Analyse the impact of changes in the global economy on Australia's Balance of Payments.

The Balance of Payments is a record of transactions made by Australia with other economies over a period of time. It indicates the trade and financial flows in and out of the Australian economy through its two accounts. The Current Account represents the money flow from exports and imports of goods and service, income flows and non-market transfers and has been in deficit for a majority of the time in Australia. The Capital and Financial Account represents the borrowing, lending, sales and purchases of assets between Australia and the rest of the world and is usually experiencing a surplus. The results of these accounts in the Balance of Payments has been and will continue to be influenced by changes in the global economy such as international competitiveness, terms of trade.

The Current Account in the BOP consists of three sections; Balance on Goods and Services (BOGS), Net Primary Income & Net Secondary Income. The Balance on Goods and Services is the amount derived by adding net goods and net services and can indicate whether Australia is heading towards a larger deficit or surplus depending on whether export receipts exceed import receipts or not . The BOGS is heavily influenced by Australia's level of international competitiveness which indicates the ability of Australian firms to compete with foreign firms. A depreciation in the Australian Dollar indicates that Australian exports are cheaper than other economies therefore leading to an increase in Australia's international competitiveness. Furthermore, a depreciation in the Australian Dollar will cause prices of imports to increase therefore discouraging Australian consumers to purchase imports. In contrast, an appreciation of the Australian Dollar will lead to a decrease in international competitiveness as export prices will rise leading to a decrease in export volume and an increase in import volume as they cost cheaper. An increase in imports and decrease in exports leads to a larger deficit on the BOGS account. In the December quarter of 2016, Australia's BOGS experienced a surplus of $4,667m as a result of a $8,205m turnaround on the BOGS. This occurred as a result of the depreciation of the Australian dollar (to the American dollar) from 0.7735 in June to 0.7712 in December. The link between depreciation of the $AUD and BOGS in 2016 indicates the increase in international competitiveness and its influence on the Balance of Payments. Through the analysis of international competitiveness, it is evident that the Balance of Payments, particularly the BOGS, is influenced into a surplus or deficit depending on the level of international competitiveness and appreciation/depreciation of the Australian Dollar.

The relationship between the prices Australia receives for its exports and the prices it pays for its import is represented by the Terms of Trade. Terms of Trade influence Australia's Balance of Payments as it determines whether there will be a surplus or deficit in the current account. Increases in export prices relative to import prices will lead to an increase in terms of trade whereas increases in import prices relative to export prices will lead to a deterioration of terms of trade. The 2000s represent terms of trade at a peak level as Australia experienced sustained levels of trade boom. Due to the global commodities boom, Australia received higher prices for their exports therefore increasing export revenue and the value of Australian exports. At the same time, import prices were dropping due to the rise of low cost emerging economies producing low cost manufactured goods, therefore increasing Australia's terms of trade.

International Borrowing and Foreign Investment can influence both the Current Account and the Capital/Financial Account depending on the levels of debt and investment and has significantly increased following financial deregulation. The large amounts of foreign investment into Australia is due to the inherent savings investment gap of Australia resulting in high servicing costs which are recorded as debits on the net primary income account, a key factor of Australia's persistent current account deficit. According to statistics from June 2014, Australia's gross foreign debt was $1693 billion resulting in a current account deficit of $-13175 million due to servicing costs totalling up to $23 billion. Despite this, the CAD improved from $-14678 in December 2012 which may have occurred due to an appreciation of the $AUD resulting in less Australian currency flowing out in order to pay servicing costs. Furthermore, foreign investment results in returns of production flowing out of Australia which is also recorded on the net primary account as debits. Statistics from December 2015 indicate that 54% of foreign investment was in the form of portfolio investment whereas direct investment contributed 24%. Australians also invested $2.1 trillion overseas at the of 2015, however, despite this, the current account experienced a deficit of $-3853 million in December due to a deficit of $-1443 in net foreign equity. Prior to financial deregulation, the current account experienced a deficit of only $-0.5 billion in 1959-60. However, due to financial deregulation, financial inflows have increased majorly both into and out of Australia resulting in a larger deficit on the current account than once experienced due to large amounts of debits on the net primary income account. Through the exploration of financial deregulation and the net primary account, it is evident that a distinct link is present between financial deregulation, financial borrowing/investment and the net primary account resulting in major influences on the Balance of Payments.