



GDP growth = Economic growth
Measured by GDP growth rate
(% change in total value of final goods and services produced between two periods)

Quality of life = economic development
Measured by UN Human Development Index

Environmental sustainability



Income distribution
(Gini co-efficient of income inequality)

12 course. Specifically they are in the syllabus in HSC Topic 4, however students need the concept throughout all topics in order to be high performing.

GDP growth
Quality of life

Full employment
Goal = 4.25% unemployment

Full employment
Measured by Unemployment rate

$$\frac{\text{Unemployed}}{\text{Unemployed} + \text{Employed}}$$

Price Stability
Goal – inflation between 2% - 3%

Price Stability
Measured by Inflation rate

% change in consumer price index (CPI) over time (addressed later)

Internal stability

External stability

The financial relationship between Australia and the rest of the world.

Current Account Deficit as %GDP

Net Foreign Liabilities as %GDP
 $NFL = NFD + NFE$

Net Foreign Debt as %GDP

CAD %GDP

TOT

AUD

NFL %GDP

NFD %GDP

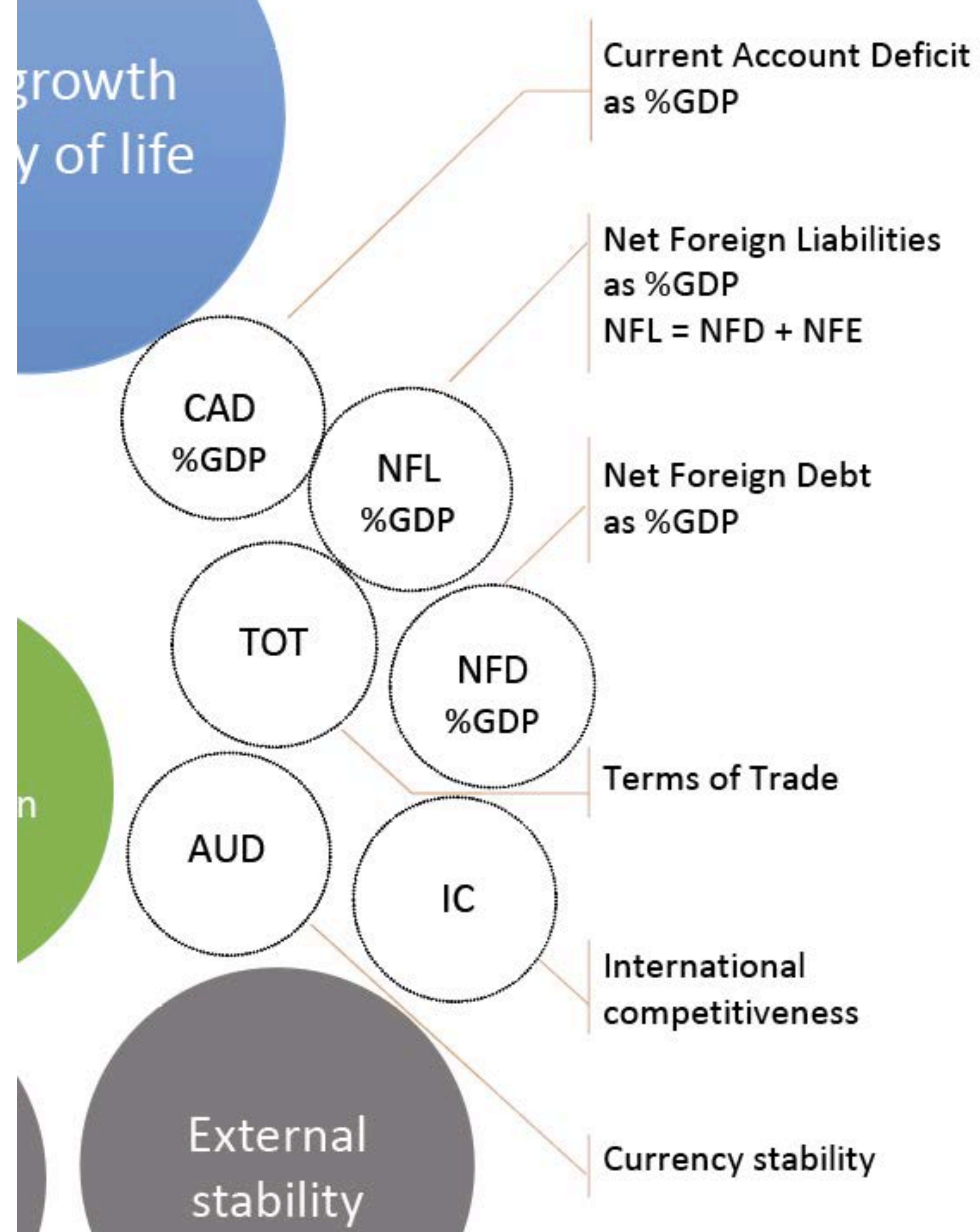
IC

Terms of Trade

International competitiveness

Currency stability





Syllabus

External stability

- measurement
 - Current Account Deficit (CAD) as a percentage of Gross Domestic Product
 - net foreign debt as a percentage of Gross Domestic Product
 - net foreign liabilities as a percentage of Gross Domestic Product
 - terms of trade
 - exchange rate
 - international competitiveness
- trends
- positive and negative causes and effects

Australia's Balance of Payments

- structure
 - Current Account, debits and credits
 - Capital and Financial Account
- links between key Balance of Payments categories
- trends in the size and composition of Australia's Balance of Payments
 - international competitiveness, terms of trade, international borrowing, foreign investment
 - effects of these trends on Australia's Balance of Payments

What is external stability?

