

## **The Payment Balance for the Theoretical and Methodical Aspects of Creation and the Analysis on Materials of Russia and Great Britain**

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### **Abstract**

**Purpose** – This study is to analyze the assessment of forming of a payment balance of the country and its condition. Data array were used the data on the Russian Federation from the 1995-2016, across Great Britain – since the 2004-2014 and in the retrospective aspect since the 1946.

**Research design, data, and methodology** – The payment balance is a ratio of payment amounts made this country abroad and the receipts received by it from abroad for a certain period; it is the systematic list of all economic transactions performed for a certain period of time between the residents of one country and the nonresidents. The scale of research on Russia: to be analyzed the amount of data from the 1995 by 2016. On Great Britain - the 2004-2014, on South Korea - the 2017.

**Results** – Hypothesis 1. The detailed and simple systematization of balance sheet items increases the efficiency of analytical procedures and the mechanism of public administration. Hypothesis 2. The main of balance sheet items are deficit of Russian Federation scarce which, are generally counterbalanced with gold and foreign exchange reserves.

**Conclusions** – Considering the items of balance of payments of the studied countries in the context with other countries, it can be noted that the dynamics of the main items are closely linked with the main macroeconomic indicators and reflects the main tendency of the state development. The main items of balance sheet of South Korea's are intensive. The relatively stable dynamics in the macroeconomic indicators is observed in Japan and China

**Keywords:** The Payment Balance, The Analysis, The Comparative Analysis, Regulation by Payment Balance, The Articles of Payment Balance.

**JEL Classification Code:** F30, F32, H19.

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## **1. Introduction**

The international economic, financial relations, the economic transactions of the country find reflection in the balances of international settlements which represent a ratio of cash requirements and the liabilities, the receipts and the payments of the one country in relation to other countries. There is a set of kinds of balances: settlement, payment, balance of the international debt, etc. The one of the main documents of analytical practice is the payment balance.

The first attempts of its creation were made at the end of the XIV of century. The first official publication took place in the 1923. Where the data for the 1922. were displayed. Further the American economist H.Lari performs attempt of creation in the 1919 – 1939. Since the 1946 quarterly and annual creation of payment balance is performed. Since the 1947 the scheme of payment balance was published as the document of the OUN that was a substratum for development of the IMF of forms and the principles of creation of payment balance.

The payment balance, being display of state of the economy of the country, allows to give the generalized assessment to economic stability of the state, its liquidity, its position in the world community, to develop the tactical strategic mechanism of public administration. The analysis technique of a payment balance is traditional. The contents, the structure of payment balance, its dynamic which can on a number of articles can be commensurated with GDP. If necessary the researched country is positioned with the leading countries of the world, the comparative analysis is carried. Within this article we will consider the results of assessment of payment balance of Russia and Great Britain.

## **2. Theoretical Background**

The payment balance is a ratio of payment amounts made this country abroad and the receipts received by it from abroad for a certain period; it is the systematic list of all economic transactions performed for a certain period of time between the residents of one country and the nonresidents.

Differentiate a payment balance for a certain period and for a certain date. In the international practice the method of double record when each external economic transaction is subject to inclusion in the payment balance is applied and brought twice. The June record shows what changes in an asset and a liability of the country are caused by this transaction. The other record counterbalancing shows what means regulate the mutual requirements and the liabilities between the countries. All articles can be subdivided into the main and balancing. The main articles are independent, capable to influence balance of paying balance (for example, the current transactions). The balancing articles have no independence or are characterized by limited independence.

In the balance the actual money payments on the current commercial turnover integrated with currency-free transactions are reflected, including goods exchange transactions and the free external economic aid with movement of the short-term and the long-term capitals, the transactions which during this period aren't followed by money payments, and only generate mutual requirements and the liabilities of cash nature. The payment balance covers all transactions which are connected with legal transition of the property right to values from residents to nonresidents, and also transfer of cash, financial and other assets from the one country in another.

The contents of payment balance have the simple form. Classification of articles of payment balance by technique of IMF it is representable in appendix A. In each country its creation under the articles is performed individually. The main section is the balance on current transactions and the capital balance. The balance on current transactions includes: the payments and the receipts on the foreign trade transactions or a trading balance; the balance of services (the international carriages, the freight, the insurance etc.) and non-commercial transactions (the payment under patents, a technical assistance), the income and the payments on investments. The capital balance contains of short-term and the long-term transactions, the transactions on loan granting.

The mistakes, the admittance cards, unaccounted short-term capital movement; the problem of budget deficit will be settled by means of the balancing articles. In this case, such transactions as the loans, the short-term loans under the agreement "swap" which are mutually provided by the Central Banks in national currency are performed. For a covering of temporary gap in the balance of payments of IMF provides to Fund member countries the reserve (unconditional) credits (within 25% of their quotas). Industrialized countries will mobilize for settlement of gap in the balance of payments of means in the financial market of lending capitals in the type of loan of bank consortia, the bonded loans. Also soft credits obtained by the country through foreign "help" belong to temporary methods of covering of gap in the balance of payments (the subsidies and the gifts belong here).

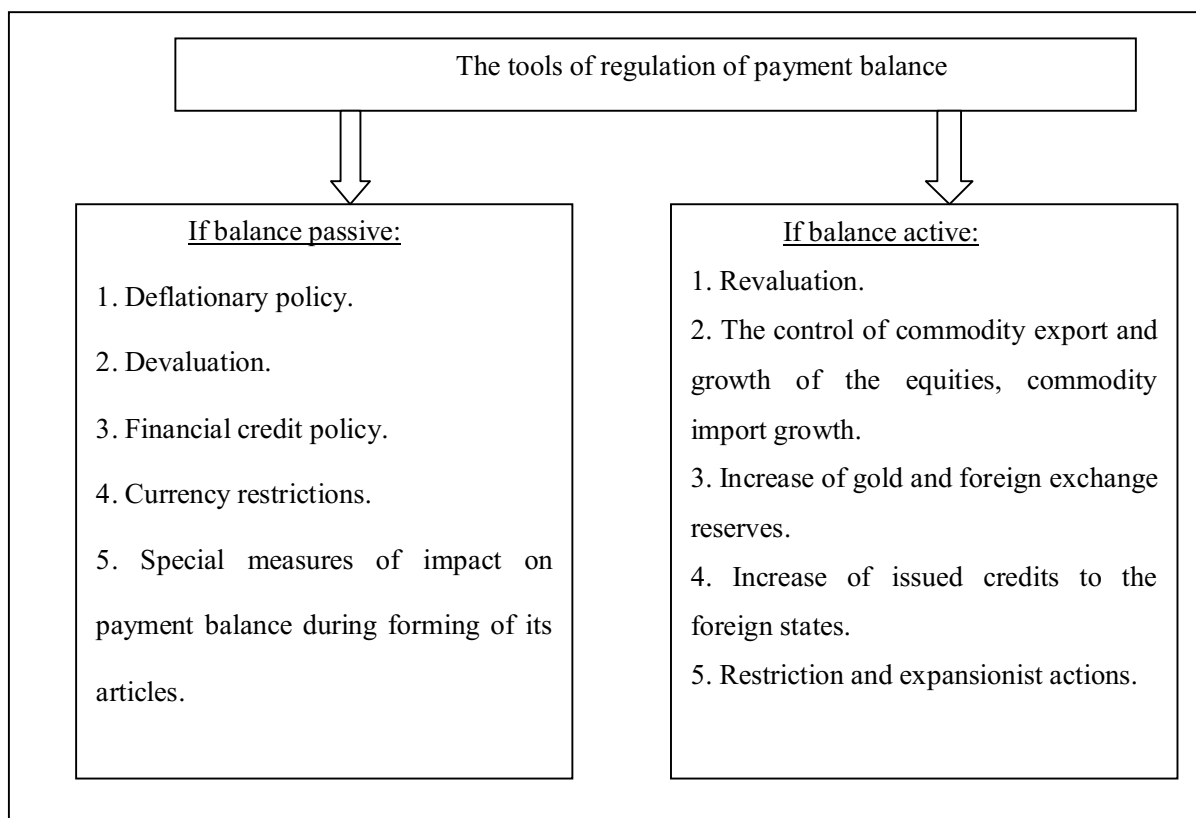
The main method of regulation of a paying balance is use by the country of the official gold and foreign exchange reserves, allowances of convertible foreign currency. SDR provided through the IMF since the 1970 and since the 1979 to ECU concern to the last. The supportive application of balancing of a payment balance is sale foreign and national securities on foreign currency. In particular, in the USA use the bonds of treasury in Central Banks of other countries.

