The Balance of Payments

- The BOP records a country's transactions with the rest of the world during a given period of time.

- There are 2 main types of transactions:

1.) Exchanges of goods & services
(e.g., cars, computers, oil, etc.)

2.) Exchanges of assets
(e.g., stocks, bonds, currency etc)

- The BOP is organized using the rules of double-entry book-keeping, so that each transaction enters twice, once as a credit (+), and once as a debit (-).

- A transaction that gives rise to a receipt from foreigners is recorded as a credit (e.g., export of goods or sale of asset).
A transaction that gives rise to a payment to foreigners is recorded as a debit (e.g., import of goods or purchase of asset).

The BOP is divided into 3 sub-accounts:

1.) The Current Account

- Trade Balance
  - Merchandise Trade
  - Services
- Net Factor/Investment Income
- Net Unilateral Transfers

2.) The Financial Account

- Domestically-Owned Foreign Assets
  - Foreign Direct Investment
  - Portfolio Investment
- Foreign-Owned Domestic Assets
  - Foreign Direct Investment
  - Portfolio Investment

3.) The Capital Account

$$\boxed{\text{Current Acct.} + \text{Financial Acct.} + \text{Capital Acct.} \equiv 0}$$

Examples

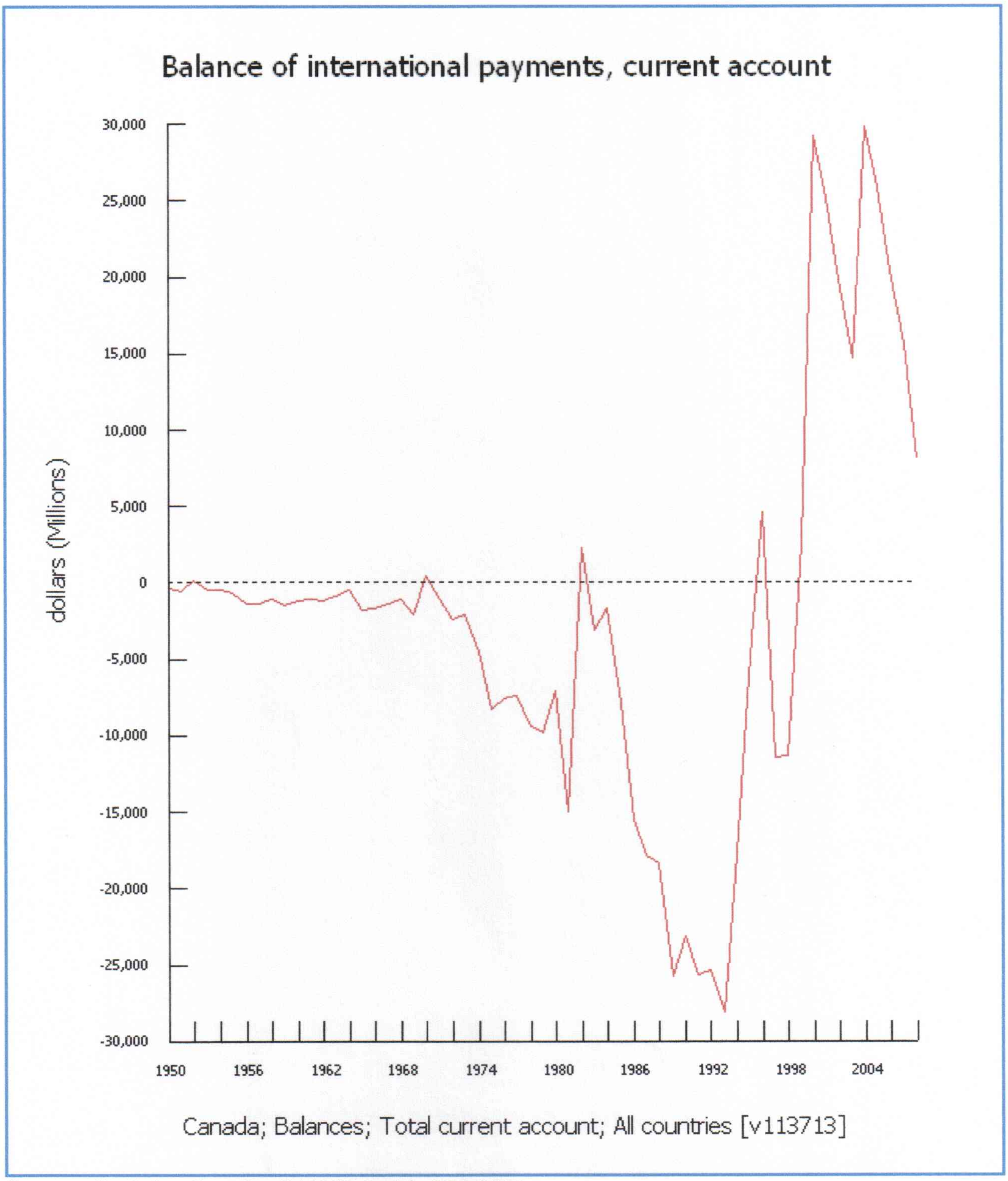
1.) A Canadian resident buys a toy made in China, and pays with a check drawn on a Canadian bank.