Ability of a country to meet its international financial obligations as and when they fall due.

Is the country able to meet
interest and principal
repayment obligations?



If not.....
Bad things happen....



How does it happen?

External investors lose confidence

Stop further loans

Sell assets

Withdraw money in banks

Currency drops

Inflation increases, increase int rates, GDP falls,
une increases

CAD worsens

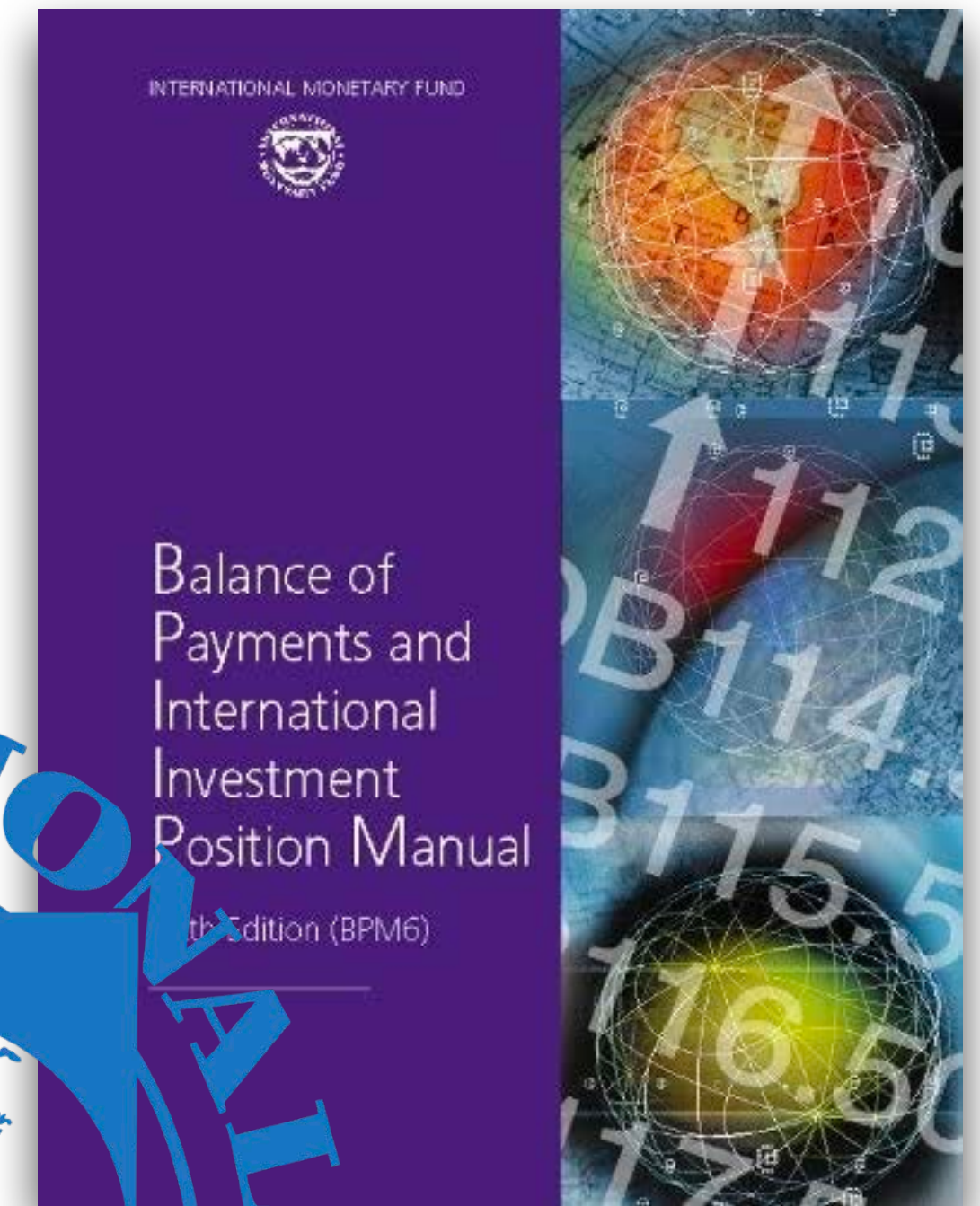
NFD worsens

Full blown domestic economic crisis.