The concepts and the models of regulation by payment balance there is a lot of. The theory of autonomous self-regulation of payment balance is developed D.Yum, D.Ricardo in the XYIII a century and is based on the gold movement. The Keynesian theory of regulation by payment balance is based on the state regulation. The theory of internal and external balance developed R.Harrod, E.Mandel and others relies on the tool and target method assuming studying of origins of unbalanced balance sheet items, a budget currency control and on the theory of standard regulation developed by R.Miller, D.Vilyamson, at the heart of which countercyclical, anti-inflationary regulation, the management of international settlements.

Lowering the overview of other concepts and the theories, we will note that there are different tools of regulation by payment balance (figure 1). Collective regulation of payment balance is performed at the interstate level and includes: cancellation of duties, unification of the taxation system, coordination of terms for crediting.

Interstate regulation includes development of measures taking into account what balance of payment balance: passive or active.

Let's consider some measures provided in the drawing in more detail. The deflationary policy can be created differently. Here also decrease in the internal demand, the price and the salary freezing, restriction of budgeted expenses for the civil purposes, establishment of limit of growth of money supply, entering of credit restrictions, decrease in budget deficit, etc. can be referred.



**Figure 1:** The mechanism of regulation of payment balance.

On payment balance it is possible to carry "invisible measures" to special measures of impact. For example, there are currency restrictions, restriction of regulation of export by tourists of currency. Currency restrictions on current transactions of payment balance can be in the shape:

- blocking of currency earnings of foreign exporters from sales of goods in this country, restriction of their opportunities to dispose of these means;
- Obligatory sale of currency earnings of exporter fully or partially, etc.;
- Limited sale of foreign currency to importers;
- Restriction for forward purchases by importers of foreign currency;
- The sales of goods abroad on national currency are forbidden;
- The payment of import of some goods of foreign currency is forbidden;
- Regulation of payment due dates on export and import in the conditions of instability of the currency rates.

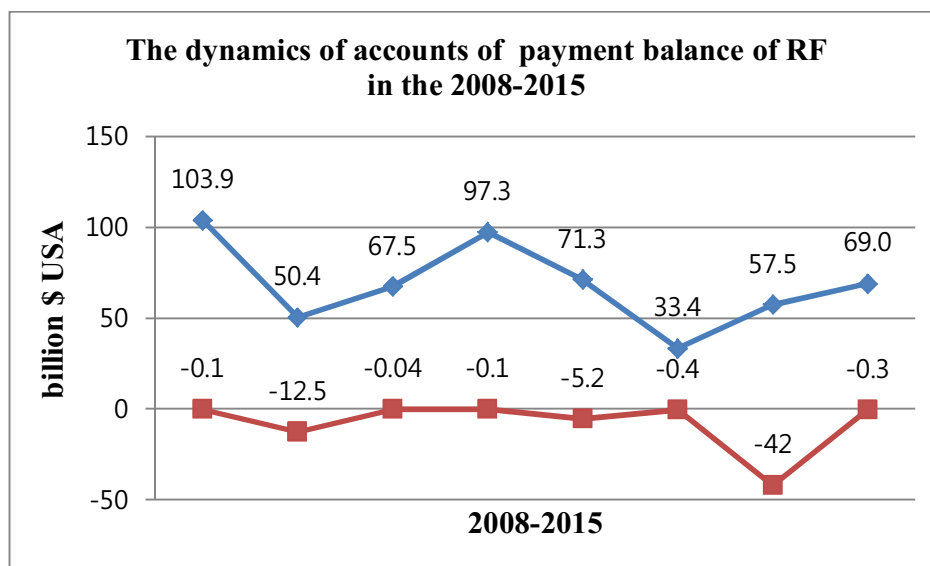
On financial transactions of payment balance treat currency restrictions:

- Limitation of export of national and foreign currency, the gold, securities, granted loans;
- The control of activities of the market of lending capitals;
- Complete or partial cessation of settlement of external debt.

Credit restrictions including growth of an interest rate, the control of growth of money supply, commodity import, etc. belong to restriction actions. Expansionist actions include the measures directed to stimulation of commodity export, a capital movement.

### 3. The assessment of payment balance of Russian Federation

Estimating a payment balance of Russian Federation for the last eight years, it should be noted that surplus article is the account of current transactions (Table 1, Figure 2, 3, the appendix B: Figure 1). The account of movement capital with the equity throughout all analyzed period is deficit.



Row blue – the current account, Row red – the account of movement capital.

**Figure 2:** The dynamics of accounts of payment balance of Russian Federation in the 2008-2015.

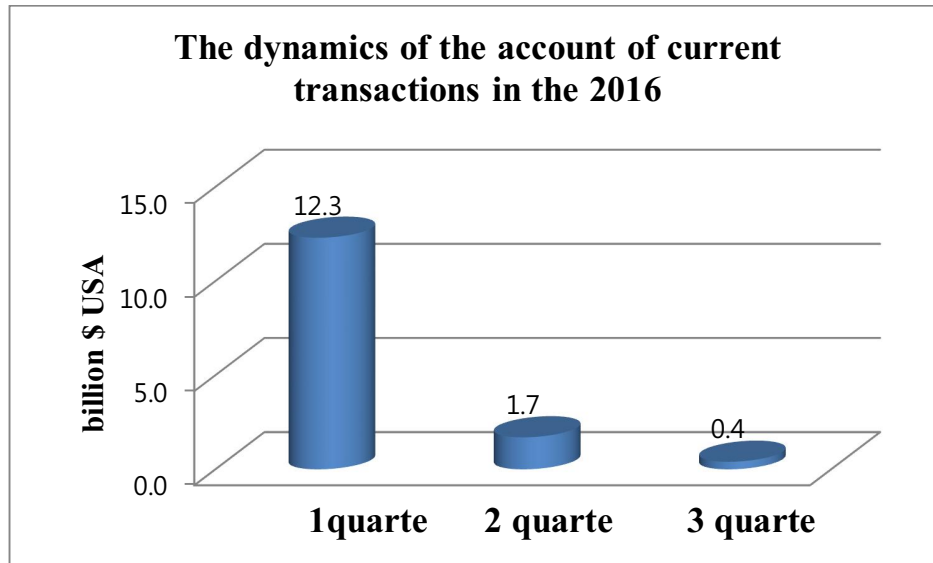


Figure 3: The dynamics of the account of current transactions in the 2016.

By consideration of structure, it is necessary to specify that the account of current transactions surplus due to a trading balance (the appendix B: Figure 2, 3). Commodity export in the third quarter 2016 constituted the 71 billion \$, the import – the 21.2 billion \$. At the same time the oil export and the oil products constitutes the 31.3 billion \$. The balance of services, the compensations, the investment revenues, and the secondary income are deficit. On balance of services, it is necessary to consider that in the third quarter 2016. The export constituted the 13.8 billion \$, the import – the 21.1 billion \$. The balance sheet deficit of compensation during this period made the 0.6 billion \$, on balance of investment revenues payments in the amount the 16,5 billion \$ are dominated.

At the same time the payments for bodies of federal management constituted the 0.6 billion \$, on banks – the 2.1 billion, by other sectors –the 13.9 billion \$. Considerable adoption of financial liabilities in the third quarter 2016 was observed in the federal bodies of management regarding portfolio investments. The release was in the amount the 1.3 billion \$, in the secondary market – the 3.2 billion \$. In other sectors the direct investments constituted the 3,5 billion \$. Considerable acquisition of financial assets was also observed under this article the 1.9 billion \$ on the direct investments and in other assets – the 4.5 billion \$.

Estimating retrospective dynamics under articles of payment balance from the 1995 to the 2007, it should be noted that the deficit state of the account of current transactions was observed in the 1997 – the 80 million \$(Figure 4, 5, the appendix B: Figure 4).

