Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: Treasury
Question: AET 208-209
Topic: Foreign Capital
Reference: written - 06 March 2015
Senator: Dastyari, Sam

Question:

208. What is Treasury's view on the importing foreign capital into Australia?
209. What would be the economic consequences if the influx of foreign capital was, for example, halved?

Answer:

208. What is Treasury's view on the importing foreign capital into Australia?

Treasury has addressed the implications of importing foreign capital in a number of publications (noting that net capital inflow is equal to the current account deficit):

Australian Government (2013), Box 5 in 'Statement 2: Economic Outlook', *Budget Paper No. 1 2013-14*

Gali, J and Taplin, B (2012), 'The macroeconomic effects of lower capital inflow', *Economic Roundup* Issue 3

Garton, P, Sedgwick, M and Shirodkar S (2010), 'Australia's current account deficit in a global imbalances context', *Economic Roundup* Issue 1

Gruen, D (2005), 'Perspectives on Australia's current account deficit', keynote address to the Australian Business Economists Forecasting Conference, 13 December

209. What would be the economic consequences if the influx of foreign capital was, for example, halved?

Changes in capital flows do not occur in isolation, but are normally the product of other changes in the economic and financial environment, both in Australia and internationally. The consequences of a fall in capital inflow will depend on what is driving this reduction.

The Gali and Taplin article cited in the answer to question 208 examines the economic impacts of a fall in capital inflow resulting from a fall in domestic investment. However, the impacts may be quite different if a fall in capital inflow occurs as a result of other factors: for instance, due to an increase in domestic saving, as has occurred over recent years.