2.) A Canadian resident buys shares in Apple Computer, and pays with a check drawn on a Canadian bank.

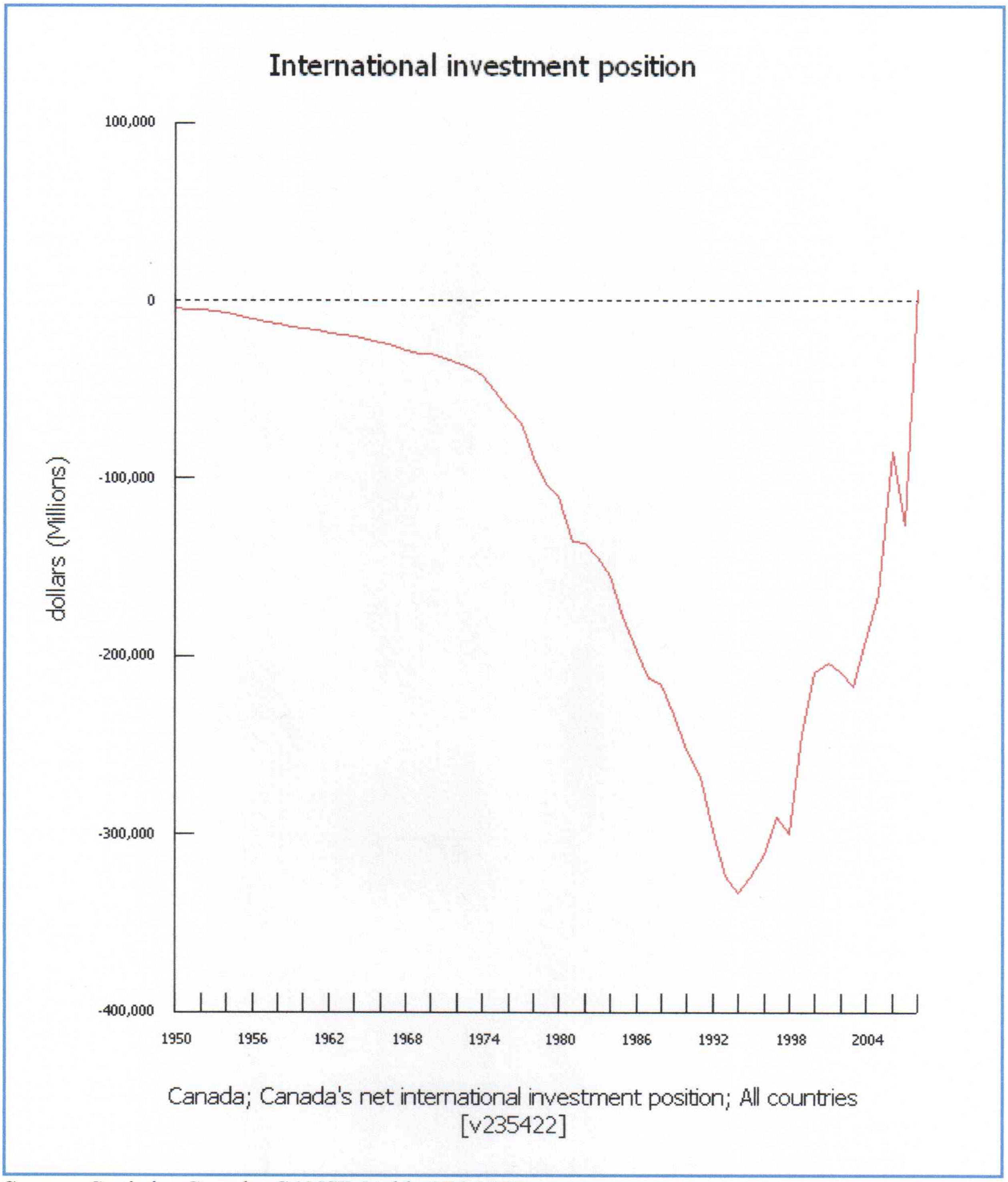
3.) Starbuck's opens a new store in Vancouver.

