Official Settlements Account.

### **Current Account:**

*The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, together they make up to a country's Balance Of Trade (BOT).*

### **Capital Account :**

*All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/in to a different country. The deficit or surplus in the current account is managed through the finance from capital account and vice versa.*

### **Three major elements of Capital Account-**

- *Loans & borrowings – It includes all types of loans from both the private and public sectors located in foreign countries.*
- *Investments – These are funds invested in the corporate stocks by non-residents.*
- *Foreign exchange reserves – Foreign exchange reserves held by the central bank of a country to monitor and control the exchange rate does impact the capital account.*

### **Unilateral Payment account:**

*A unilateral transfer is a one-way transfer of money, goods, or services from one party to another. It is often used to describe payments made by a government to their citizens, or from one country to another country in the form of foreign aid. In these cases, the supplier of funds receives nothing in return from the recipient.*

### **Official statement account :**

*An official settlement account is a special type of account used in international balance of payments (BoP) accounting to keep track of central banks' reserve asset transactions with one other. The official settlement account keeps track of transactions involving gold, foreign exchange reserves, bank deposits and special drawing rights (SDRs).*

*Essentially, this type of account keeps track of transactions related to international reserves and central bank assets that are transferred among nations to settle either a balance of payment deficit or surplus.*