What are Total and Net Foreign Liabilities?

Australia’s Net Foreign Liability = ‘s Total Foreign Liabilities minus Australia’s Total Foreign Assets.

Net Foreign Liability = Net Foreign Debt and Net Foreign Equity

- **Net Foreign Liabilities** – compares debt and equity (assets) holdings in Australia by overseas residents to debt and equity (assets) holdings of Australians in overseas economies.

**Current Trend**

**Net International Investment (IIP)**

Net IIP includes Net Foreign Equity and Net Foreign Debt.

Australia’s net international investment position at 31 December 2009 was a net foreign liability of $768.6b, up $12.4b (2%) on 30 September 2009.

At 31 December 2009, the ratio of Australia’s net international investment position to GDP using the latest available GDP figure (for the year ended 30 September 2009 using current prices) was 61.4%. This compares with 57.7% one year ago and 51.2% one decade ago.

During the December quarter 2009 Australia’s net foreign equity liabilities fell $1.8b (1%) to $120.8b. This fall was mainly due to: exchange rate changes.

During the December quarter 2009 Australia’s net foreign debt liability increased $14.2m (2%) to $647.9b.

**Net Foreign Debt or Net External Debt**

Net Foreign Debt is the total stocks of loans owed by Australians to foreign residents, minus the total stock of loans owed by overseas residents to Australians.
The CAD, Capital Inflow and Foreign Liabilities

AUSTRALIA IS A NET IMPORTER OF FINANCIAL CAPITAL

To pay for the Current Account Deficit, Australia has a Capital and Financial Account Surplus and in particular a Financial Account Surplus. (Portfolio and Direct Investment).

To overcome the imbalance between domestic savings and investment that the CAD reflects, Australia needs to either borrow funds (debt) or sell assets (shares). This is called Capital Inflow, Foreign Liabilities or Foreign Investment (Direct and Portfolio Investment on the Financial Account of the BOP.).

The change in the foreign liabilities will be reflected by the change in the Financial Account Surplus

Figure 3 The Links Between the CAD and The Financial Account (Foreign Liabilities)

- Overseas direct or equity investment in Australia, does not directly add to Australia’s foreign debt but we do have to send payments such as profits and dividends which are a debit on Net Income on the CAD. Indirectly, it may feed into Australia’s foreign debt if it adds to the CAD and we need to borrow more in the future to pay for the CAD.

- Borrowing (portfolio investment) directly adds to Australia’s foreign debt. The servicing of this debt is a debit on Net Income (capital outflow) and Net Income is the biggest single component of the CAD.

The change in Net Foreign Liabilities will be reflected by the changes in the balance on the Financial Account of the BOP. Net Foreign Liabilities consist of foreign debt and foreign equity which will be affected by the types and changes in Foreign Investment.