**Which global organisation
is responsible for financial
stability?**

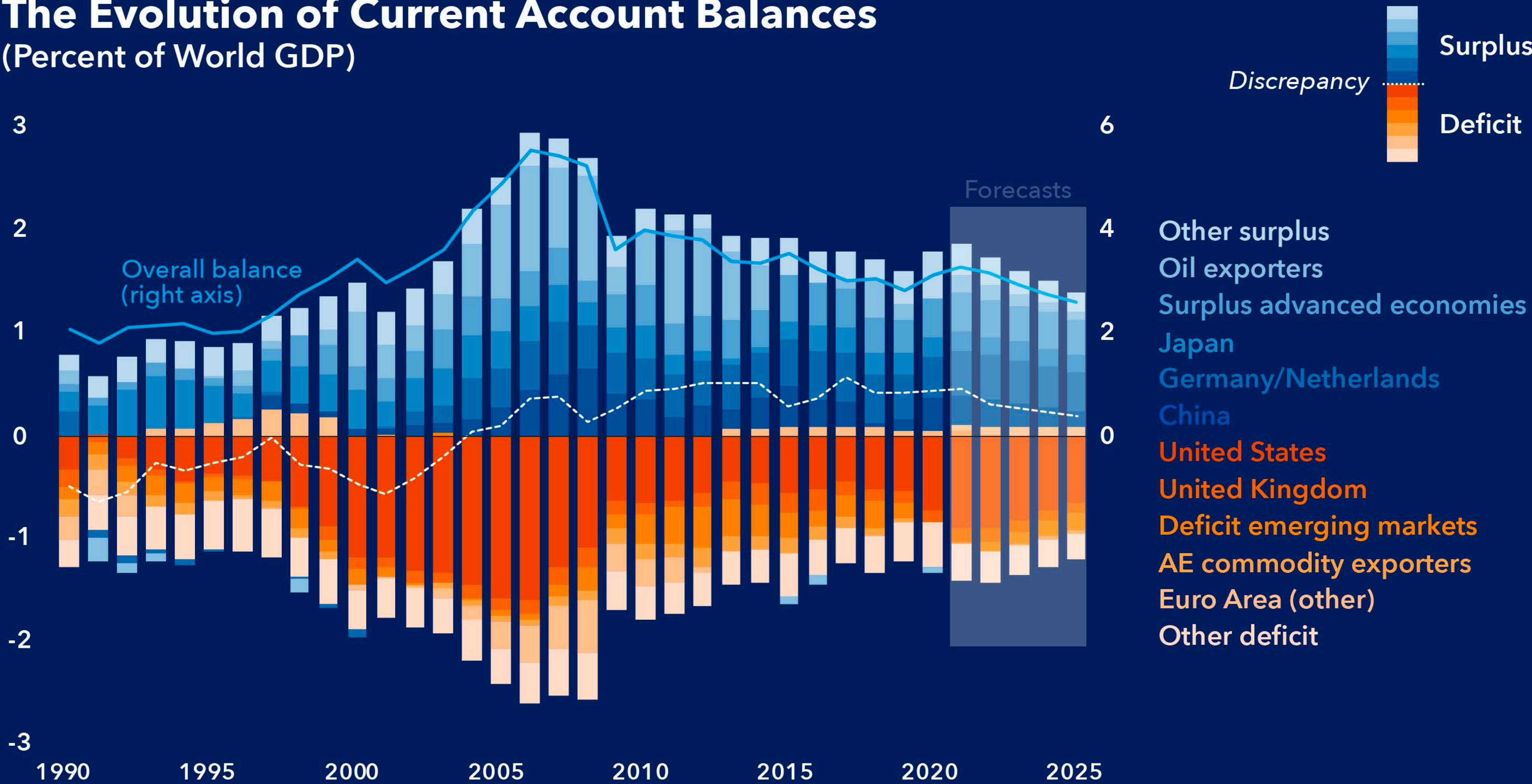
So they wrote the rules for a recording system that would highlight problem countries.

<https://blogs.imf.org/2017/06/26/assessing-global-imbalances-the-nuts-and-bolts/>



The Evolution of Current Account Balances

(Percent of World GDP)



Source: IMF, 2021 External Sector Report.

Note: AE=advanced economies.

Key relationship:

Current account and NFD.

Some definitions

NFL. NFD. NFE.

Must know them and the
relationship between them.