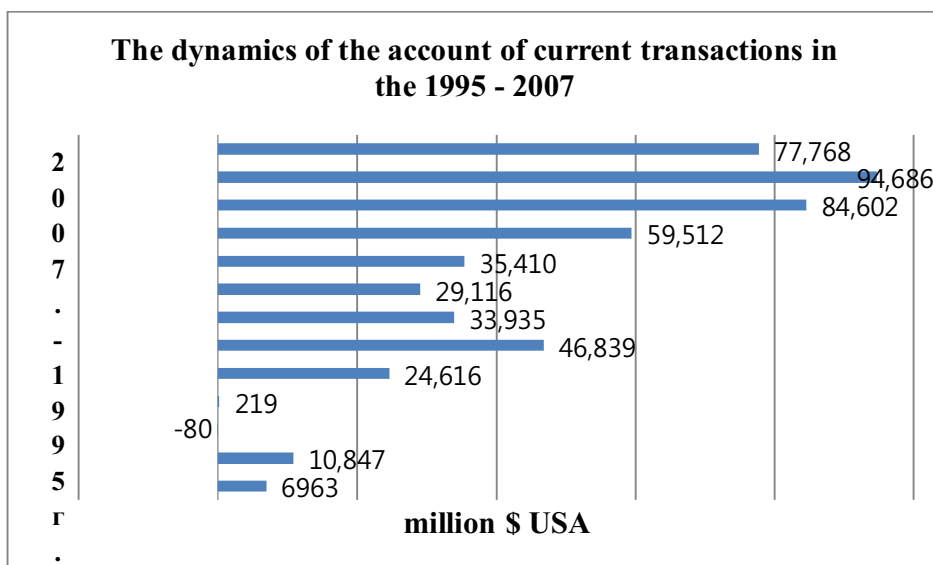
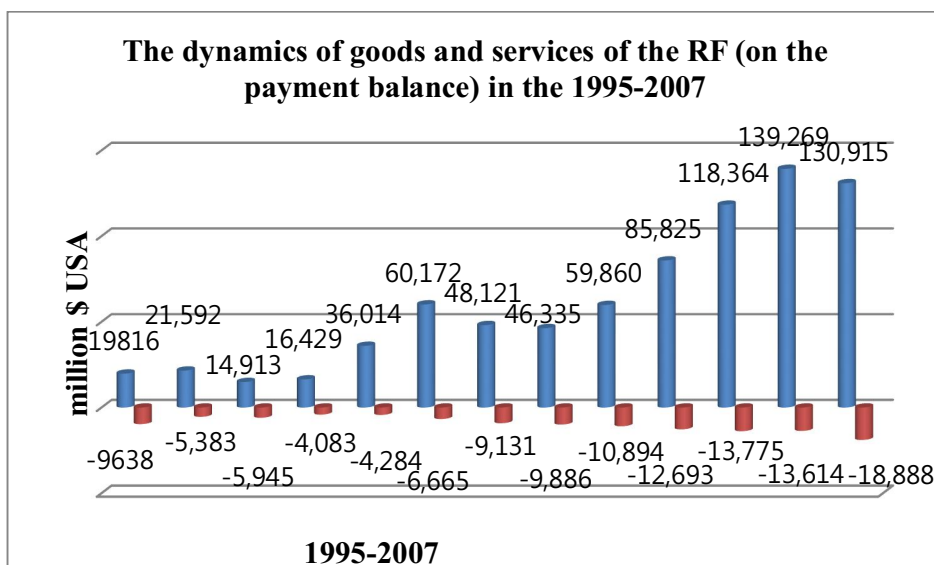


Figure 4: The dynamics of the account of current transactions in the 1995 - 2007.

Table 1: The main article of payment balance of Russian Federation in the 2008-2015.

The main article of payment balance	billion \$							
	2008	2009	2010	2011	2012	2013	2014	2015
1. The account of current transactions	103,9	50,4	67,5	97,3	71,3	33,4	57,5	69,0
Trading balance	177,6	113,2	147	196,9	191,7	180,6	188,9	148,5
The balance of services	-20,4	-17,6	-26,1	-33,5	-46,6	-58,3	-55,3	-36,9
The balance of compensation	-14,5	-8,9	-8,5	-9,5	-11,8	-13,2	-10,1	-5,1
The balance of investment revenues	-32,1	-31	-38,7	-51	-56,8	-66,5	-58	-31,9
The balance of rent		0,1	0,2	0,1	1	0,01	0,1	0,0
The balance of the secondary income	-6,8	-5,5	-6,3	-5,7	-6,1	-9,3	-8,2	-5,6
2. The account of capital transactions	-0,1	-12,5	-0,04	-0,1	-5,2	-0,4	-42	-0,3
3. The net mistakes and admittance cards	-3,1	-6,4	-9,1	-8,7	-10,3	-8,9	8	3,9
4. Change of reserve assets ('+' - growth, '-' - decrease)	-38,9	3,4	36,8	12,6	30	-22,1	-107,5	1,7

The export, commodity import and services, the payment for investments in the 1995-2007 has a stable tendency to growth. In particular, the payments for investments increase by the 12.9 times from the 7,2 billion \$ in the 1995 to the 92,8 billion \$ in the 2007. The account of capital transactions and the financial instruments mainly deficit during this period of time (Figure 6, the appendix B: Figure 5, 6, 7, 8, 9). The surplus condition is observed in the 1995, the 1997, the 1998 of value the 2.2 billion \$, the 8.9 billion \$, the 9.1 billion \$ respectively.



Row blue – the goods, Row red – the services.

Figure 5: The dynamics of goods and services of Russian Federation in the 1995-2007.

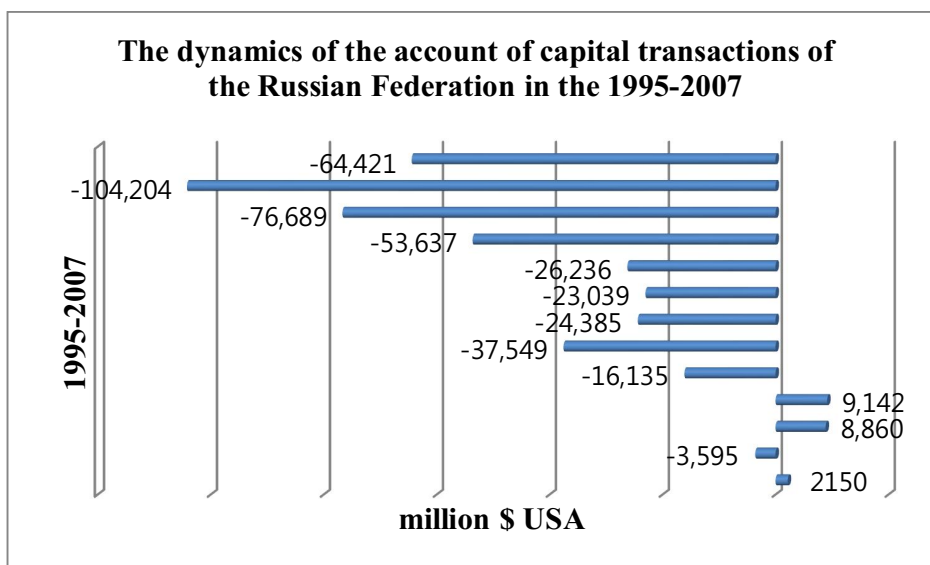


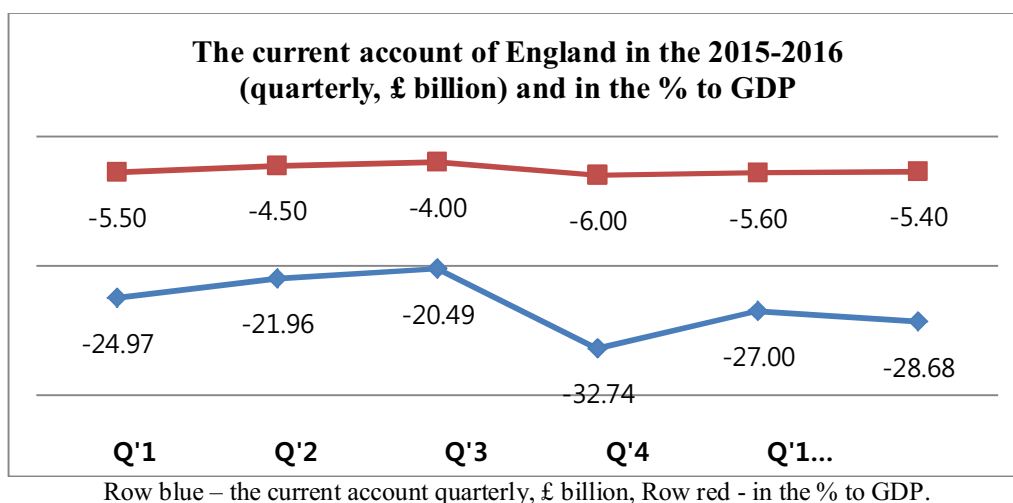
Figure 6: The dynamics of the account of capital transactions of Russian Federation in the 1995-2007.

