Outline and Account for recent trends in Australia's Balance of Payments.

Australia's balance of payments is made up of a Current Account Deficit (CAD) and a Capital and Financial Account Surplus. In the financial year of 2002-2003 the Current Account Deficit recorded was – $42,463million. Inversely the Capital and Financial Account recorded a $41,591million surplus, with errors adding up to -$426million. The Current Account Deficit has dramatically increased in previous years, in 01-02 the CAD was -$22,212million and in 00-01 a -$18,686 CAD deficit was recorded. The increase in the CAD from 00-01 to 01-02 was 18% and again in 01-02 to 02-03 the CAD rose this time a 91% rise was recorded.

The Current Account Deficit is responsive to changes in domestic and world economic growth. In recent years imports have risen substantially while exports have lowered or stayed at the same level as previous years. The changes in import and export levels are due to the growth in the Australian economy. Australia has recently had a high relative growth rate in terms of % of GDP rise compared to our trading partners. This growth of the Australian economy has led to a higher level of imports as Australia has needed more goods to satisfy want. Export Growth has experienced smaller growth rates or no growth rates as Australia's trading partners do not need more products as they are not experiencing growth. This change in the import and export levels affect the Current Account Deficit, increased imports and stable exports creates a larger Goods Balance deficit. In the years 01-02 the Goods Balance was only in deficit -$757million but rose in 02-03 to -$18,236million. The trends in the levels of the Goods Balance are cyclical in nature so while the Goods Balance is getting into a larger deficit currently this should change in time and will even out as exports increase. The Goods Balance swings between deficits and small surpluses and is often close to 0.

The Net Income Balance also largely contributes to the Current Account Deficit. In 01-02 the Net Income Deficit was -$20,220million and grew to -$22,555million in 02-03. This is always a large deficit for Australia and continues to grow steadily. The growth of the Net Income Deficit is due to Australia having a low savings pool. This low savings pool is mostly due to Australia's low population. The Net Income Deficit continues to grow at a rate of $1000-2000million per year. The growth is due to Australia being a safe investment opportunity for overseas investors with large savings. These investors choose Australia to invest in as Australia has a good reputation, a stable economic and political condition and gives reasonable returns.

The Current Account Deficit in Australia has usually remained below or around 5% of GDP. This level of debt is considered to be sustainable and the government tries to prevent the level of debt rising above 5% if seen to be unsustainable. To prevent the debt level rising about 5% the government will strive to keep inflation low by raising interest rates. This increases exporter competitiveness due to lower inflation, and slows down consumption by the Australian public and lowers imports. By increasing exports and lowering imports the Goods Balance will increase, lowering the Current Account Deficit. This government intervention keeps the Current Account Deficit sustainable and keeps it consistent.

The trends in the Balance of Payments that are experienced in Australia recently are, Increasing Net Income deficit, Cyclical changes in the Goods Balance and a Current Account Deficit of less or around 5% of Australia's GDP.