4.) A Canadian resident goes down to Seattle and has lunch with a friend, paying with either a stash of U.S. currency or a Canadian bank-issued MasterCard

5.) A Chinese grad student gets a job as a TA, uses part of the money to pay rent + buy food, and sends the rest home to her parents.



Source: Statistics Canada, CANSIM table 376-0001.



Source: Statistics Canada, CANSIM table 376-0037.

Statistics Canada Statistique Canada Canada

(*Note*: *Content area on this page may be wider than usual.*)

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Table 376-0001
Balance of international payments, current account, annual (dollars x 1,000,000)

Survey or program details:
Canada's Balance of International Payments - **1534**
Canada's International Transactions in Securities - **1535**
Canada's International Transactions in Services - **1536**

Geography=Canada
Countries or regions =
All countries

Refresh table

Geography=Canada
Countries or regions=All countries

Receipts, payments and balances	Current account	2005	2006	2007	2008
Receipts	Total current account	575,612	598,265	618,798	642,324
	Goods and services	517,809	522,620	532,763	560,335
	Goods	450,210	453,951	463,127	489,857
	Services[2,4]	67,599	68,669	69,637	70,478
	Investment income[2]	49,768	66,086	76,546	71,667
	Current transfers	8,035	9,559	9,489	10,322
Payments	Total current account	549,710	577,932	603,192	634,209
	Goods and services	467,492	486,952	503,840	535,965
	Goods	387,838	404,345	415,229	442,988
	Services[2,4]	79,654	82,607	88,611	92,977
	Investment income[2]	72,685	79,993	87,880	86,891
	Current transfers	9,533	10,987	11,473	11,353
Balances	Total current account	25,902	20,333	15,606	8,115
	Goods and services	50,317	35,668	28,924	24,370
	Goods	62,372	49,606	47,898	46,869
	Services[2,4]	-12,055	-13,937	-18,974	-22,499
	Investment income[2]	-22,917	-13,907	-11,334	-15,223
	Current transfers	-1,498	-1,429	-1,984	-1,031

Footnotes:

2. Prior 1961, for United States, United Kingdom, and foreign countries other than United States and United Kingdom, the investment income and the government services are included in commercial

(**Note**: *Content area on this page may be wider than usual.*)

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Table[18] 376-0002

Balance of international payments, capital and financial account, annual (dollars x 1,000,000)

Survey or program details:
Canada's Balance of International Payments - 1534
Canada's International Transactions in Securities - 1535
Canada's International Transactions in Services - 1536

Geography=Canada

Countries or regions[9,10]=All countries

Countries or regions =
All countries

Refresh table

Geography=Canada

Countries or regions[9,10]=All countries

Capital and financial account[1]	2005	2006	2007	2008
Total capital and financial account, net flows	-23,350	-22,552	-19,562	-7,122
Capital account, net flows	5,905	4,288	4,258	4,520
Capital account, inflows	6,612	4,901	4,994	5,394
Capital account, outflows	-707	-613	-736	-875
Financial account, net flows	-29,255	-26,840	-23,819	-11,641
Canadian assets, net flows	-110,460	-164,630	-175,676	-103,533
Canadian direct investment abroad[13]	-33,370	-50,367	-64,056	-82,874
Canadian portfolio investment	-53,455	-78,668	-48,426	13,652
Other Canadian investment	-23,635	-35,595	-63,194	-34,311
Canadian liabilities, net flows	81,205	137,790	151,857	91,891
Foreign direct investment in Canada[15,16]	31,132	67,791	116,448	47,710
Foreign portfolio investment	13,136	31,388	-31,590	29,057
Other liabilities	36,937	38,611	66,999	15,124
Statistical discrepancy and inter-area transfers[12]	-2,552	2,220	3,955	-994