The direct investments had a stable tendency to growth from the 2,1 billion \$ in the 1995 to the 75 billion \$ in the 2007. The amount of doubtful transactions increases though has the tendency to growth. The main balance sheet items are deficit of Russian Federation which, are generally counterbalanced with the gold and foreign exchange reserves.

#### 4. The assessment of a payment balance of Great Britain.

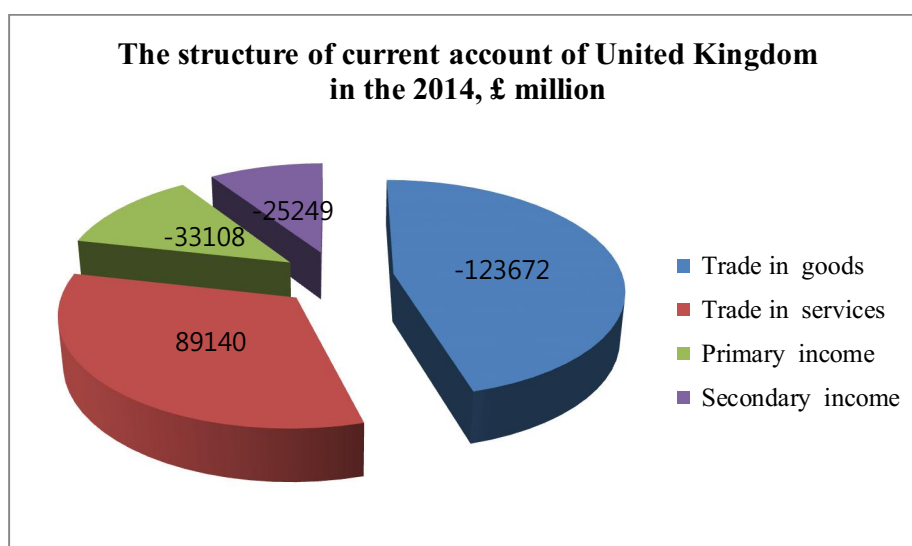
The contents of articles of payment balance are simple and logical in England. In Great Britain the deficit of current balance is observed (the appendix C: Table 1). In the 2014 it constituted the 92.9 billion £, in the 2015 – the 100.2 billion £, in the first quarter 2016 – the 27 billion £, in the second – the 28.7 billion £ (Figure 7). As a percentage to GDP in the second quarter 2016 it constituted the 5.4%.

From articles occupying the greatest specific weight in the goods – the 123.7 billion £, the travel – 10.1 billion £ are flowing the account scarce, and also considerable payments exist on the investment transactions (Figure 8). The retrospective dynamics of current account of Great Britain is also scarce and has a stable tendency to growth (Figure 9, 10). This study uses the applied software package of Statgraphics, in the analysis - the methods of multidimensional statistics.



Row blue – the current account quarterly, £ billion, Row red - in the % to GDP.

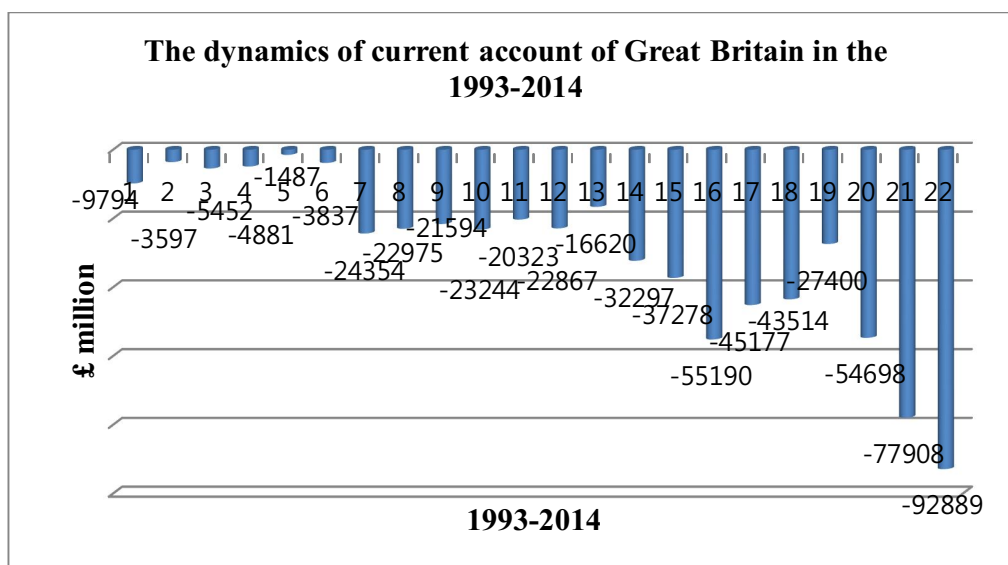
Figure 7: The current account of England in the 2015-2016.



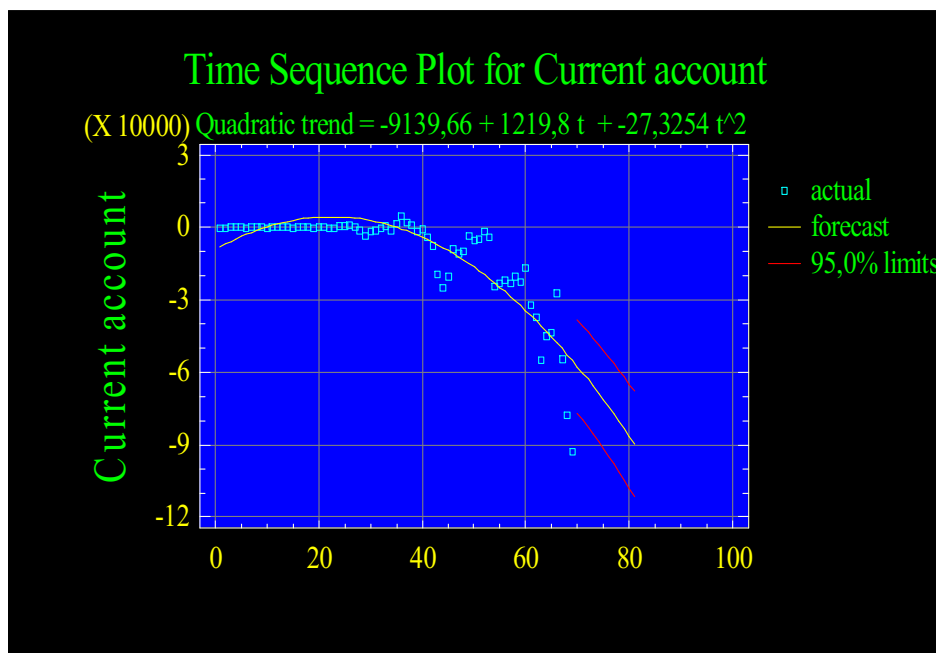
Row blue – the balance of goods, Row red – the balance of services, Row green – the balance of basic income, Row violet – the balance of the secondary income.

Figure 8: The structure of current account of United Kingdom in the 2014.





**Figure 9:** The dynamics of current account of Great Britain in the 1993-2014.



**Figure 10:** The dynamics of current account of Great Britain on the results of analyzes of data since the 1993-2014.

The account of the equity in Great Britain mainly is scarce during the period since the 2004-2014. The surplus is observed in the 2004, 2008-2010. (The appendix C: Figure 1). The financial account during this period completely scarce (the appendix C: Figure 2). An investment line item of Great Britain in the world is very steady. The investments abroad United Kingdom is considerable. But the amount of investments within the country exceeds foreign amount of investments (the appendix C: Figure 3, 4). At the same time the greatest investment revenue during the analyzed period of time is yielded by investments abroad. And only in the 2012-2014 the income from local investments dominates (the appendix C: Figure 5).