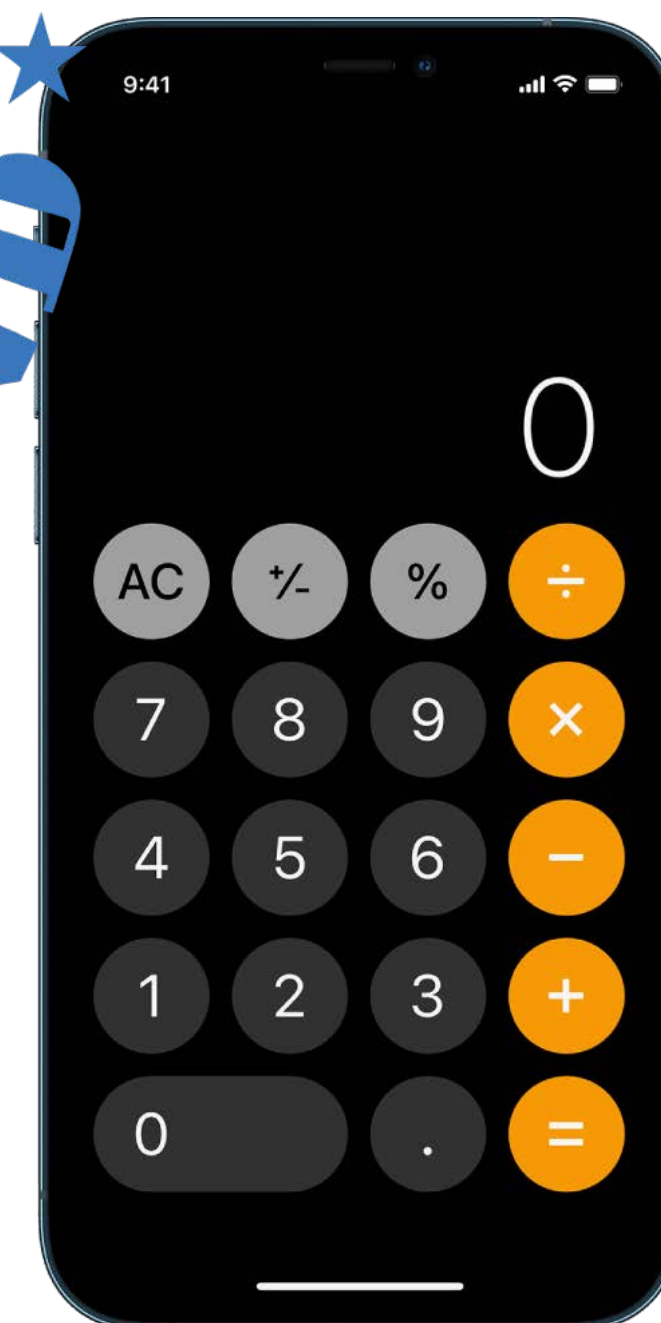
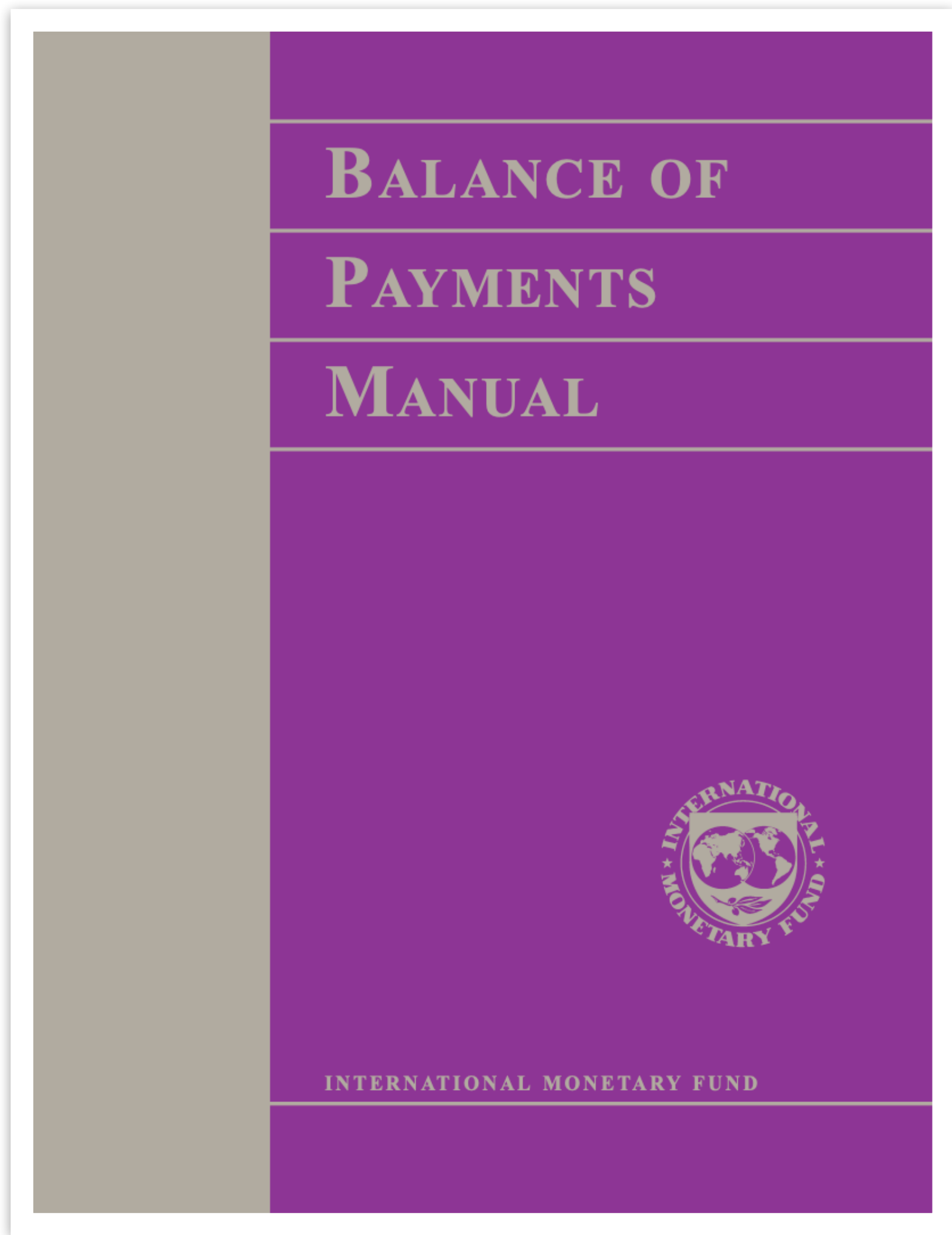
Of NFL, NFD and NFE

