

**TOPIC: IMPORTANCE OF BOP AND BOT**

C.P.A College

**Dr.S.NAGALINGAM,**  
M.Com., M.Phil., P.G.D.C.A., Ph.D.,  
Assistant Professor,  
PG & Research Department of Commerce,  
Cardamom Planters' Association College,  
Bodinayakanur.

## **Importance of BOP and BOT**

### **1. Balance of payment**

The balance of payments of a country is a systematic record of all economic transactions between its residents and residents of the foreign countries during a given period of time.

### **2. Current account**

It records imports and exports of goods and services and unilateral transfers.

### **3. Capital account:**

Capital account is that account which records all such transactions between residents of a country and rest of the world which cause a change in the asset or liability status of the residents of a country or its government.

### **4. Foreign Direct Investment**

It refers to purchase of an asset in rest of the world, such that it gives direct control to the purchaser over the asset.

### **5. Portfolio Investment**

It refers to the purchase of financial asset by the foreigners that does not give the purchaser control over the asset.

### **6. Balance**

It means difference between the sum of credits and sum of debits.

### **7. Balance of trade**

The term “balance of trade” denotes the difference between the exports and imports of goods in a country. Balance of trade refers to the visible items only.

### **8. Balance on Current Account**

It is the difference between sum of credits and sum of debits on current account.  
Balance on Current Account = Sum of credits on current account – Sum of debits on current account

### **9. Balance on Capital Account**

It is the difference between sum of credits and sum of debits on capital account.

Balance on capital account = Sum of credits on capital account – Sum of debits on capital account

### **10. Autonomous items**

It refer to those international economic transactions in the current account and capital account which take place due to some economic motive such as profit maximization

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## 11. Accommodating items

It refers to the transactions that are undertaken to cover deficit or surplus in autonomous transactions, i.e., such transactions are determined by net consequences of autonomous transactions.

### Balance of Trade

Trade refers to buying and selling of goods, but when it comes to buying and selling of goods globally, then it is known as import and export. The Balance of Trade is the balance of the imports and exports of commodities made to/by a country during a particular year. It is the most important part of the current account of the country's Balance of Payment. It keeps records of tangible items only.

### Balance of Payment

The balance of payment is a record of all transactions between entities in one country and the rest of the world over a defined period, such as a quarter or a year. In other words, the balance of payment is a set of accounts that records all the commercial transactions made by a country with other countries over a specific period. It includes all monetary transactions for goods, services, and income during the year.

### Difference between Balance of Trade and Balance of Payments

Basis for Comparison	Balance of Trade	Balance of Payment
Meaning	Balance of Trade is a statement that captures the country's export and import of goods with the remaining world.	Balance of Payment is a statement that keeps track of all economic transactions done by the country with the remaining world.
Records	Transactions related to goods only.	Transactions related to both goods and services are recorded.
Capital Transfers	Are not included in the Balance of Trade.	Are included in Balance of Payment.
Which is better?	It gives a partial view of the country's economic status.	It gives a clear view of the economic position of the country.
Result	It can be Favorable, Unfavorable or balanced.	Both the receipts and payment sides tallies.
Component	It is a component of Current Account of Balance of Payment.	Current Account and Capital Account.

## **Key Differences between Balance of Trade and Balance of Payments**

The following are the major differences between the balance of trade and balance of payments:

1. A statement recording the imports and exports done in goods by/from the country with the other countries, during a particular period is known as the Balance of Trade. The Balance of Payment captures all the monetary transaction performed internationally by the country during a course of time.
2. The Balance of Trade accounts for, only physical items, whereas Balance of Payment keeps track of physical as well as non-physical items.
3. The Balance of Payments records capital receipts or payments, but Balance of Trade does not include it.
4. The Balance of Trade can show a surplus, deficit or it can be balanced too. On the other hand, Balance of Payments is always balanced.
5. The Balance of Trade is a major segment of Balance of Payment.
6. The Balance of Trade provides the only half picture of the country's economic position. Conversely, Balance of Payment gives a complete view of the country's economic position.