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Surge in Capital Inflows, Response of the Government, and Effects on the Economy: The Philippine Case

Caesar B. Cororaton

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Surge in Capital Inflows, Response of the Government, and Effects on the Economy: the Philippine Case¹

*Caesar B. Cororaton*²

I. Introduction

The Philippine economy is showing signs of recovery after a prolonged recession in the early 1990s. In 1994, the economy expanded in real terms by 5.1 percent, a significant improvement relative to the last three years with an average annual real growth of 1.3 percent.

A number of factors contributed to this improvement. On the economic front, the government has been able to stabilize the economy. The speculative atmosphere that prevailed during the turbulent years of 1990 and 1991 has now subsided. As a result, inflation and interest rates are currently at their historically low levels.

While the stabilization program is being implemented, the government pursues relentlessly the liberalization of the economy. In the last three years the Philippines saw a series of reforms that started to introduce some degree of competition to both the trade and financial sectors. To date, the process of economic reforms is ongoing to liberalize the remaining highly protected sectors of the economy.

On the political front, the Ramos administration has been able to stabilize the political climate, with all sorts of political coalitions formed between the government and the opposition in the first three years of the administration. For example, the threat from the military rebels which almost brought down the previous Aquino government is practically nonexistent at present.

These factors improved drastically the image of the Philippines in the international community. International rating agencies like Standard and Poor's, Moody's, and Duff and Phelps have upgraded the Philippine foreign-currency and long-term local-currency credit ratings. This attracted foreign capital to flow in. In fact, the economy has been experiencing a surge in capital inflows in the past three years. The inflows of capital to the country is expected to continue in the foreseeable future.

However, while these capital inflows are positive developments in themselves because, in principle, they should be able to partly offset the present huge savings gap and, therefore, to

¹A paper presented to the Pacific Economic Outlook Specialists Meeting, March 14 - 17, 1995, Osaka, Japan.

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ease up a bit the financial constraints in the development process, some have argued that these inflows could potentially be a big source of instability if not properly managed. For example, Lamberte (1994) argues that "...foreign capital inflows, irrespective of form, beget some macroeconomic imbalances that can be magnified, if not properly handled, and can negate initial gains realized by capital-receiving countries."³

The adverse effects on the real sector work this way. "Capital inflows tend to increase liquidity in the system, which bring down domestic interest rates, which in turn, stimulate domestic expenditures. Part of the increased level of domestic expenditures will go to the tradable goods and another part to the nontradable goods. Expenditures on tradable goods enlarge the tradable deficit, which partly accommodate the foreign capital inflows. On the other hand, expenditures on nontradable goods results in an excess demand for nontradable goods at the existing relative price. This calls for an adjustment in the relative price in favor of nontradables to clear the market, which amounts to a real exchange rate appreciation. This, in turn, results in a reallocation of resources in favor of the nontradable sector. The final result of this adjustment is a real appreciation, a larger nontradable sector, a smaller tradable sector, and a larger trade balance deficit. This in effect is the process of deindustrialization."

This paper analyzes the pattern of capital flows to the Philippines. It looks at how the government responded to the recent surge in capital inflows. Furthermore, the paper examines the effects on the economy as whole of these policy responses.

The paper is divided into seven sections. The second section will examine the recent surge in capital inflows to the country. The third section will show the trend in remittances of overseas contract workers-OCWs (which incidentally is the one of the major sources of foreign exchange in the last six years) and tourism receipts. The fourth section will discuss the economic reforms that have been implemented to open up the economy to foreign competition. The fifth fourth section will describe how the government responded to the recent surge in capital inflows. The sixth section will investigate how these policy responses of the government affected the real sector of the economy. And lastly, the final section will give a brief summary and some remarks on possible policy directions.

II. Capital Inflows

II.a Capital Inflows to Developing Countries

The recent surge in capital inflows is not unique to the Philippines. In fact, almost all developing countries have experienced the same pattern of capital inflows. Portfolio flows to developing countries grew dramatically from US\$7.5 billion in 1989 to US\$55.8 billion in 1993

³Lamberte, M.B. (1994) "Managing Surges in Capital Inflows: the Philippine Case". PIDS Discussion Paper Series No. 94-20.

(Figure 1).⁴ In terms of destination, a big share of these capital inflows went to Latin America and the Caribbean, and East Asia and Pacific countries (Table 1). In terms of portfolio instruments, a big part of the flows are in the form of bonds, commercial papers (CPs), and certificate of deposits (CDs).