## 5. Conclusions

The structure of payment balance of Russian Federation requires simple systematization of articles that will allow to regulate more effectively to them and to raise extent of financial control. On the results of estimating of payment balance of Russian Federation surplus article is the account of current transactions throughout all analyzed period since the 2008-2016. By consideration of structure, it is necessary to specify that the account of current transactions surplus due to a trading balance. The account of movement with capital in the researched period is deficit. On the balance of investment revenues the payments are dominated. The investment transactions, in general, in Russian Federation require not only detailed the assessment, but also increase the financial control on them. The main balance sheet items are deficit of Russian Federation which, are generally counterbalanced with the gold and foreign exchange reserves.

In Great Britain the structure of creation of payment balance analytically transparent that allows increasing effectiveness of analytical procedures and the controlling mechanism In England is observed the deficit of current balance. An investment line item of Great Britain in the world is very steady. England has the considerable investments in the kingdom and abroad which continuously bring in the greatest income. The income from local investments dominates in the 2012-2014.

Considering the items of balance of payments of the studied countries in the context with other countries, it can be noted that the dynamics of the main items are closely linked with the main macroeconomic indicators and reflects the main tendency of the state development. The dynamics the main items of balance sheet of South Korea's are intensive in the 2017. The relatively stable dynamics in the macroeconomic indicators is observed in Japan and China.

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## **Appendix A:**

### **Classification of articles of payment balance by a technique of IMF.**

A. The current transactions.

Trading balance.

The balance of services.

Here transportations, the insurance, the tourism, all types of communication, the transfers, the transactions of military nature (invisible transactions) are belong.

The investment incomes.

Other services and income.

Private unilateral transfers.

The unilateral state transfers.

Total A: The balance of current transactions.

B: The direct investments and other long-term capital.

The direct investments.

The portfolio investments.

Other long-term capital.

Total A + B (basic, steady transactions).

C: Other short-term capital.

D: The mistakes and admittance cards.

Total A + B + C

E: The balancing articles.

Total A + B + C + D

F: The final change of allowances.

- the gold

- SDR

- a reserve line item in the IMF

- the foreign currency

- other requirements

- the credits of the IMF.

## Appendix B.

### The result of assessment of payment balance of Russian Federation.

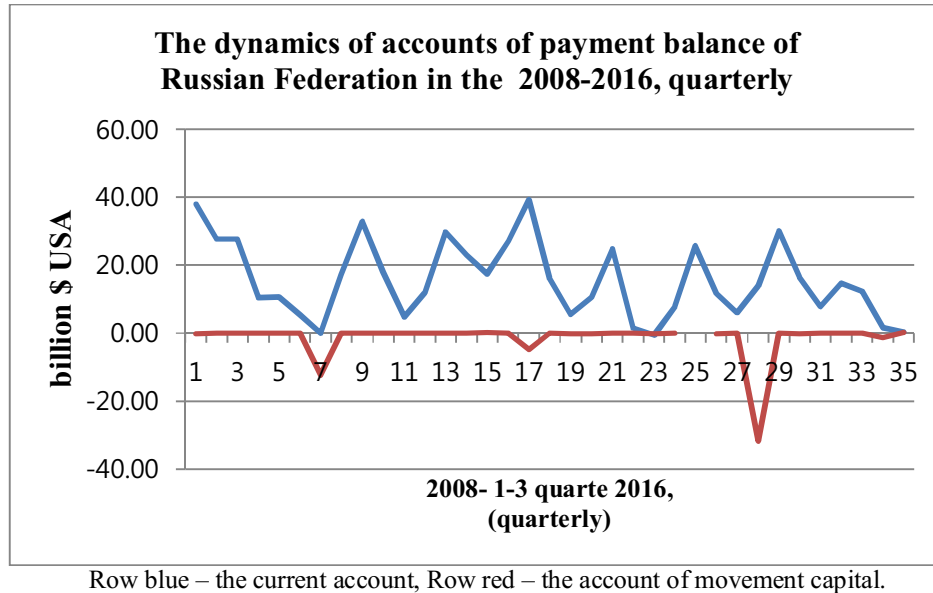


Figure 1: The dynamics of accounts of payment balance of Russian Federation in the 2008-2016.

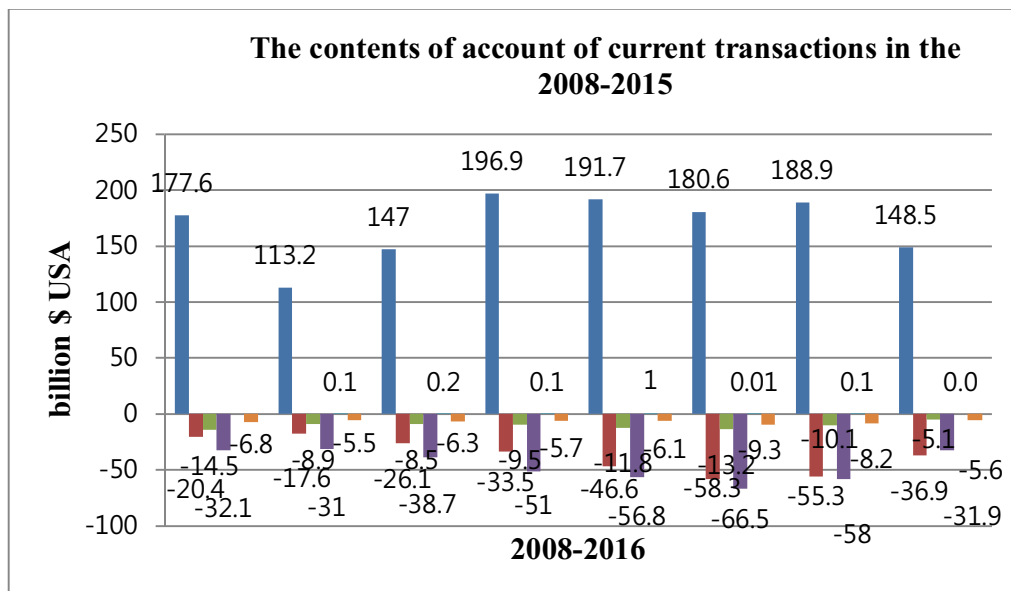
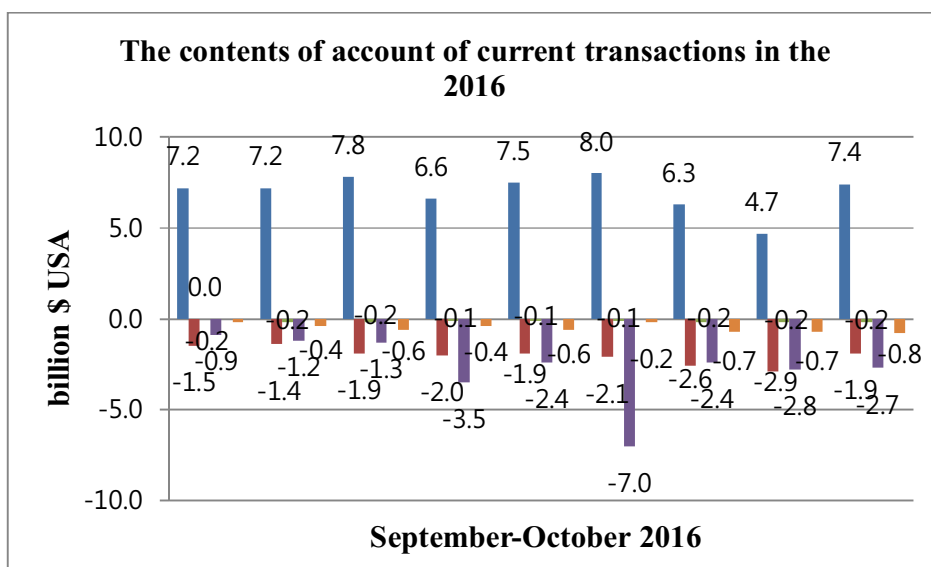
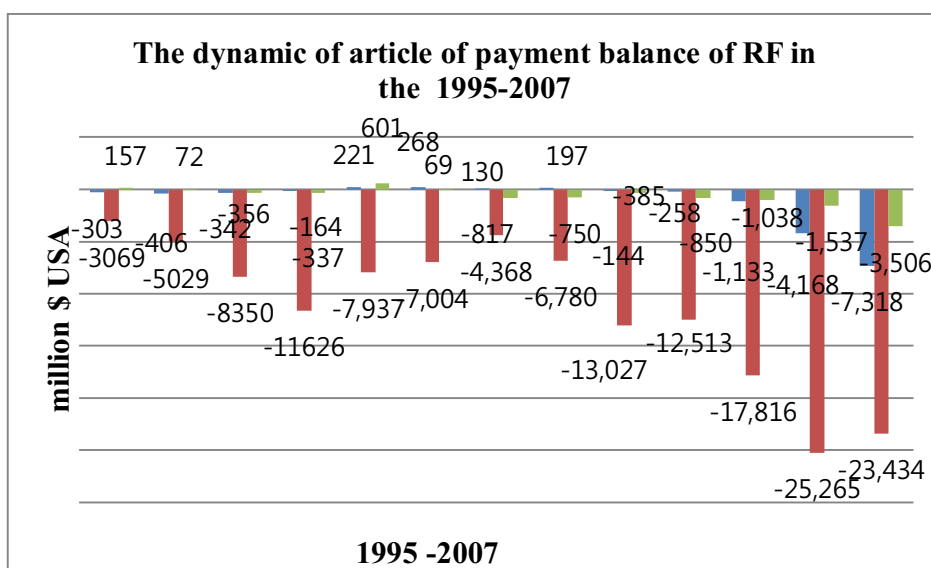