- Measure of net liability owed, not a measure of assets.
- BOP manual, NIIP (and ABS) is about net foreign assets, but no, the syllabus does not use that convention but uses net foreign liabilities.



Start with what **they** loaned us less
what we loaned them (NFD)

Start with what **they** own of our assets,
less what we own of their assets (NFE)



Transaction results in money in: first impact credit and positive

Credit

BOGS

+ 500
- 100

Cap Ac

Fin Ac



PI

- 50

Dividend liability



Interest liability

SI

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Other investment

- 500 - 100
50

Transfer entry

- 500

-500

1000

Credit

Debit

POSITIVE
500



Loan liability

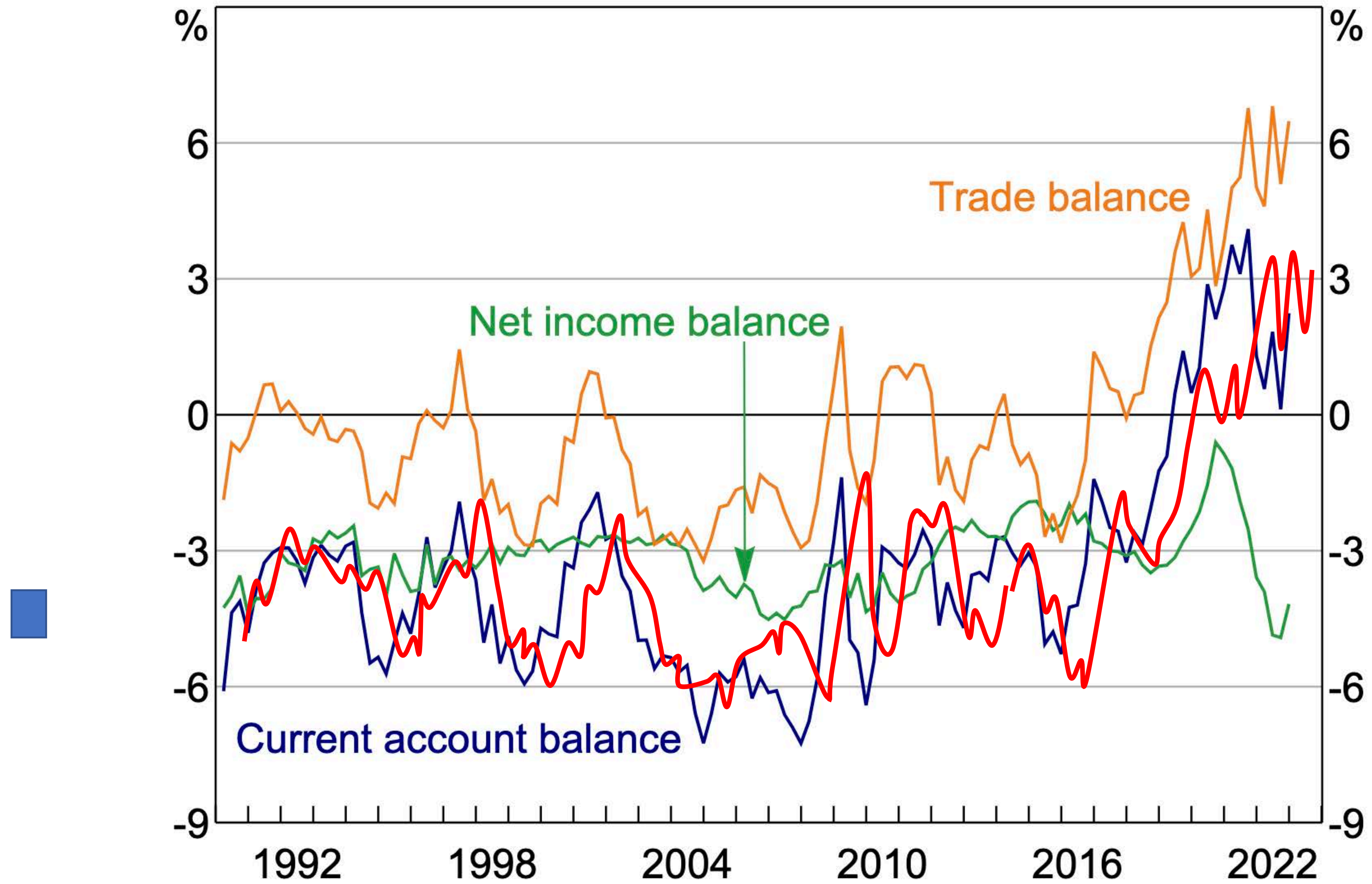
Debit

A

-A

+ 500

Per cent of nominal GDP



Source: ABS

BOP

- Huh? Who cares? How do you process it?
- Ah, that's why it balances
- Oh really $S - I = CAD$! Say what?
- So it's a receipt, with implications for NFL
- Who cares about NFL. Welcome to Sri Lanka.

Transaction



Money in, record **transaction** as credit, positive.

Record **other investment side** as debit, negative

CURRENT ACCOUNT

	2020/21	2021/22
Goods and services		
Goods		
Exports (credits)	396.7	534.5
Imports (debits)	-320.3	-387.0
	76.4	147.5
Services		
Exports (credits)	62.5	60.9
Imports (debits)	-48.9	-72.4
	13.7	-11.5
BOGS	90.1	136.0

Primary income

Inbound interest and dividends (credits)	61.5	77.6
Outbound interest & dividends (debits)	-84.6	-160.8
	-23.1	-83.2

Secondary income

Inbound (credits)	9.3	10.5
Outbound (debits)	-12.4	-13.6
	-3.0	-3.1

Current Account

64.0 49.7

CAPITAL & FINANCIAL ACCOUNT

	2020/21	2021/22
Capital Account		
Acquisitions/disposals of IP assets		
Sales of IP assets (credits)	0.0	0.2
Purchases of IP assets (debits)	-0.1	0.0
	0.0	0.2
Capital transfers		
Capital transfer in (credits)	0.0	0.0
Capital transfers outbound (debits)	-0.8	-0.8
	-0.8	-0.8
Capital Account	-0.8	-0.6

Financial Account

Direct investment		
Net new investment overseas	4.0	-158.6
Net new investment in Australia	10.2	94.8
	14.2	-63.8
Portfolio investment		
Net new investment overseas	-176.9	-114.5
Net new investment in Australia	115.7	203.3
	-61.2	88.8
Financial derivatives	-14.3	-11.4
Other investment	11.2	-41.9
Reserve assets	-3.4	-20.2
Total Financial Account	-53.5	-48.4

Capital & Financial account -54.3 -49.0

Net errors and omissions -9.7 -0.7

Capital & Financial Account

-64.0 -49.7

BOP

$$CA = (X-M) + R$$

$$GNI = C + I + G + (X - M) + R$$

$$\begin{aligned}(X-M) + R &= (GNI - C - G) - I \\ &= S - I\end{aligned}$$

$$CA = S - I$$

BOP

$$CA = (X-M) + R$$

$$GNI = C + I + G + (X - M) + R$$

$$\begin{aligned}(X-M) + R &= (GNI - C - G) - I \\ &= S - I\end{aligned}$$

$$CA = S - I$$



BOP

$$NFL2 = NFL1 + \text{Current Account Balance}$$

So, impact of large sustained CAD?

Oops.....