The dramatic increase in capital inflows to developing factors can be attributed to factors like: (1) liberalization (many developing countries pursued strongly their respective liberalization programs, especially towards the second half of the 1980s; in particular, regulations on foreign investment, capital market and foreign exchange market have been relaxed considerably); (2) privatization (a sizeable number of state-owned corporations have been privatized); and (3) economic stability (macroeconomic management in these countries has dramatically improved which provided a good environment for a stable and sustainable growth).

II.b Capital Inflows to the Philippines

Aggregate Inflows. The Philippines experienced a big jump in capital inflows since 1992 (Figure 2). From US\$1.164 billion net inflows in 1992, the inflows increased to US\$2.244 billion in 1993 and to US\$3.917 billion in 1994.

In 1993, 74.6 percent of the inflows was medium and long term (MLT) loans (Table 2). The improvement in MLT inflows was due to the re-entry of the Philippines to the international financial market after undergoing an IMF-prescribed stabilization program in 1991 and 1992. A few government financial institutions like the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP) floated bonds in European markets in 1993 and were highly successful with oversubscribed offerings.

There were substantial changes in the breakdown of capital flows in 1994. The share of MLT loans dropped to 34 percent. The drop was absorbed by short-term loans (from -5.2 percent in 1993 to 25.6 percent in 1994) and foreign investments, in particular, direct foreign investments (from 8.1 percent in 1993 to 18.9 percent in 1994). In the first four months of 1995, short-term loans capture 73.1 percent of the total net flows, while foreign direct investments capture 50.8 percent. The contribution of net portfolio continues to be negative (more discussion on this is given below). Thus, there has been a shift in the capital flows from medium-to-long-term to short-term types.

Medium and Long-Term Loans. Net inflows of MLT reached a peak of US\$2.105 billion in 1993 (Table 3). However, MLT inflows declined to US\$1.334 billion in 1994.

One noticeable item in 1992 is bonds under new money. From zero in 1991, it increased to US\$3.1 billion in 1992. This huge amount, however, did not involve actual inflow of funds

⁴Claessens, Stijn and Sudarshan Gooptu, 1994. "Can Developing Countries Keep Foreign Capital Flowing In". Finance and Development Vol. 31 No. 3. IMF/WB: Washington, D.C., USA.

because this was the Brady bonds under the Brady debt reduction program. The bond inflows of US\$865 million in 1993, however, involved actual inflows. These were the proceeds of the bond flotations of PNB and DBP.

The net inflow of MLT loans increased the country's foreign liabilities. In 1994, the Philippine total outstanding foreign exchange liabilities stood at US\$37.698 billion, almost US\$4 billion increase over the previous year (Table 4). The increase in foreign liabilities raised both the debt-to-GNP and debt service ratio: the former from 61.3 percent in 1993 to 65.3 percent in 1994, while the latter from 16.5 percent to 19.1 percent.

However, despite the increase in the flows of foreign capital of short-term types in 1994 and the increase in foreign debt burden, the current structure of Philippine debt is far from critical. Only 15.2 percent of the outstanding liabilities is short-term.

Foreign Investments. Net foreign investment (NFI) increased considerably in 1994 (Table 5). From US\$600 million in 1993, it more than doubled in 1994 to reach a record high of US\$1.424 billion.

The major NFI items are portfolio investments (PI) and direct investments (DI). In terms of inflows alone, there was a rapid rise in PI from US\$5.66 million in 1992 to US\$2.257 billion in 1993, and to US\$2.979 billion last year. However, in terms of outflows, both capital withdrawals from the Philippines and portfolio investment originating from the Philippines also surged in the last two years. Capital withdrawals from the Philippines increased from US\$411 million in 1992 to US\$1.360 billion in 1993, and to US\$2.078 billion in 1994. Likewise, portfolio investments originating from the Philippines surged from US\$115 million in 1992 to US\$1.061 billion in 1993 and to US\$1.338 billion in 1994.

Capital withdrawal from the Philippines involves proceeds of sale of non-resident stocks and bond holdings in domestic corporations remitted outward, while portfolio investment originating from the Philippines represents remittances of residents for investment in stocks and bonds of foreign enterprises. Annex 1 gives a detailed definition of the different flows under foreign investment.

