

# [To current account of the balance of payment](https://assignbuster.com/to-current-account-of-the-balance-of-payment/)

To What extent is the high foreign debtan issueWith Australia traditionof a deficit in the balance of payments the foreign debt is always going to bepresent. Though this is continual state of deficit is not as bad as it sounds, with the current foreign debt of 986, 699 million this debt is caused for avarious reason in the Australian economy and international economy which areexogenous. As an exporter Australia is a price taker somatter the current price of or exports we will continue to sell, this effect isheighted because of Australia low export base making price changes clearlynoticeable in the performance of the wider economy. Australia for imports isnever going to shift because the lack of substitute in Australia for complextransformed goods and capital goods which Australia is unable to manufacture atthe efficiency countries like china and Japan can. These factors lead to Australiabe majority of the time have a foreign debt. Cause by the fact that Australianeeds to acquire the remaining funds to give the balance on trade.

This must befunded by borrowing from foreign suppliers or by having them equity invests inAustralian businesses or properties. This foreigner ownedmoney is not free through we must service the debt (paying interest) and theequity investment in business and property will likely bear dividend and returns. The returns and dividends payed overseas, lead to less of the interest andreturns they pay to Australian business and investors is called the “ netincome deficit”. This process of continual trade deficits, and increasingnet debt to foreigners, has become that the net income deficit each quarter isgreater than Australia’s trade deficit. Though combine the trade deficit andnet income deficit you get the current account of the balance of payment (BOP)Though with any deficiton the current account, the foreign debt will increase, and is already at 986, 699million deficits. Having that amount of debt sounds bad but not really. Thedebt is growing slower than the economy (GDP) which allows us to continue ourability to repay it. Though the current account deficit is just the correspondingpart to all the foreign investment injecting into Australia and causing oureconomy to growth faster than we could without foreign investment.

This isrepresented in that Australia invests more annually than we save. Theincreasing of the current account deficit is a by-product of the inflow of netforeign capital which fuels the economy which furthers the ability service theforeign debt. This investment direct foreign investment (FDI) supports Australia to reachits economic potential by supplying capital to fund new industries and enhance currentindustries, increasing infrastructure, productivity, and employment in theprocess.

The higher growth supported by foreign investment indirectly supportsall Australians by through tax revenues to governments and increasing the resourcesavailable to spend on public goods such as hospitals, schools, roads and otheressential services. FDI has other benefits beyond injecting capital. Bybringing in new businesses with contacts in different industries it opens extraexport opportunities, increasing our general export performance. It also promotescompetition and increased innovation by suppling new technologies and servicesto the Australian citizens and market.  Though Foreignportfolio investment (FPI), on the other hand is a category of investmentinstruments that is easily transferred compared to direct investment, it’sless secure, and doesn’t signify a controlling percentage in an enterprise. These include investments such as equity in the form of stocks or bonds of aforeign enterprise which doesn’t necessarily represent a long-term interest. These types of investment have caused a major issue in the massive inflation ofthe property market caused by the influx of foreign investors have caused amassive spike in the demand for property this has removed a lot of Australianfirst home buyers in trouble being forced to pay ever growing rental payments. Though comparably small in the total foreign investment numbers the increasedprices have caused first home buyer to stay in rental apartments or move furtherout of the city which is difficult when most of work opportunities are locatedin the city.

Even ifthe foreign debt is caused by Australia saving investment gap a structuralfactor in the Australian economy and has been medicated by the continues economicgrowth Australia has experienced. The debt must be properly managed to allowfor It still to push economic growth rather than hamper it.                       Level of significanceof increasing housing prices have played on the Distribution of wealth The distribution ofwealth is a comparison of the wealth of various members orgroups in a society. Australian wealth distribution has become recently changedwith the rapid rise of property in across Australia’s capital cities and regionalareas. This increase in the value of housing has been primarily caused by the opportunityfor investment property from foreign investors and the low interest rateincentivizing Australian portfolio investments. The Household Incomeand Wealth, Australia, 2015-16 figures from the Australian Bureau of Statistics showsthat older Australians are holding an increasing proportion of Australia’swealth, and the housing boom is a major cause for the gap of wealth between thegenerations. homes owner who were 65-74-year-olds are on average $480, 000better-off in 2015-16 than homes in the same age bracket 12 years prier.

AndHomes owned by 45-54-year-olds are $400, 000 better-off. In comparison to homesowned by 35-44-year-olds are on average are $120, 000 better-off and25-34-year-olds the figure are $40, 000.           Rising property pricesare a main cause behind the rapidly increasing wealth of older Australians. Australian Bureau of Statistics (Appendix ABS Residential Property PriceIndexes: Eight Capital Cities figures show that the mediumhousings prices increased by 37% in all the capital cities between 2003-04 andanother rise in 2015-16 along with a rise of 50% in Melbourne. The rapid increasewasn’t exclusive to the capitals, prices also rose in regional areas (HOUSING AFFORDABILITYREPORT). The statistics form the Australian Bureau ofStatistics (Household Income and Wealth, Australia, 2015-16). homes owned by someone 75 years or older, superior property wealth contributed onaverage three-quarters of the rise in their total net wealth.

For homes ownedby 65-74-year-olds and 55-64-year-olds, property sourced about half of thetotal rise in net wealth. Unfortunately for the youngerAustralians it’s a different case. Larger mortgages mostlyoffset the increase in property wealth for homes owned by 25-34-year-olds and35-44-year-olds. Baby Boomers have also used the superannuation investment tobuild their wealth. They used tax a plan(Super tax targeting) which offers  citizens nearing retirement, the ability to placelarge sums with a tax reduction into their superannuation just beforeretirement. Medium superannuation wealthincreased in a 12-year period by $230, 000 for homes owner who were 65-74-year-olds, and by more than $150, 000 homes owner whowere 55-64-year-olds. As property prices have increased, more young Australians have been locked out of home ownership.

As this last chartshows, home ownership among households owned by25-34-year-olds fell between 1981-2016, from 60% to 45%. For home ownership by35-44-year-olds the fall was from 75% to 62%. Home ownership rates are alsofalling for 45-54-year-olds. Some of this effect isthe effect of the changing social environment: Australians are waiting untillater in life before starting work, forming long-term relationships, and havingchildren. Most Australians still want to own their own home, so it isreasonable to assume that higher housing prices are the biggest cause oflower ownership rates. The wealthdivide between generations can easily lead to a more severe divide withingenerations.

For many young Australian, the only way that they can reasonablyafford their first house is with help assist’s from “ the bank of mum and dad”. Ashouse prices have increased, more first home buyers are receiving support(The Property Ladder after theFinancial Crisis) fromfamily and friends to have a “ Foot in the property market door”. The strong risein the wealth of the older generations, combined with the shrinking of thefamily size from 1960 to 2000, will cause the rise in inheritances because ofthe fewer benefactors.

Inheritances into smallfamily households which are already wealthy will lead the continuation of wealth, and since property ownership is more likely to come about by transferred throughinheritance than purchase, and more likely again among those who receive largerinheritances. Australia is becomingwealthier, but much of this new wealth is focused in the hands of older generations. The trend is clear: unless somethingchanges in the wealth concertation, the young will fall further behind andinequality will get worse. The rising housingprices have played an obvious role in the worsting of the distribution ofwealth. The limited residential supply of pre-built houses; combined with thelow interest rate incentivising the wealthy to invest in property and the clearopportunity for foreign investment has resulted in the property market becomingimpregnatable for any that don’t already posses a large amount of wealth orhave financial support from mum and dad.  1.

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