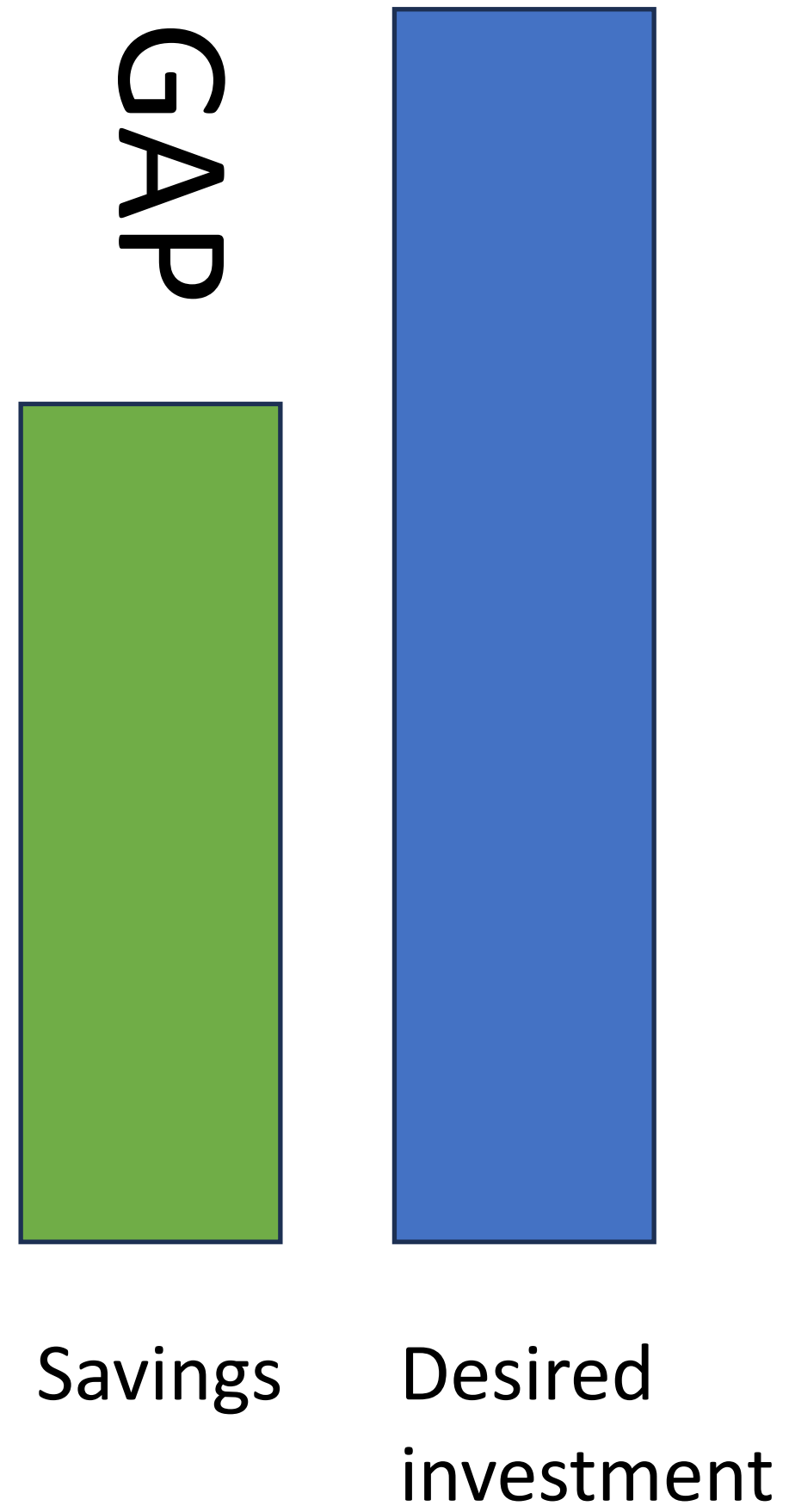
BOP

$$NFL2 = NFL1 + \text{Current Account Balance}$$

