Balance of Payments (BOP) Accounting System

- Double entry bookkeeping system
  - Measures and records all economic transactions between residents of one country and residents of all other countries during specified time period
  - Provides understanding of performance of each country's economy in international markets
  - Signals fundamental changes in country competitiveness
  - Assists policy makers in designing appropriate public policies

7-1

BOP Statistics

- Identify emerging markets
- Warn of possible new policies
- Indicate reductions in a country's foreign-exchange reserves
- Signal increased riskiness of lending to particular countries

7-2

Aspects of the BOP Accounting System

- Records international transactions made in some time period
- Records only economic transactions
- Records transactions between residents of one country and all other countries
  - Residents include individuals, businesses, government agencies, nonprofit organizations
- Uses a double-entry system

7-3

Major Components of the BOP Accounting System

- Current Account
- Capital Account
- Official Reserves
- Errors and Omissions

7-4

Current Account

- Four types of transactions
  - Exports and imports of goods
  - Exports and imports of services
  - Unilateral transfers

7-5

Table 7.3 BOP Entries, Current Account

	Debit	**Credit**
Goods	Buy	Sell
Services	Buy	Sell
Dividends and interest	Pay	Receive
Gifts	Give	Receive

7-6

Current Account Balances

- Balance on merchandise trade
  - Difference between a country's exports and imports of goods
- Balance on services trade
  - Difference between a country's exports of services and its imports of services
- Current account balance
  - Measures the net balances resulting from merchandise trade, service trade, investment income, and unilateral transfers

Capital Account

- Records capital transactions (purchases and sales of assets)
  - Foreign Direct Investment
  - Portfolio Investment

Table 7.4 Capital Account Transactions

	Maturity	Motivation	Typical Investments
Portfolio (short-term)	One year or less	Investment in or facilitation of international commerce	Checking account balances Time deposits Commercial paper Bank loans
Portfolio (long-term)	More than one year	Investment income	Government bills, notes, bonds Corporate stocks, bonds
Foreign Direct Investment	Indeterminate	Active control of organization	Foreign subsidiaries Foreign factories Joint ventures

Table 7.5 BOP Entries, Capital Account

	Debt (Outflow)	Credit (Inflow)
Portfolio (short-term)	Receiving a payment from a foreigner	Making a payment to a foreigner
	Buying a short-term foreign asset	Selling a domestic short-term asset to a foreigner
Portfolio (long-term)	Buying back a short-term domestic asset from its foreign owner	Selling a short-term foreign asset acquired previously
	Buying back a long-term domestic asset from its foreign owner	Selling a domestic long-term asset to a foreigner
Foreign direct investment	Buying a foreign asset for purposes of control	Selling a long-term foreign asset previously acquired
	Buying back from its foreign owner a domestic asset	Selling a domestic asset to a foreigner

7-10

Official Reserves Account

- Records level of official reserves
- Four types of assets
  - Gold
  - Convertible currencies
  - SDRs
  - Reserve positions at the IMF

7-11

Errors and Omissions

- BOP must balance
- Current Account + Capital Account + Official Reserves Account + Errors and Omissions = 0

7-12

Table 7.6 U.S. BOP, 2002
(in billions of dollars)

Current Account		
Goods		
Exports	+682.6	
Imports	−1,166.9	
Balance on Merchandise Trade	−484.3	
Services		
Exports	289.3	
Imports	−240.5	
Balance on Services Trade	48.8	
Investment Income		
Received	244.6	
Paid	−256.5	
Balance on Investment Income	−11.9	
Unilateral Transfers (net)	−56.0	
(− means outward gifts greater than inward)		
Balance on Current Account		−503.4
Capital Account		
Portfolio, Short-Term (Net Inflow)	113.0	
Portfolio, Long-Term		
New Foreign Investment in U.S.	484.8	
New U.S. Investment Abroad	−25.8	
Foreign Direct Investment		
New FDI in U.S.	30.1	
New U.S. FDI Abroad	−123.5	
Balance on Capital Account		478.6
Official Reserves Account		−3.7
Errors and Omissions		+28.5
Net Balance		0

Figure 7.6 Trade Between the U.S. and Its Major Trading Partners, 2002

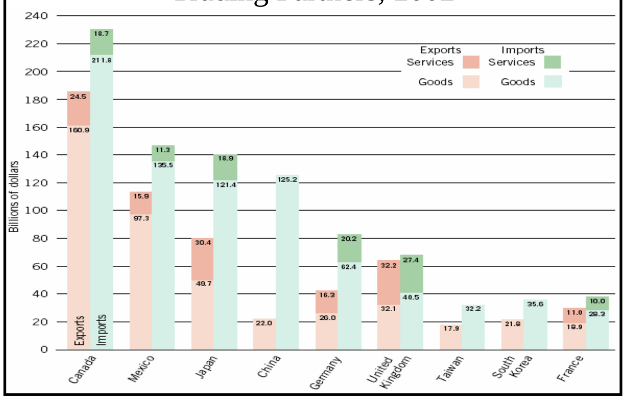

Figure 7.7 The U.S. BOP
According to Various Reporting Measures