Figure 2: The contents of account of current transactions in the 2008-2015.



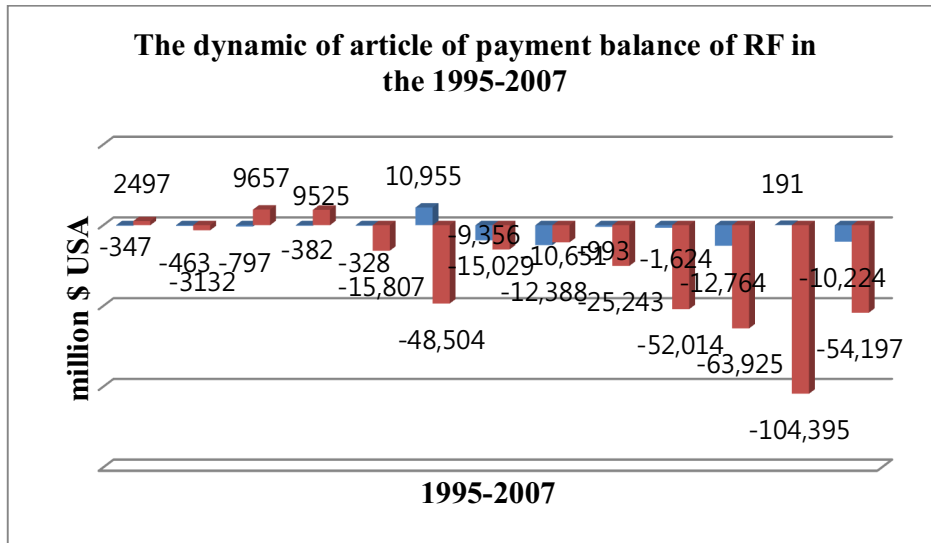
Row dark blue – the balance of goods, Row red – the balance of services,  
 Row green – the compensations, Row violet – the balance of investment income,  
 Row blue – the balance of rent, Row orange - the balance of the secondary income.

**Figure 3:** The contents of account of current transactions in the 2016.



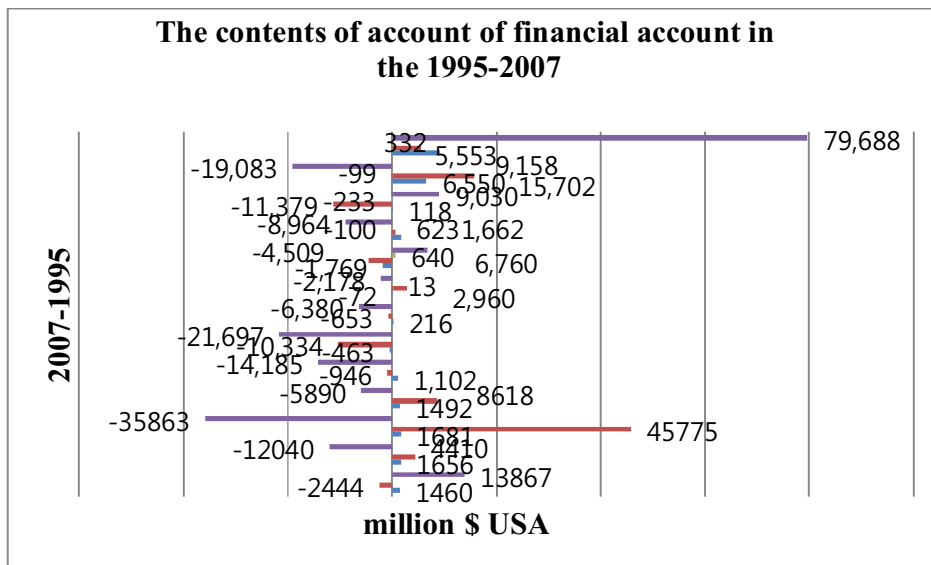
Row blue – the balance of compensations, Row red – the balance of investment,  
 Row green – the current transfers.

**Figure 4:** The dynamic of article of payment balance of Russian Federation in the 1995-2007.



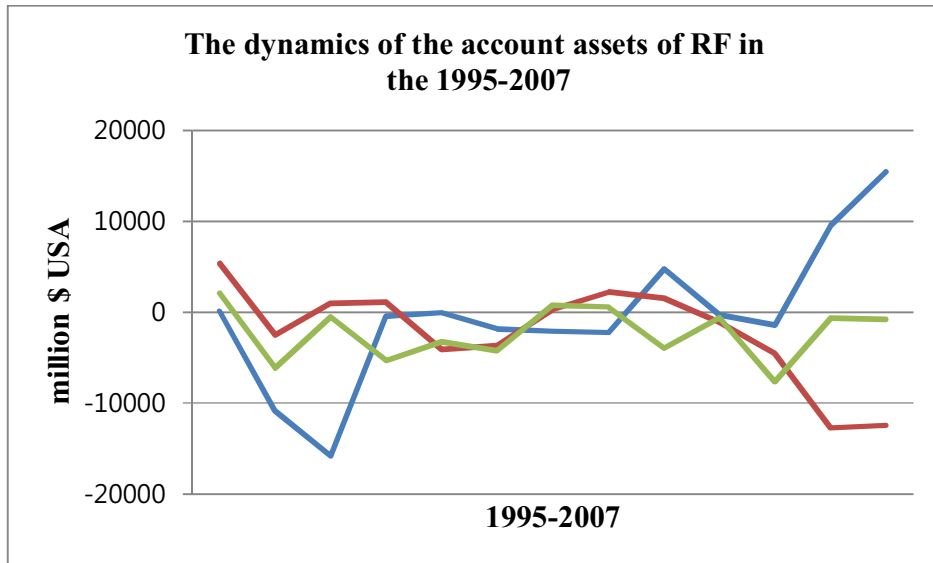
Row blue – the current account, Row red – the account of movement capital.

**Figure 5:** The dynamic of article of payment balance of Russian Federation in the 1995-2007.



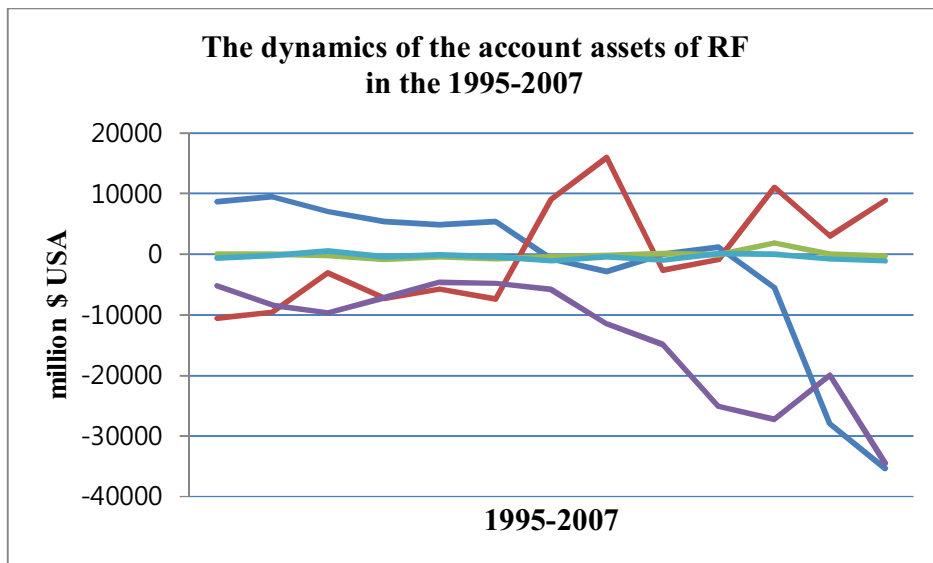
Row dark blue – the other investment, Row green – the financial derivatives, Row red – the portfolio investment, Row blue – the direct investment.

