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Snap

Philippines: Current account gap widens in first half

Strong domestic demand has driven imports higher, pushing the current account gap to $3.1 billion in the first half of the year, or -1.9% of GDP. We expect the deficit to deteriorate further to between -2.3% and -2.9% of GDP

-$3.1bn

1H current account

Equivalent to -1.9% of GDP

Current account gap deteriorates

Strong domestic demand has driven the current account imbalance through higher imports. Domestic demand jumped by 9.2% year-on-year in the first half from 6.7% in the same period last year. We expect domestic demand, on average, to grow by 8.2% in 2018 from last year's 6.9%. Strong import growth reflects this with an average increase of 13% in the first half.

Exports, on the other hand, contracted by 3.4% in the first half. Weak exports and strong imports combined to push the trade deficit up by 61% to $19 billion in the first half of the year. Overseas remittances during this period only posted a 2.6% year-on-year increase to $14.2 billion, which is $4.7 billion short of financing the trade gap.

The shortfall is now the norm and drives the wider current account deficit. The current account deficit amounted to -$3.1 billion in the first half, which is the central bank's deficit forecast for the full year. We estimate this gap to be equivalent to -1.9% of GDP.

What's next?

The outlook is unlikely to show any improvement. We expect this year's current account deficit to amount to between -$7.7 billion and -$9.8 billion or between -2.3% and -2.9% of GDP. This imbalance is increasingly weighing on the Philippine peso though capital inflows and a hawkish central bank could moderate or offset the weakening bias.