Based on this set of definitions, portfolio investments in net terms can therefore be computed as the difference between the inflow of portfolio investments, on the one hand, and the outflow of both portfolio investment and capital withdrawals from the Philippines, on the other. Net portfolio investment computed in this manner yields negative net portfolio investment in the last two years. This therefore implies that there has been a net outflow of portfolio investment, contrary to the general perception. In particular, net portfolio investment outflow was US\$164 million in 1993 and US\$437 million in 1994 (bottom line of Table 5).

There was a dramatic increase in foreign direct investments last year from US\$334 million in 1993 to US\$796 million in 1994. This increase was mainly due to the Petron-Aramco

deal which was completed in March of 1994.⁵ In the succeeding months, inflows of FDI were at their normal levels of about US\$20 to 30 million a month, indicating that the March Petron-Aramco deal was just a spike in the FDI trend.

III. Income Remittances and Tourism Receipts

Two other major sources of foreign exchange are remittances of overseas contract workers (OCWs) and tourism receipts. Inflows from these sources are ought to be considered also because on an annual basis these sources contribute, in net terms, more than US\$4 billion to the supply of foreign exchange in the system. Based on a 12-month running total computation, OCW remittances have surpassed the US\$3 billion a year net inflow, while tourism receipts are hovering around US\$1 billion (Figure 3).

IV. Economic Reforms⁶

The government is embarking on a series of economic reforms to restructure the economy and to open it up to the rest of the international community. Major reforms are seen in the trade sector, fiscal sector, financial markets, foreign exchange market, and foreign investment.

In the period 1986-1993, the government took an aggressive stance by pursuing an unilateral trade liberalization program. For example, the number of regulated items was reduced drastically from 1,924 to only 183 within the period. Moreover, in 1991 the government put in place a five-year tariff reduction program that simplifies the tariff structure and puts a nine-band tariff structure, with most of the items concentrated at around 3, 10, 20 and 50 percent tariff rates. More recently, there has been an acceleration of the tariff reduction on textiles, garments, and chemical inputs.

One of the major changes in the fiscal sector is the tax reform program which was instituted starting the second half of the 1980s. Among the major objectives of the program are: to improve the elasticity of the tax system, tax administration and compliance by tax simplification, to promote equity and growth by reducing highly distortive taxes. Furthermore, the government adopted the Value Added Tax (VAT) system in the second half of the 1980s which replaced several sales taxes.

⁵Petron is the biggest oil refinery company in the Philippines. It was originally a government-owned corporation, but was privatized in 1994. Forty percent of Petron's equity was bought by Aramco, an oil company in Saudi Arabia. Ten percent of Petron's was sold to the public, while the remaining 40 percent is still being held by the government.

⁶Based on Lamberte (1994).

To restructure the financial market, the government removed controls on interest rates, rationalized the credit programs of the government so as not to compete with the private financial institutions, privatized several government-controlled banks, and liberalized bank entry, especially the entry and scope of foreign banks. Also, the government initiated the rehabilitation of the rural banking system, stopped the operation of weak private commercial banks through either closure or merger with other stronger banks. Moreover, the Central Bank abandoned its selective credit control, and imposed instead a uniform rediscounting activities for all activities.

The old Central Bank (CB) was rehabilitated to form what is now known the Bangko Sentral ng Pilipinas (BSP). The current BSP is "free" of the huge stock of non-performing assets that almost crippled the old CB. In principle, the BSP should now be able to perform its mandated function; which is to maintain stability in the economy.

A substantial number of controls in the foreign exchange market were removed in the hope of increasing the flow of funds between the country and the rest of the world. For example, exporters are no longer required to surrender their export proceeds. At the same time, they are not required anymore to seek prior BSP approval for their other foreign exchange-related transactions. Also, controls on capital repatriation, dividend, and interest remittance were dismantled. Furthermore, overseas contract workers (OCWs) are no longer required to remit to the Philippines a certain portion of their income. However, there are still existing controls with respect to foreign borrowing by both the private and public sectors, especially those that are guaranteed by the national government or government financial institutions.

Four major policy reforms have been introduced that have a direct bearing on the development of the capital. First, the double taxation of dividend income was eliminated through the abolition of the tax on intercorporate dividends and gradual phase out of the tax on shareholder's dividend income. Second, the Security and Exchange Commission formally issued in October 1989 the "Rules and Regulations Governing Investment Companies", signalling the revival of mutual funds. Third, as part of the foreign exchange deregulation program, rules and regulations covering foreign investments in BSP-approved securities have been relaxed. Fourth, the two stock exchanges in the Philippines have been unified, thereby eliminated inefficiencies such as price arbitrage in a situation where two markets are allowed to list the same issue/company. All these changes are deemed to facilitate the inflow of investment into the country.