**Figure 6:** The contents of account of financial account in the 1995-2007.



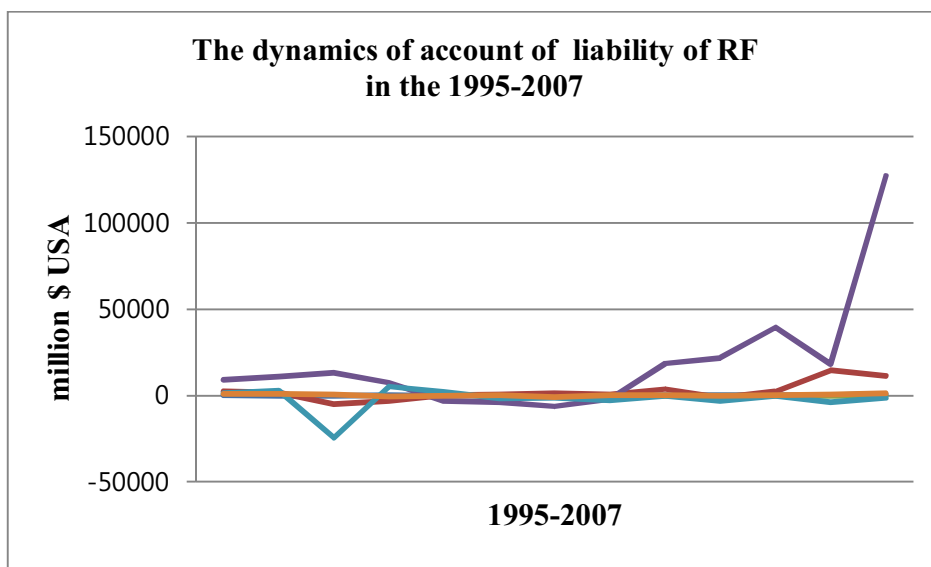
Blue line – the cash foreign currency, Red line – the balance of current accounts and deposits, Green line – the trade credit and advances.

Figure 7: The dynamics of the account assets of RF in the 1995-2007.



Dark blue line – the cash national currency, Red line – the past due debt, Green line – the debt on the goods on the base government agreement, Violet line – the doubtful transactions, Blue line – the other assets.

Figure 8: The dynamics of the account assets of RF in the 1995-2007.



Dark blue line – the balance of goods, Red line – the balance of current accounts and deposits,  
Green line – the trade credit and advances, Violet line – the loans and credits,  
Blue line – the past due debt, Orange line – the other liability.

**Figure 9:** The dynamics of account of liability of RF in the 1995-2007.



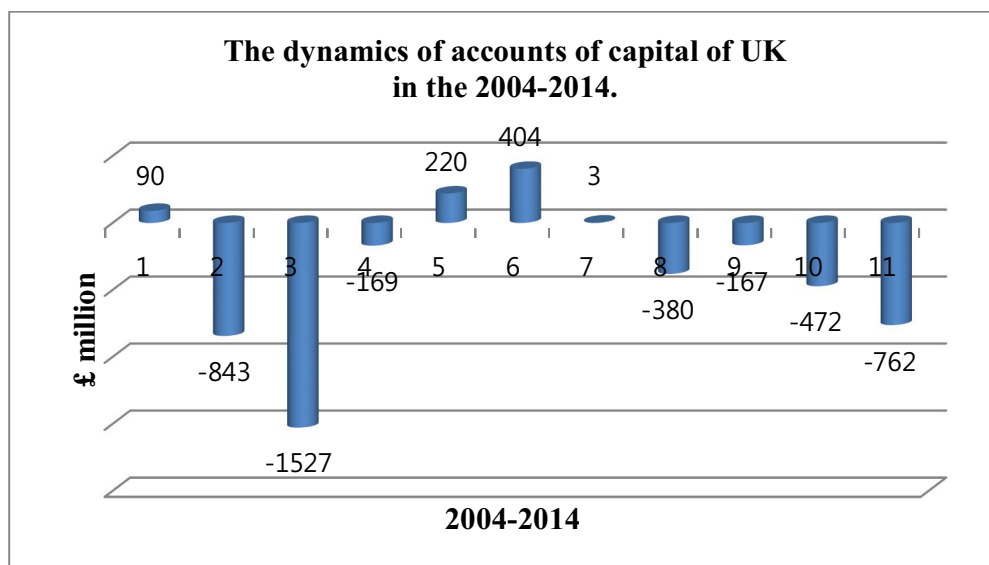
## Appendix C.

### The result of assessment of payment balance of Great Britain.

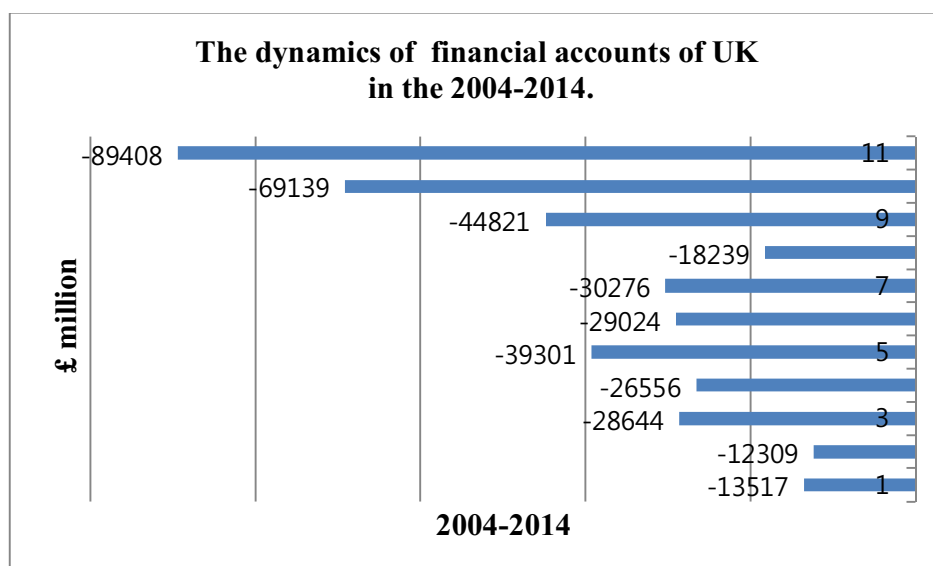
**Table 1:** The main articles of a payment balance of Great Britain in 2014.

