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

***Webnote 331***

**Reading: see Blink chapter 24**

**Current account:**

• Balance of trade in goods

• Balance of trade in services

• Income

• 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**

***Webnote 331***

###### 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)**

###### 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**

**+ = money inflow** - **= money outflow**

##### Table i table ii

* **Points to note:**

1. The capital account has a surplus in table 2. 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 pp 297-298.
4. Please note that the ‘Financial Account’ must be seen as a key component in terms of the overall balance of payments.