## DOF ECONOMIC BULLETIN ON CURRENT ACCOUNT BALANCE

The current account deficit widened in 2018 from a negligible 0.7% of GDP (US$2.1 billion) in 2017 to 2.4% (US$7.9 billion) in 2018 (Table 1) due to the significant rise in imports of capital goods. However, the deficit is financeable given the surplus in services trade and income balances and the upsurge in foreign investment.

The current account is the balance of exports and imports of goods and services and income balances. A rising current account deficit implies that the country is using more foreign savings---both investment and borrowing--- to finance local investment. It also implies that interest of foreign investors and lenders in the local economy is growing.

| **Table 1. CURRENT ACCOUNT BALANCE** | **2016** | **2017** | **2018** |
|---|---|---|---|
| **US$ Million** | **602** | **-2,143** | **(7,879)** |
| **% of GDP** | **0.2%** | **-0.7%** | **-2.4%** |
| **Sources: Bangko Sentral ng Pilipinas & Philippine Statistics Authority** | | | |

The deficit in the trade in goods balance widened to 18.4% of GDP (US$41.4 billion) in 2018 from 12.4% of GDP (US$27.4 billion) in 2017. (Table 2) Imports of goods rose faster than exports of goods on account of rising machinery and equipment purchased from abroad to bolster productive capacity. Investment growth enabled the economy to grow by 6.2% during the period as the country sustained its position as one of the fastest growing countries in Asia.

This deficit was financed partially by the surplus in the trade in services and income balances which rose to 24.6% of GDP (US$77.1 billion) from 23.7% of GDP (US$72.3 billion). Earnings from business process outsourcing (BPOs), remittances inflows and earnings from investments abroad by Filipino citizens accounted for these substantial receipts.

| **Table 2. TRADE IN GOODS & TRADE IN SERVICES BALANCES** | | | | |
|---|---|---|---|---|
| | | **2016** | **2017** | **2018** |
| | | | | |
| **TRADE IN SERVICES & INCOME BALANCES, US$M** | | **40,600** | 72,312 | 77,144 |
| **% OF GDP** | | **13.9%** | **23.7%** | **24.6%** |
| **TRADE IN GOODS, BALANCE (US$M)** | | **-26,701** | **-27,380** | **-41,439** |

| | | | | |
|---|---|---|---|---|
| **TRADE IN GOODS, BALANCE (% of GDP)** | | **-8.5%** | **-12.4%** | **-18.4%** |

Net balance of trade in services grew to 30% of GDP (US$67.7 billion) from 27.6% of GDP (US$61.0 billion). This is accounted for by earnings of BPOs less imports of services. (Table 3)

Primary income which is accounted for by earnings of the country from placements abroad less earnings of other countries from local placements also grew to 1.2% of GDP (US$3.8 billion) from 0.8% (US$2.5 billion).

On the other hand, secondary income which consists of remittances accruing to OFWs less incomes of expatriates remitted abroad slowed slightly to 8.1% of GDP (US$26.8 billion) from 8.3% (US$26.2 billion).

| **TABLE 3. SERVICES TRADE & INCOME BALANCE** | **2016** | **2017** | **2018** |
|---|---|---|---|
| | | | |
| TOTAL (SERVICES & INCOME) | **58,327** | **60,992** | **67,707** |
| % OF GDP | 19.13% | 27.63% | 30.00% |
| TRADE IN SERVICES, BALANCE (US$M) | 30,771 | 32,368 | 37,044 |
| TRADE IN SERVICES, BALANCE (% of GDP) | 10.09% | 10.32% | 11.20% |
| PRIMARY INCOME, BALANCE (US$M) | 2,594 | 2,472 | 3,844 |
| PRIMARY INCOME, BALANCE (% of GDP) | 0.85% | 0.79% | 1.16% |
| SECONDARY INCOME BALANCE (US$M) | 24,962 | 26,152 | 26,820 |
| SECONDARY INCOME, BALANCE (% of GDP) | 8.19% | 8.34% | 8.11% |
| OTHERS*/ | (31,025) | (35,755) | (34,147) |

*/Net unclassified items
Source: Bangko Sentral ng Pilipinas

The rest of the deficit was financed by foreign investment (foreign direct investment and portfolio investment) which rose to US$11.5 billion, foreign borrowing which rose to US$11.6 billion and drawdown from gross international reserves amounting to US$2.4 billion.

| **TABLE 4. FOREIGN INVESTMENT & FOREIGN BORROWING** | **2016** | **2017** | **2018** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **BALANCE OF PAYMENTS, US$M)** | **-420** | **-863** | **-2,306** |
| **OVERALL BALANCE (% of GDP)** | -0.1% | -0.3% | -0.7% |
| FOREIGN INVESTMENT (US$M) | 8,735.57 | 10,050.97 | 11,534.87 |
| FOREIGN INVESTMENT (% OF GDP) | 2.98% | 3.30% | 3.68% |
| FOREIGN DIRECT INVESTMENT | 8,278.00 | 10,256.00 | 9,802.00 |
| PORTFOLIO INVESTMENT | 457.57 | (205.03) | 1,278.87 |
| NET FOREIGN BORROWING (US$M) | 8,291.17 | 8,309.87 | 11,605.37 |
| NET FOREIGN BORROWING (% OF GDP) | 2.83% | 2.73% | 3.70% |
| CHANGE IN RESERVES | 24.90 | 878.10 | (2,376.50) |

**DOF View**

The current account remains financeable even as the deficit rose to 2.4% of GDP in 2018. Foreign investors and lenders find the country an attractive investment destination.

Maintaining good fundamentals by keeping the twin deficits---budget and current account---manageable thru maintaining interest rates at the level that raises both the volume of savings and investments will enable the country to sustain rapid economic growth in the medium-term.

-oOo-