

THE ECONOMY & YOU

Balance of Payments

We often hear reports on the “balance of payments” of a country and about balance of payments problems in various countries of the world. What is “the balance of payments”? Today, we are going to take a brief look at this area, and see what it means for us in this region.

Every country that engages in international transactions needs to keep a record of its financial dealings with the rest of the world. The balance of payments is such a record. It is the record of the country’s international economic transactions. The difference is called a “surplus” when we make more than we spend and a deficit when we spend more than we make.

Countries such as ours are especially dependent on trade and transactions with other countries. Therefore for us, keeping the record and monitoring the trends in the balance of payments are particularly important.

In international trade, the currency of one country is seldom accepted in other countries as payment. This means that in order to purchase foreign goods, ECCB member countries must first acquire foreign currency. How is this done? Countries earn foreign currency mainly by producing goods and services and selling them in foreign markets or selling them to tourists who spend foreign currency locally.

The rules of international trade make it necessary for all countries to accumulate a stock of foreign assets, readily available to finance outstanding foreign obligations. This is called the “**reserves**” of the country. The network of

international transactions carried on each day eventually results in an increase or decrease in these reserves from year to year. The stock of foreign reserves held by the Central Bank and the commercial banks determines the ability of ECCB member countries to acquire goods and services from abroad in the future.

Why is it necessary to keep a record of balance of payments?

Let us look at a key reason this way:

When a disaster such as a hurricane is imminent, early warning signals help us to prepare to lessen the dangers ahead. Similarly, the balance of payments accounts provide signals – statistical indicators – of how the economy is performing. These signals allow measures to be implemented to protect and improve the balance of payments position before we reach crisis levels.

Balance of payments accounts allow each government to see the effects of the country's international transactions on the domestic affairs of the economy and vice versa.

It may be clear by now that keeping such a record requires masses of information. This is why the statistics office needs certain kinds of data from those of you in the business community and others, in order to build the balance of payments accounts for the country, and for the region as a whole.

When the balance of payments numbers are compiled with insufficient information the reliability and validity of the balance of payments statistics are considerably reduced. As a result, economic management becomes increasingly difficult and may actually lead to inappropriate policies.