

Balance of payments

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The current account, the Capital account and the official settlements account are discussed below:

- ① The current account: The current account of a country consists of all transactions relating to trade in goods and services and unilateral transfers. Service transactions include travel and transportation, income and payments on foreign investments etc. Transfer payments relate to gifts, foreign aid, pensions, private remittances, charitable donations etc. received from foreign individuals and govts to foreigners.
- ② The capital account:— The capital account of a country consists of its transactions in financial assets in the form of short-term and long-term lendings and borrowings and private and official investments. In other words, the capital account shows international flow of loans and investments and represents a change in the countries foreign assets and liabilities. Long-term capital transactions relate to international capital movements with maturity of one year or more and including direct investments like building of a foreign plant, portfolio investment like the purchase of foreign bonds and stocks and international loans. On the other hand, short-term international capital transactions are for a period of ranging between three months and less than one year.
- ③ The official Settlement Account: The official settlements account or official reserve assets account is in fact a part of the capital account. The official settlements

account measures the change in nation's liquid and non-liquid liabilities to foreign official holders and the change in a nation's official reserve assets during the year. The official reserve assets of a country include its gold stock, holdings of its convertible foreign currencies and SDRs and its net position in the IMF.

The sum of current account and capital account is known as the basic balance.

The balance of payments account of Country A is constructed in Table - I

Table - I :- Balance of payment Account

Credits (+) (Receipts)	Debits (-) (Payments)
<u>1. Current Account</u>	
Exports	Imports
(a) Goods	(a) Goods
(b) Services	(b) Services
(c) Transfer payments	(c) Transfer payments
<u>2. Capital Account</u>	
(a) Borrowings from foreign countries	(a) Lending to foreign countries
(b) Direct investment by foreign countries	(b) Direct investments in foreign countries
<u>3. Official Settlement Account</u>	
(a) Increase in foreign official holdings	(a) Increase in official reserves of gold and foreign currencies
Errors and omissions.	