Footnotes:

1. In the capital and financial account, a minus sign denotes an outflow of capital resulting from an increase in claims on non-residents or a decrease in liabilities to non-residents.
9. Other European Union (EU) countries includes currently Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain; from January 1995, includes Austria, Finland, and Sweden; from May 2004, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.
10. Other Organisation for Economic Co-operation and Development (OECD) countries includes

U.S. International Transactions Accounts Data

Today's Date: September 6, 2009 Release Date: June 17, 2009 Next Release Date: September 16, 2009
Earliest Year Revised on June 17, 2009: 1992

Table 1. U.S. International Transactions

[Millions of dollars]

Line	(Credits +; debits -) [1]	2005	2006	2007	2008
	Current account				
1	**Exports of goods and services and income receipts**	**1,816,723**	**2,133,905**	**2,462,099**	**2,591,233**
2	Exports of goods and services	1,281,460	1,451,684	1,643,168	1,826,596
3	Goods, balance of payments basis[2]	892,337	1,015,812	1,138,384	1,276,994
4	Services[3]	389,122	435,873	504,784	549,602
12	Income receipts	535,263	682,221	818,931	764,637
18	**Imports of goods and services and income payments**	**-2,459,633**	**-2,846,179**	**-3,072,675**	**-3,168,938**
19	Imports of goods and services	-1,996,728	-2,212,043	-2,344,590	-2,522,532
20	Goods, balance of payments basis[2]	-1,683,188	-1,863,072	-1,969,375	-2,117,245
21	Services[3]	-313,540	-348,972	-375,215	-405,287
29	Income payments	-462,905	-634,136	-728,085	-646,406
35	**Unilateral current transfers, net**	**-105,772**	**-91,273**	**-115,996**	**-128,363**
	Memoranda:				
77	Balance on current account (lines 1, 18, and 35 or lines 74, 75, and 76)[13]	-748,683	-803,547	-726,573	-706,068

Footnotes

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U.S. International Transactions Accounts Data

Today's Date: September 6, 2009 Release Date: June 17, 2009 Next Release Date: September 16, 2009
Earliest Year Revised on June 17, 2009: 1992

Table 1. U.S. International Transactions

[Millions of dollars]

Line	(Credits +; debits -) [1]	2005	2006	2007	2008
	Capital account				
39	**Capital account transactions, net**	**11,344**	**-3,906**	**-1,895**	**953**
	Financial account				
40	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (-))**	**-546,631**	**-1,285,729**	**-1,472,126**	**-106**
41	U.S. official reserve assets	14,096	2,374	-122	-4,848
46	U.S. government assets, other than official reserve assets	5,539	5,346	-22,273	-529,615
50	U.S. private assets	-566,266	-1,293,449	-1,449,731	534,357
51	Direct investment	-36,235	-244,922	-398,597	-332,012
52	Foreign securities	-251,199	-365,129	-366,524	60,761
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	-71,207	-181,299	-40,517	372,229
54	U.S. claims reported by U.S. banks, not included elsewhere	-207,625	-502,099	-644,093	433,379
55	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+))**	**1,247,347**	**2,065,169**	**2,129,460**	**534,071**
56	Foreign official assets in the United States	259,268	487,939	480,949	487,021
57	U.S. government securities	213,334	428,401	269,897	543,498
63	Other foreign assets in the United States	988,079	1,577,230	1,648,511	47,050
64	Direct investment	112,638	243,151	275,758	319,737
65	U.S. Treasury securities	132,300	-58,229	66,807	196,619
66	U.S. securities other than U.S. Treasury securities	450,386	683,245	605,652	-126,737
67	U.S. currency	8,447	2,227	-10,675	29,187
70	**Financial derivatives, net**	**n.a.**	**29,710**	**6,222**	**-28,905**
71	**Statistical discrepancy (sum of above items with sign reversed)**	**36,623**	**-1,698**	**64,912**	**200,055**
	Memoranda:				

Footnotes

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Last updated: Wednesday, June 17, 2009

Some Facts

Canadian Current Acct.