£ million			
The main articles of a payment balance	Credits	Debits	+/-
1. Current account			
A. Goods and services	515191	549723	-34532
1. Goods	295432	419104	-123672
2. Services	219759	130619	89140
2.1. Manufacturing physical inputs owned by others	1965	709	1256
2.2. Maintenance and repair	2444	359	2085
2.3. Transport	26706	19369	7337
2.4. Travel	28341	38428	-10087
2.5. Construction	1965	2185	-220
2.6. Insurance and pension services	20110	1374	18736
2.7. Financial	49223	10004	39219
2.8. Intellectual property	10941	5924	5017
2.9. Telecommunications, computer and information services	16332	9413	6919
2.10. Other business	57135	35508	21627
2.11. Personal, cultural and recreational services	2126	3143	-1017
2.12. Government	2471	4203	-1732
B. Primary income	144450	177558	-33108
1. Compensation of employees	1074	1517	-443
2. Investment income	141067	173081	-32014
2.1. Direct investment	72642	70642	2000
2.2. Portfolio investment	44705	67652	-22947
2.3. Other investment	23074	34787	-11713
2.4. Reserve assets	646		646
3. Other primary income	2309	2960	-651
C. Secondary income	19177	44426	-25249
1. General government	5032	25933	-20901
2. Other sectors	14145	18493	-4348
Total current account	678818	771707	-92889
2. Capital account			
1. Capital transfers	1478	1727	-249
2. Acquisition/disposal of non-produced, non-financial assets	546	1059	-513
Total capital account	2024	2786	-762
	Net acquisition of financial assets	Net incurrence of liabilities	
3. Financial account			
1. Direct investment	-53408	28192	-81600
Abroad	-53408		-53408

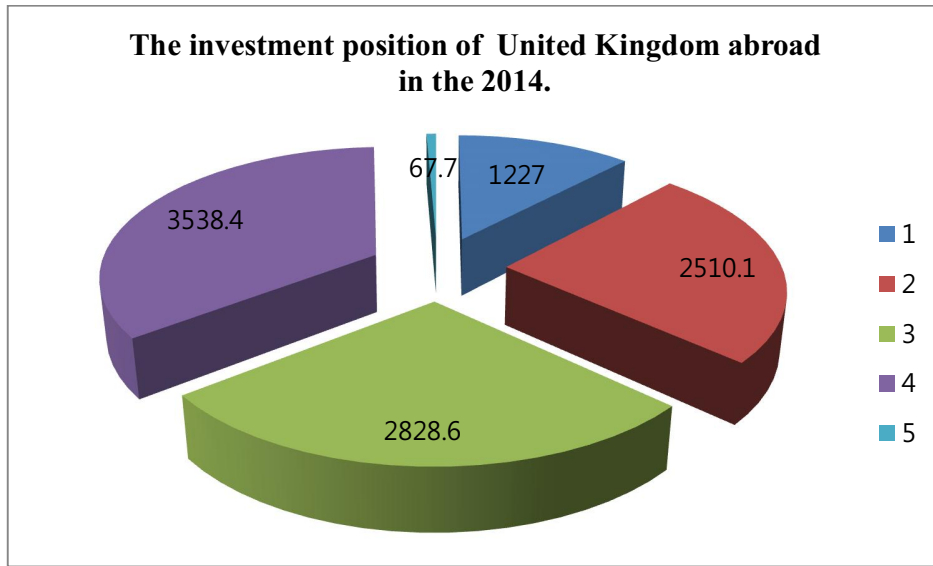
1.1. Equity capital other than reinvestment of earnings	-69380		-69380
1.2. Reinvestment of earnings	-9724		-9724
1.3. Debt instruments1	25696		25696
In United Kingdom		28192	-28192
1.1. Equity capital other than reinvestment of earnings		16019	-16019
1.2. Reinvestment of earnings		11227	-11227
1.3. Debt instruments2		946	-946
2. Portfolio investment	17595	99553	-81958
Assets	17595		17595
2.1. Equity and investment fund shares	-17314		-17314
2.2. Debt securities	34909		34909
Liabilities		99553	-99553
2.1. Equity and investment fund shares		11664	-11664
2.2. Debt securities		87889	-87889
3. Financial derivatives and employee stock options (net)	-13955		-13955
4. Other investment	112026	31034	80992
Assets	112026		112026
4.1. Other equity	261		261
4.2. Currency and deposits	70876		70876
4.3. Loans	41326		41326
4.4. Trade credit and advances	-127		-127
4.5. Other accounts receivable	-310		-310
Liabilities		31034	-31034
4.1. Currency and deposits		-7902	7902
4.2. Loans		37561	-37561
4.3. Insurance, pensions and standardized guarantee schemes		-251	251
4.4. Trade credit and advances		-	
4.5. Other accounts payable		1626	-1626
4.6. Special drawing rights		-	
5. Reserve assets	7113		7113
5.1. Monetary gold	-		
5.2. Special drawing rights	-14		-14
5.3. Reserve position in the IMF	-513		-513
5.4. Other reserve assets	7640		7640
Total financial account	69371	158779	-89408



**Figure 1:** The dynamics of accounts of capital of Great Britain in the 2004-2014.

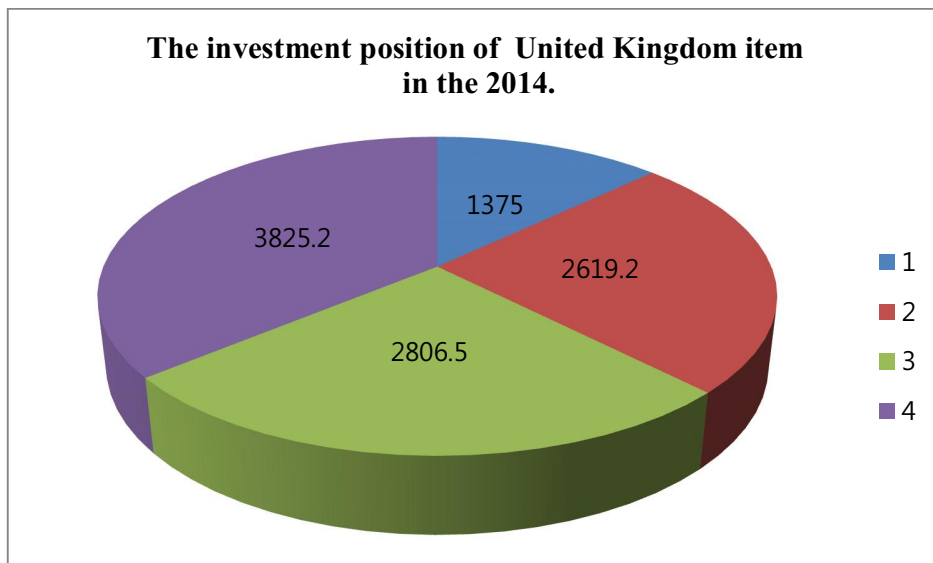


**Figure 2:** The dynamics of financial accounts of England in the 2004-2014.



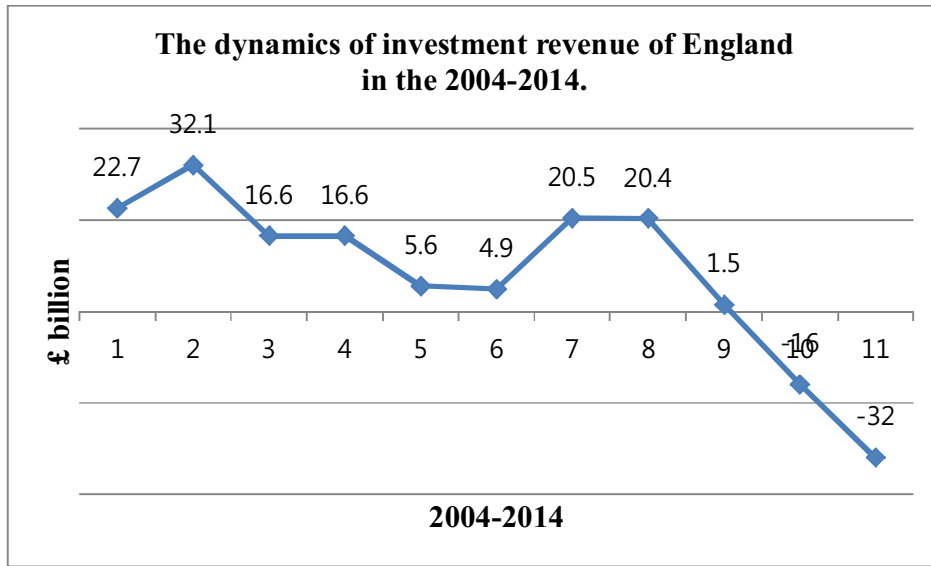
Segment 1 – the direct investments, Segment 2 – the portfolio investments, Segment 3 – the financial derivatives, Segment 4 – the other investments, Segment 5 – the assets.

**Figure 3:** The investment position of United Kingdom abroad in the 2014.



Segment 1 – the direct investments, Segment 2 – the portfolio investments, Segment 3 – the financial derivatives, Segment 4 – the other investments, Segment 5 – the assets.

**Figure 4:** The investment position of United Kingdom item in the 2014.



**Figure 5:** The dynamics of investment revenue of England in the 2004-2014.