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# TOPIC:- THE CONCEPT OF BALANCE OF PAYMENTS

Balance of Payments is a statement of systematic record of all economic transactions between one country and the rest of the world. Besides this, it is a record pertaining to a period of time. Usually, it is an annual statement. It includes all transactions, current as well as capital account. Prof. Kindleberger defines balance of payments as "a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time."

Thus, the record is so prepared under the analysis of balance of payments as to provide meaning and measure to the various components of a country's external economic transactions. Therefore the aim is to present an account of all receipts and payments on account of goods exported, services rendered and capital received by residents of a country, and goods imported, services rendered and capital transferred by residents of the country. The main purpose of keeping these records is to know the international economic position of the country and to help the Government in reaching decisions on monetary and fiscal policies on the one hand, and trade and payments questions on the other.

Structure of Balance of Payments:—

A balance of payment

Statement is a summary of a nation's total economic transactions undertaken on international trade account. It is usually the composition of the current account and the capital account.

Capital Account :-

Capital accounts deals with payments of debts and claims. It consists of all such items as may be employed in financing both imports and exports, namely private balances assistance by international institutional agencies and specie flow, and balances held on government account. Accordingly we shall have private capital account, international institutional capital account, specie account and government capital account. Balances in the accounts may rise or fall from year to year, depending upon the movements or fluctuations in other items on capital account.

Current Account :-

Current account mainly consists of two sub-groups namely as the trade account and the invisible account. In the trade account, only transactions relating to goods are entered. That is, all goods exported and imported are recorded in the trade account. On the other hand, invisible account normally comprises the services account and the gift and charities account. The services account records all the services rendered and received by residents of the nation. It consists of such items as banking and insurance charges, interest on loans, tourist expenditure, transport charges etc. Similarly, the gift or charities account consists of all those items which are received or given away free by residents of the nation. It may be in kind or in cash. It goes without saying that these all are referred to as invisible account. International Monetary Fund (IMF) includes the following items as invisible transactions :-

(I) International transportation of goods including warehousing while in transit and other transit expenses.

(II) Travel for reasons of business, education, health, international conventions or pleasure.

(III) Insurance Premia and Payments of claims.

(IV) Investment income, including interest, rents, dividends and profits.

(V) Miscellaneous service items such as advertising, commissions, film rentals, pensions, patent fees, royalties, subscriptions to periodicals and membership fees.

(VI) Donations, migrant remittances and legacies.

(VII) Repayments of commercial credits.

(VIII) Contractual amortisation and depreciation of direct investment.