

To current account of
the balance of
payment



To What extent is the high foreign debt an issue? With Australia's tradition of a deficit in the balance of payments, the foreign debt is always going to be present. Though this 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 various reasons in the Australian economy and international economy which are exogenous. As an exporter, Australia is a price taker, so matter the current price of exports we will continue to sell, this effect is heightened because of Australia's low export base making price changes clearly noticeable in the performance of the wider economy. Australia's imports are never going to shift because of the lack of substitutes in Australia for complex transformed goods and capital goods which Australia is unable to manufacture as efficiently as countries like China and Japan can. These factors lead to Australia being a majority of the time having a foreign debt. Cause by the fact that Australia needs to acquire the remaining funds to give the balance on trade. This must be funded by borrowing from foreign suppliers or by having them invest equity in Australian businesses or properties. This foreign owned money is not free through we must service the debt (paying interest) and the equity investment in business and property will likely bear dividends and returns. The returns and dividends paid overseas, lead to less of the interest and returns they pay to Australian business and investors is called the "net income deficit". This process of continual trade deficits, and increasing net debt to foreigners, has become that the net income deficit each quarter is greater than Australia's trade deficit. Though combine the trade deficit and net income deficit you get the current account of the balance of payment (BOP). Though with any deficit on 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. The debt is growing slower than the economy (GDP) which allows us to continue our ability to repay it. Though the current account deficit is just the corresponding part to all the foreign investment injecting into Australia and causing our economy to grow faster than we could without foreign investment.

This is represented in that Australia invests more annually than we save. The increasing of the current account deficit is a by-product of the inflow of net foreign capital which fuels the economy which furthers the ability service the foreign debt. This investment direct foreign investment (FDI) supports Australia to reach its economic potential by supplying capital to fund new industries and enhance current industries, increasing infrastructure, productivity, and employment in the process.

The higher growth supported by foreign investment indirectly supports all Australians by through tax revenues to governments and increasing the resources available to spend on public goods such as hospitals, schools, roads and other essential services. FDI has other benefits beyond injecting capital. By bringing in new businesses with contacts in different industries it opens extra export opportunities, increasing our general export performance. It also promotes competition and increased innovation by supplying new technologies and services to the Australian citizens and market. Though Foreign portfolio investment (FPI), on the other hand is a category of investment instruments that is easily transferred compared to direct investment, it's less secure, and doesn't signify a controlling percentage in an enterprise. These include investments such as equity in the form of stocks or <https://assignbuster.com/to-current-account-of-the-balance-of-payment/>

bonds of a foreign enterprise which doesn't necessarily represent a long-term interest. These types of investment have caused a major issue in the massive inflation of the property market caused by the influx of foreign investors have caused a massive spike in the demand for property this has removed a lot of Australian first home buyers in trouble being forced to pay ever growing rental payments. Though comparably small in the total foreign investment numbers the increased prices have caused first home buyers to stay in rental apartments or move further out of the city which is difficult when most of work opportunities are located in the city.

Even if the foreign debt is caused by Australia's saving investment gap a structural factor in the Australian economy and has been mitigated by the continued economic growth Australia has experienced. The debt must be properly managed to allow for it still to push economic growth rather than hamper it.

Level of significance of increasing housing prices have played on the Distribution of wealth. The distribution of wealth is a comparison of the wealth of various members or groups in a society.

Australian wealth distribution has become recently changed with the rapid rise of property in across Australia's capital cities and regional areas. This increase in the value of housing has been primarily caused by the opportunity for investment property from foreign investors and the low interest rate incentivizing Australian portfolio investments. The Household Income and Wealth, Australia, 2015-16 figures from the Australian Bureau of Statistics show that older Australians are holding an increasing proportion of Australia's wealth, and the housing boom is a major cause for the gap of wealth between the generations. Home owners who were 65-74-year-olds are

on average \$480, 000 better-off in 2015-16 than homes in the same age bracket 12 years prior.

And Homes owned by 45-54-year-olds are \$400, 000 better-off. In comparison to homes owned by 35-44-year-olds are on average are \$120, 000 better-off and 25-34-year-olds the figure are \$40, 000. Rising property prices are a main cause behind the rapidly increasing wealth of older Australians.

Australian Bureau of Statistics (Appendix ABS Residential Property Price Indexes: Eight Capital Cities figures show that the medium housing prices increased by 37% in all the capital cities between 2003-04 and another rise in 2015-16 along with a rise of 50% in Melbourne. The rapid increase wasn't exclusive to the capitals, prices also rose in regional areas (HOUSING AFFORDABILITY REPORT). The statistics from the Australian Bureau of Statistics (Household Income and Wealth, Australia, 2015-16). homes owned by someone 75 years or older, superior property wealth contributed on average three-quarters of the rise in their total net wealth.

For homes owned by 65-74-year-olds and 55-64-year-olds, property sourced about half of the total rise in net wealth. Unfortunately for the younger Australians it's a different case. Larger mortgages mostly offset the increase in property wealth for homes owned by 25-34-year-olds and 35-44-year-olds. Baby Boomers have also used the superannuation investment to build their wealth. They used tax a plan (Super tax targeting) which offers citizens nearing retirement, the ability to place large sums with a tax reduction into their superannuation just before retirement. Medium superannuation wealth increased 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

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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

becoming wealthier, but much of this new wealth is focused in the hands of older generations. The trend is clear: unless something changes in the wealth concentration, the young will fall further behind and inequality will get worse. The rising housing prices have played an obvious role in the worsening of the distribution of wealth. The limited residential supply of pre-built houses; combined with the low interest rate incentivising the wealthy to invest in property and the clear opportunity for foreign investment has resulted in the property market becoming impregnable for any that don't already possess a large amount of wealth or have financial support from mum and dad. 1.

[http://www.abs.gov.](http://www.abs.gov.au/AUSSTATS/allprimarymainfeatures/510D8915596EEFE9CA257F1B001B0107?opendocument2)

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