The Foreign Investment Act of 1991 liberalizes entry of foreign investors within the provisions of the Constitution of the Philippines. As a general rule, there are no restrictions on the extent of ownership of export enterprises (defined as those exporting 60 percent of their output). As for enterprises oriented to the domestic market, foreigners are allowed to invest as much as 100 percent, unless the participation is prohibited or limited to a smaller percentage by existing laws and/or the provisions of the foreign investment act.

To promote competition in the domestic economy, the government removed entry barriers in crucial industries such as telecommunications, transportation (land, sea, and air), banking and

cement. At the same time, the government pursued aggressively its privatization program. In 1993 alone, the government sold to the public 19 government-owned or controlled corporations including several major ones such as Petron, Philippine Shipyard and Engineering Corp. and Oriental Petroleum and Minerals Corp.

Although the economic reforms instituted thus far are already substantial, they are far from complete. For example, recent studies have pointed out that in spite of the series of tariff reduction programs, the protection on local industries still remains relatively high⁷; the incidence of tax evasion remains alarmingly high⁸, implying substantial inefficiencies remain in the tax administration. Thus, more reforms are called for.

The government at present is about to embark on a new tariff program which will further reduce and simplify the tariff structure to an across-the-board uniform tariff of 5 percent by the year 2004. The VAT system will soon be expanded to cover others commodities and services which were not included in the first adoption of the system. Furthermore, Congress is now deliberating a tax reform bill that will introduce more reforms to the existing tax structure and administration.

V. Policy Responses of the Government

The surge in capital inflows put a lot of pressure on the foreign exchange rate to appreciate, which is not generally good to the exporters. Therefore, to minimize the appreciation effect on the exchange rate, the monetary authorities intervene by stepping up its demand for foreign exchange in the market. Since this is inflationary because it releases liquidity to the system, they mop it up by issuing government securities. This policy measure is known as sterilized intervention. It entails huge economic costs, however, because the monetary authorities would have to acquire low-yielding international reserves and issue high-yielding treasury bills, creating what is generally called "quasi-fiscal deficit".

For the period January to November 11, 1994, the BSP purchased US\$2,739 million of foreign exchange from the market to perk up demand. These purchases accounted for 43 percent of the total volume of transactions in the foreign exchange market. At such level, BSP purchases were 46.8 percent of reserve money and 14.2 percent of total domestic liquidity. These purchases had cost the BSP some P5,753 million with a return of only P1,154 million. Thus, for the same period, the BSP incurred a net loss of P4,599 million, representing nearly half of the expected BSP net income for the whole year of 1994. On top of this cost, the BSP also recorded a

⁷Various issues of PIDS Research Paper Series; Medalla E. (1990), "An Assessment of Trade and Industrial Policy", PIDS Working Paper Series No. 90-07; and AYC Constants (1995), "Refinements in EPR Estimation Methodology", in *Improving Trade Policy Reform and Implementation*, USAID Contract No. 492-0457-C-00-3054-00.

⁸Manasan R. (1993), "Breaking Away from the Fiscal Bind: Reforming the Fiscal System". PIDS

revaluation loss in its balance sheet aggregating about P5.2 billion on account of these purchases.⁹

What is the rationale behind sterilized intervention by the BSP? Below is a discussion of the process of sterilizing foreign capital inflows.

Liquidity in the system increases if the net foreign assets of the BSP improves. If a ceiling on liquidity is imposed, (to reduce inflationary pressure for example) then any increase in net foreign assets has to be offset (or sterilized) by a reduction in the net domestic asset of the BSP.

The process of sterilization is easily explained using the balance sheet of the BSP. In the balance sheet, reserve money (RM) falls under the liabilities column. The assets column, on the other hand, has two major items: net foreign assets (NFA) and net domestic assets (NDA). In turn, NFA comprises two items: international reserves (positive) and foreign liabilities (negative). On the other hand, NDA includes a major item: net domestic credit (NDC) to national government (i.e., the BSP's lending to the National Government [NG] less NG's savings in BSP). Expressed in equation form we have,

$$RM = NFA + NDA$$

Thus, if a ceiling on RM is imposed (to meet monetary targets under the IMF stabilization program, for example), then any increase in NFA is sterilized by decreasing NDA. NDA can be reduced if NG increases its savings in the BSP. One major way by which NG increases its deposit in the BSP is by the selling NG debt instruments (e.g. treasury bills) to the public and by depositing the proceeds in the BSP. This process puts a lot of upward pressure on domestic debt stock, debt servicing, and interest rates. In fact, one of the major factors behind the rapid accumulation of domestic debt in recent past is the sterilization process.¹⁰ It created a snowball effect because it fed into the budget deficit of the government.

