**Balance of Payments (BOP)** of a country is its **record** of all **financial transactions** performed between the **residents** (meaning individual, firms, government) and the rest of the world (albeit within a period, usually a **financial year**).

Here a point need to be mentioned, **BOP** data isn't concerned with **actual 'payments'**, rather with **'transactions'**.

Now the question is does it really **'balances'?**
The answer is **may not be**. Though **theoretically** it should be **zero,** meaning that **assets (credits)** and **liabilities (debits)** should **balance,** but in practice there is mostly a **mismatch**.

It generally happens, when the **outward transaction** is more than the **inward transaction,** and then is termed as **Balance of Payment Deficit (BOP deficit)**. Also, **BOP surplus** is possible, for the reverse case.

## BOP Accounts

For the **international trade,** a country's **BOP** deals with **three** types of **accounts -**

1. **Current Account** - It is the **most** important of the three. It has mainly **four** components - **goods, services, income** and **current transfers** (meaning worker's **remittances, donations, aids**, etc.). It is very obvious now - if the **outflow** of this **components** are more than the **inflow**, it will result in **Current Account Deficit (CAD)**.
2. **Capital Account** - All international **capital transfers** are recorded here (**Capitals** meaning **non-financial assets**, such as **land** and **non-produced assets**, such as **mine**)
3. **Financial Account** - It contains the **direct investment** (remember **FDI, ODI**), **portfolio investment**, **reserve assets**, etc.

Often the last two accounts are mentioned as a **single** one - **Capital and Financial Account**.

## Trade Deficit

From the above discussion you hopefully learned the concept of **BOP deficit** and **Current Account Deficit (CAD)**. Since we are talking about '**international'** transactions, its better to know about the **Trade Deficit**.

It is very much simple - **negative** balance of **trade**, meaning **country imports** more than **exports**. As a result **currency** is flowing **outward**.
(On a ***personal note* -** Reduce **gold** use. **Indian currency** flows outward. Government spends a lot for **importing gold** from foreign countries!)

Other types of **deficits** - **Revenue Deficit, Fiscal Deficit, Primary Deficit** - will be discussed later.