Webnote 331

Syllabus Reference 4. 3: BOP Balance of Payments for a macroeconomy

Reading: see Blink chapter 24

Current account:

- Balance of trade in goods
- Balance of trade in services
- Net Income flows
- Net Current transfers

Capital account:

- Capital transfers
- Transactions in non-produced, non-financial assets

Financial account:

- Direct investment
- Portfolio investment
- Reserve assets

note: The financial account measures the net change in foreign ownership of domestic financial assets.

Balance of Payments occurs when:

Current account =

capital account + financial account + errors and omissions

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Table i

+ = money inflow   - = money outflow

Current account	$ millions
• Visible trade	- 800
• Invisible trade	
1. shipping	
2. tourism	+ 70
• Deficit on current account	**- 730**

Capital account + Financial a/c +net errors and omissions	
• Government borrowing	+ 600
• Banks	- 20
• Investment (IN)	+ 150
• Capital account balance	**+ 730**

See Blink pp289-294 for details of the US BoP

table ii

Current account	$ millions
• Visible trade	- 800
• Invisible trade	
1. shipping	
2. tourism	+ 70
• Deficit on current account	**- 730**

Capital account+ Financial a/c +net errors and omissions (put 'in' or 'out' next to item)	
• **Government borrowing**	**+ 600**
• **Banks**	**(- 20)**
• **Investment** (Inflows by foreigners)	**+ 170**
• **Capital account balance**	**+ 750**
• **To Foreign reserve account**	**(- 20)**

- **Points to note:**

1. The capital account has a surplus in table ii. This results in an addition to the foreign reserves i.e. the nations savings of foreign currency
2. The reverse would see a reduction of foreign reserves or an increase in the national debt
3. Capital account also involves the use of a "Financial account". This measures the net change in foreign ownership of domestic financial assets. See Blink p.p. 297-298.
4. Please note that the 'Financial Account' must be seen as a key component in terms of the overall balance of payments.