1.) Canada's Current Acct. Surplus has been shrinking the past few years. In 2008 it was C$ 8.1 billion, or about 0.5% of GDP. It will almost surely be in deficit for 2009.

2.) Canada always runs a merchandise trade surplus, while running deficits in services + investment income.

Canadian Financial Acct.

1.) Gross (two-way) asset flows are much larger than net flows.

2.) Until the early 1980's FDI in Canada was larger than Canadian FDI abroad. Since then there has been no consistent pattern.

3.) Roughly speaking, FDI is more important for capital inflows than for capital outflows

U.S. Current Acct.

1.) The U.S. Current Acct. Deficit has been shrinking rapidly since 2006. It is forecasted to be "only" 3-4% of GDP this year.

2.) The U.S. is the mirror image of Canada, in the sense that it always has a deficit on merchandise trade, but surpluses in services + investment income.

U.S. Financial Acct.

1.) Like Canada, gross flows dwarf net flows. However, U.S. purchases + sales of assets both collapsed during 2008 in response to the financial crisis.

2.) The U.S. govt. is a minor purchaser of foreign assets, while foreign governments are major purchasers of U.S. assets, especially U.S. govt. securities. Before the crisis, foreign govts. typically accounted for 20-25% of U.S. asset sales. Last year they accounted for about 90%!

$\frac{\text{Current Acct.}}{\text{GDP}}$ in 2007

Australia	-6.3
Canada	0.9
China	11.5
France	-1.2
Germany	7.7
Greece	-14.2
Hong Kong	13.5
India	-1.1
Japan	4.8
Korea	0.6
Kuwait	42.4
Malaysia	15.5
Mexico	-0.5
New Zeala	-7.8
Norway	15.6
Saudi Ara	24.9
Singapore	24.2
Spain	-10.1
UK	-4.3
USA	-5.3

Saving, Investment, and the Current Account

- As a prelude to developing theories of current acct. determination, we need to understand the connections between saving, investment, + the current acct.

Let,

CA_t = Current Acct in period t ($CA_t > 0 \Rightarrow$ surplus)

TB_t = Trade Balance in period t

B_t^* = Net Foreign Assets at the end of period t

- By our earlier BOP defn., (ignoring unilateral transfers)

$$\boxed{CA_t = TB_t + r \cdot B_{t-1}^*}$$

- Viewed from the perspective of the Financial acct., we can equivalently write

$$\boxed{CA_t = B_t^* - B_{t-1}^*}$$

- Next, remember from Natl. Income Acctg.,

$$\underset{\text{GDP}}{Q_t} = \underset{\text{consumption}}{C_t} + \underset{\text{invest.}}{I_t} + \underset{\text{exports}}{X_t} - \underset{\text{imports}}{M_t}$$

(ignoring the govt.)

- Then, since $TB_t \equiv X_t - M_t$, we have

$$CA_t = r \cdot B^*_{t-1} + Q_t - C_t - I_t$$

- Remember $\underset{\text{GDP}}{Q_t} + r \cdot B^*_{t-1} = \underset{\text{GNP}}{Y_t}$

- Therefore,

$$CA_t = Y_t - C_t - I_t$$

or since $S_t = Y_t - C_t$

$$\boxed{CA_t = S_t - I_t}$$

So we have 3 equivalent ways of thinking about the current account:

1.) $CA_t = TB_t + r \cdot B^*_{t-1}$

2.) $CA_t = B^*_t - B^*_{t-1}$

3.) $CA_t = S_t - I_t$

The first emphasizes flows of goods and services between countries. The second emphasizes the exchange of assets that necessarily finances these flows. The third emphasizes the fact that current acct. balences reflect underlying savings & investment decisions, and hence, must be understood in the context of dynamic / intertemporal models.