

The balance of payments of a country is a systematic record of all its economic transactions with the outside world in a given year. It is a statistical record of the character and dimensions of the country's economic relationships with the rest of the world. According to Sodersten, "The balance of payments is merely a way of listing receipts and payments in international transactions for a country." It shows the country's trading position, changes in its net position as foreign lender or borrower and changes in its official reserve holding."

The balance of payments account of a country is constructed on the principle of double-entry book-keeping. Each transaction is entered on the credit and debit side of the balance sheet. But balance of payments accounting differs from business accounting in one respect.

In business accounting debits (-) are shown on the left side and credits (+) on the right side of the balance sheet. But in balance of payments accounting the practice is to show credits on the left side and debits on the right side of the balance sheet.

When a payment is received from a foreign country, it is a credit transaction while payment to a foreign country is a debit transaction.

The principal items shown on the credit side are exports of goods and services, transfer receipts in the form of gifts etc. from foreigners, borrowings

from abroad, investments by foreigners in the country and official sale of reserve assets including gold to foreign countries and international agencies. The principal items on the debits side include imports of goods and services, transfer payments to foreigners, lending to foreign countries, investments by residents to foreign countries and official purchase of reserve assets or gold from foreign countries and international agencies.

These credit and debit items are shown vertically in the balance of payments account of a country according to the principle of double-entry book-keeping. Horizontally, they are divided into three categories: the current account, the capital account and the official settlements account or the official reserve assets account.