

Balance of Payments Formula

Balance of payments, abbreviated as BoP and also known as balance of international payments, is a statement which records all the monetary transactions that take place between a country's residents and the rest of the world, during a given period.

There are three components of the Balance of Payments (BoP) which are capital account, current account and financial account.

Capital accounts include the non financial sale and purchase of assets, it also includes the flow of taxes. The main components of capital account are forex reserves, investments and loans.

Current accounts deal with the goods, which can be raw materials or manufactured goods that are sold or purchased.

Financial Account deals with the monetary inflows and outflows pertaining to the investments made in various sectors such as foreign direct investment, real estate or other business ventures.

Ideally, the current account should be balanced with the combination of the financial account and capital account.

In theory, BoP should be zero, but it rarely happens, therefore BoP is used to determine whether the country is having surplus or deficit and the sections that cause this surplus or deficit.

The Balance of Payments formula can be expressed as follows

Balance of Payments = Balance of current account + Balance of capital account + Balance of financial account + Balancing Item

BoP surplus means that exports are more than imports while a BoP deficit is indicative of imports being more than exports.