

Balance of Payments



Australia's Place in the Global Economy

Definition

The Balance of Payments is a monetary record of transactions into and out of Australia over a period of time



It measures money flowing IN and money flowing OUT of Australia

The BOP is made up of two sections

Current Account

is a record measured in dollar terms of the flow of Goods, Services, Primary Incomes and Secondary Incomes into and out of Australia over a period of time.

(What appears on this account is irreversible)

Capital and Financial Account

records the borrowing, lending, sales and purchases of assets between Australia and the rest of the world

(What appears on this account is reversible)

The Current Account

Is broken into 4 sections

1. The Goods Account
2. The Services Account
3. The Primary Incomes Account (Formerly Incomes account)
4. The Secondary Incomes account (Formerly Transfers account)

The Current Account

The money flow from all exports and imports of goods and services, income flows(Primary Incomes) and non-market transfers(Secondary Incomes) for a period of one year.

All money that flows in appears as a **CREDIT**, and all money that flows out appears as a **DEBIT**.

The Capital and Financial Account

records the borrowing, lending, sales and purchases of assets between Australia and the rest of the world.

The Capital and Financial Account

Is broken into 2 sections

1. The Capital Account
2. The Financial Account

Activity...In your notes,
create the following 2
tables and complete the
detail for each section

The Current Account

Component	2016-17 (\$bn)	2017-18 (\$bn)
Goods		
Services		
Balance on Goods and Services(BOGS)		
Primary Income		
Secondary Income		
Balance in Current Account		

The Capital and Financial Account

Component	2016-17 (\$bn)	2017-18 (\$bn)
Capital Account		
-		
-		
Total Capital Account		
Financial Account		
-		
-		
-		
-		
Total Financial Account		
Balance on Capital and Financial Account		

Balance of Payments (BOP)

The Current Account

Net goods + Net services

(Balance on Goods and Services)

+

Net Primary Income + Net Secondary Income

The Capital and Financial Account

Capital Account + Direct Investment + Portfolio Investment

+

Other Investment + Reserve Assets + Financial Derivatives

The Balance of Payments

Current Account + Capital and Financial Account

+

Net Errors and Omissions = 0

CURRENT ACCOUNT

+

CAPITAL & FINANCIAL ACCOUNT

=

ZERO



What???? HOW???? Arghhh?????

The BOP
will
ALWAYS
add to zero.



The floating
\$A ensures
the balance
in the BOP

This happens because the the price of the \$AUD represents equilibrium between the supply and demand of Australian dollars created by the floating exchange rate.

SUPPLY

1. Payments for imports of G&S
2. Primary and Secondary Income/transfers o/s
3. Capital and Financial outflow



DEMAND

1. Receipts for exports of goods and services
2. Primary and secondary income /transfers from o/s
3. Capital and financial inflow

Supply of the \$AUD

OUTFLOWS (DEBITS) of \$\$\$ out of Australia need to be sold to buy foreign currency

Because they are sold they become the supply in the market for the \$A

Demand for \$AUD

INFLOWS (CREDITS) of \$\$\$ into Australia need to buy \$A

Because they want to buy \$A, they become the DEMAND for \$A

Price adjusts so Demand = Supply

So, our currency moves to allow the demand for our \$A to equal the supply of our \$A.

And thus.....because our \$A fluctuates....our BOP will equal zero.

BOP measures money flowing IN and money flowing OUT of Australia

DEMAND = SUPPLY.....SO... BOP= ZERO



Questions....

1. Identify the main components of the BOP.
2. Explain the relationship between the two sides of the BOP
3. Explain the relationship between the BOP and the floating \$A.