The Monetary Authorities have been very conservative in the growth of RM (Figure 4). The average monthly growth (computed on an annual basis) was down to 5.5 percent in 1994 from 14.6 percent in 1993. Similar behavior was seen in 1992 and 1993. In these two years, RM growth was averaging 13 percent, relative to 25 percent in 1991. Despite these controls, however, the growth in the total liquidity (M3) surged from 13.7 percent in 1993 to 24.9 percent in 1994.

Difference between domestic and international interest rates remains high (Figure 5).

⁹Bangko Sentral ng Pilipinas. "Primer on the Exchange Rate and on BSP Measures to Support Exports".

¹⁰Cororaton, C. B., 1993. "Public Sector Deficit and Domestic Debt: Heavy Burden on Philippine Economic Growth". unpublished manuscript.

While the interest differential has declined since the peak in 1990, it is still large and attractive to foreign investors at present levels. With an appreciating peso, this can further induce foreign capital to flow to the country.

The Philippine peso has appreciated in real terms (Table 6). The peso-US dollar exchange rate, for example, appreciated by 13.1 percent in 1992 and another 9.0 percent in 1994. The peso-Japanese yen exchange rate appreciated by 9.3 percent in 1992 and another 1.2 percent in 1994. The weighted real foreign exchange rate appreciation (based on these two rates) was 11.5 percent in 1992 and 5.6 in 1994.

The share of Philippine exports in the international market has been declining, while both the Asian NICs and the up-and-coming Asian NICs have been gaining market shares in world export market. Given the appreciation of the Philippine peso, it would therefore be a tough job for Philippine exporters to gain additional shares in the world market.

Lamberte (1995) showed that the BSP almost completely sterilized the monetary effect of its purchases of foreign exchange from the market by changing net domestic assets in opposite direction to the change in net foreign assets by almost the same amount. He found that this process was generally ineffective because the offset coefficient for the Philippines is very high, -0.88. An offset coefficient which is close to -1.0 will mean that sterilization is completely ineffective because any reduction in net domestic assets induces an increase in net foreign assets by an almost equal amount. This can partly explain that, despite the tight control on reserve money, liquidity in the system continues to increase rapidly.

Other Measures. Because of the surge in capital inflows, the government has reduced its request for debt rescheduling. Furthermore, to increase the outflow of foreign exchange, the government it is currently pre-paying some of its foreign liabilities.

VI. Effects on the Economy

External Balances. The external account imbalances are widening (Figure 6). The deficits (as percent of GNP) in both the balance of trade (BOT) and current account (CA) are deteriorating rapidly in recent years.

Balance of Trade. The growth in imports continues to surpass the growth in exports. In the last four years imports grew by an average of 15.3 percent per year, while exports only increased by 13.3. Thus, the balance of trade (BOT) deficit continues to deteriorate. The BOT-GNP ratio increased from -8.27 percent in 1991 to -13.6 percent in 1994. The ratio is now significantly above the ratio in 1990 (-10.38 percent) when the economy suffered a foreign exchange crisis. Based on the export and import trends in the first four months of 1995, it looks like that the deterioration in the BOT deficit is going to continue. A number of factors have caused the worsening of the trade balance: (1) the real appreciation of the peso; (2) the general lowering of trade protection; and (3) the ongoing economic recovery which resulted in surges of

imports.

Comparing the external account imbalances of the Philippine economy with other neighboring Asian countries, the Philippines stands out to have the biggest BOT deficit (Table 7). Although Thailand is also having sizeable BOT deficit, it showed significant improvement in 1993.

Current Account. There are two measures of CA deficit considered in the paper. One is the CA deficit published in the balance of payments (BOP) statistics, and another is the same CA, but net of withdrawals of foreign currency deposit units (FCDUs). In the BOP statistics FCDU withdrawals are inflows under non-merchandise trade. The reason for netting FCDUs out of CA is that the sources of this account are not very transparent. Part of it could probably be due to earnings of OCWs which were not declared but were deposited and withdrawn from FCDU accounts. Part of it could also be due to flight capital that is returning back to the country (or capital reflows) or cash personally brought in by small foreign investors and temporarily parked in FCDU accounts. Since the sources of FCDU accounts are not clear, some are arguing that the bloated levels of FCDU withdrawals are probably due to double counting. If this is indeed the case, then the recorded CA deficit may be underestimated.