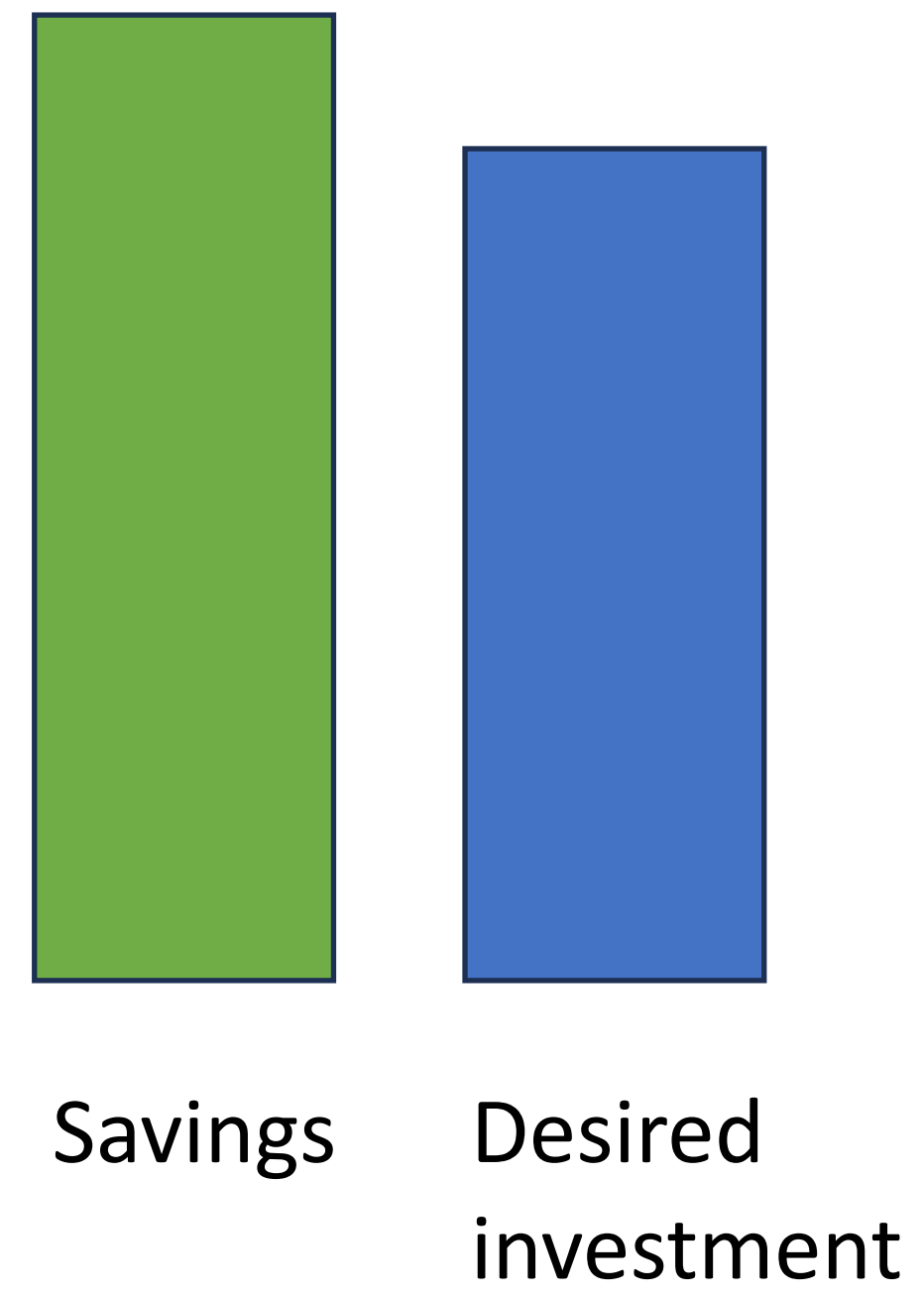
So, impact of large sustained CAD?

Oops.....





CAD



CAS

CAD 2%

Nominal NFL up by 2% GDP

BUT

If nominal GDP increase by 2%, then no change NFL %GDP.

Unsustainable if CAD larger % of GDP than GDP growth.



Current Account Deficits: Is There a Problem?

There can be consequences when the amount a country spends abroad is wildly different from what it receives from the outside world

Atish Ghosh and Uma Ramakrishnan

THE CURRENT ACCOUNT BALANCE seems to be an abstruse economic concept. But in countries that are spending a lot more abroad than they are taking in, the current account is the point at which international economics collides with political reality. When countries run large deficits, businesses, trade unions, and parliamentarians are often quick to point accusing fingers at trading partners and make charges about unfair practices. But do such charges have merit? And are current account deficits necessarily bad anyway? Before trying to answer such questions, we first need to understand what the current account is—and what surpluses and deficits imply.

Measuring the current account

The trade balance is the difference between the value of exports of goods and services and the value of imports of goods and services. A trade deficit means that the country is importing more goods and services than it is exporting; a trade surplus means the opposite. The current account balance is then the trade balance plus net factor income (such as interest and dividends from foreign investments owned by residents) and

financial systems cannot allocate foreign capital efficiently). Moreover, in practice, private capital often flows from developing to advanced economies. Advanced economies, such as the United States (see chart), run current account deficits, whereas developing and emerging market economies often run surpluses or near surpluses. Very poor countries typically run large current account deficits, in proportion to their GDP, that are financed by official grants and loans.

One point that the savings-investment balance approach underscores is that protectionist policies are unlikely to be of much use in improving the current account balance because there is no obvious connection between protectionism and savings or investment.

Another way to look at the current account is in terms of the timing of trade. We are used to intratemporal trade—exchanging cloth for wine today. But we can also think of intertemporal trade—importing goods today (running a current account deficit) and, in return, exporting goods in the future (running a current account surplus then). Just as a country may import

Debt not bad.

Too much debt bad.



TRENDS



March 2022 RBA Bulletin Article

ABS article in March quarter BOP

<https://www.abs.gov.au/articles/insights-australias-current-account-balance>

Gittins <http://www.rossgittins.com/2023/06/were-investing-more-overseas-than.html>

The Significant Shift in Australia's Balance of Payments

Nicole Adams and Tim Atkin^[*]



Photo: William Voon / EyeEm – Getty Images

Abstract

Over recent years Australia has seen a large shift in its external accounts. In contrast to long-running deficits, the current account balance has now been in surplus for over two years, supported by record trade surpluses. The corollary of this is that the level of national savings has surpassed investment and Australia has become a net exporter of capital. This article examines these changes and highlights some key trends that are associated with this shift. These include the decline of foreign direct investment following the end of the mining boom, as well as an increase in purchases of foreign equities by Australian superannuation and investment funds.

Key concepts

- Of course there are 2 equal and opposite entries for every international transaction
- Of course then the BOP must balance
- Of course we isolate out irreversible transactions so we can focus on the amount of the increase in NFL
- Of course we need language for positive and negative numbers (credit and debits)
- From AD identity $CA = S - I$, so clear interaction with NFL levels
- Of course the IMF need the balance of payments
- When borrow, future interest payments so negative impact on future current account

Syllabus was written when we had a problem...



We do not now...