The deficit in the CA with FCDUs improved from -5.99 percent of GNP in 1993 to -4.94 in 1994. The major reason behind this improvement is the dramatic increase in FCDUs. The withdrawals from FCDUs reached US\$2.815 billion in 1994, or 4.88 percent of GNP.

However, if FCDUs are netted out of the CA deficit, the picture is different. The CA deficit to GNP ratio continues to deteriorate from -4.64 percent in 1992 to -9.82 percent in 1994. This is alarming.

Export Performance. There has been a significant change in the structure of the country's export in the last 11 years (Table 8). The share of unmanufactured traditional exports continues to drop from 46.1 percent of total export receipts in 1984 to 19.4 percent in 1994. The drop was absorbed by the phenomenal growth of manufactured non-traditional exports, particularly, garments and semi-conductors. To date, these two major export items account for 54.8 percent of the country's total merchandise exports.

However, domestic production of both garments and semi-conductor has very small value added component. Almost all of the raw material requirements of these items are imported. This naturally leads to the issue of whether the country has been moving towards higher value added export items; of whether there has been a some industrial deepening occurring in the past years. Preliminary results of Medalla (1995) show that the share of the "others" category under manufactured exports registered a significant increase in the last 10 years from US\$271 million

in 1986 to US\$1.049 billion in 1994.¹¹ Medalla attributes this to the positive effects of trade reforms which somewhat brought in shifts in orientation.

What about the effect of the real appreciation of the exchange rate on exports? Using domestic resource cost (DRC) analysis, Medalla shows that the unfavorable impact of exchange rate appreciation on the competitiveness of the export sector is significant. She shows that with an additional real peso appreciation of say 10 percent, about 8 percent of the industries which used to be competitive before the appreciation will not anymore be competitive. This shows how limiting could be the effect of "unwarranted" peso appreciation on the competitiveness of Philippine industries.

Import Behavior. Capital goods, and raw materials and intermediate goods continue to account for the biggest share of more than 70 percent of the total imports in the last 10 years (Table 9). One disturbing trend, however, is the rise in the share of imported consumer goods. From 5.4 percent share in 1986, the share of imports of consumer goods to total imports increased to 9.5 percent in 1994. Examples of consumer good importations are passenger cars and home appliances.

The in the importation of consumer goods can be attributed to the lowering of tariff rates and the real appreciation of the peso. Therefore, unless the appreciation of the exchange rate is arrested importation of consumer goods are expected to continue and can add pressures on the external account imbalances. In principle, a general lowering of tariff protection has to be accompanied by an exchange rate depreciation to avoid any possible surges in consumer good importation. The depreciation of the exchange rate is supposed to offset the decline in tariff rates.

Summary and Remarks

Summary. There was a surge in capital inflows in the last three years. Capital inflows amounted to almost US\$4 billion in 1994. Surprisingly, there was a net outflow of portfolio investments, contrary to the general perception. Net portfolio investments have been negative in the last two years. However, there has been a shift from medium-and-long-term loans to short-term loans, especially in 1994. The increase in capital inflows increased the foreign debt burden of the economy. Debt service ratio increased from 16.5 percent in 1993 to 19.1 percent in 1994. Debt-to-GNP ratio moved up from 61.3 percent in 1993 to 65.3 percent in 1994. However, despite the increase in the flows of foreign capital of short-term types and the increase in foreign debt burden, the current structure of Philippine foreign debt is far from critical. Only 15.2 percent of the total outstanding liabilities is short-term.

¹¹Medalla, E. 1995. "Macroeconomic Policy and Competitiveness of RP's Exports". Unpublished manuscript.

The general response of the monetary authorities to the surge in capital inflows was to sterilize them which, according to some indicators, was not generally effective in controlling liquidity. Instead, this sterilized intervention created "quasi-fiscal deficit" to the tune of P9.8 billion in the first 11 months of 1994. Sterilized intervention of the monetary authorities also sustained the high interest differential between local and foreign interest rates. Furthermore, it put a lot of pressure on the exchange rate to appreciate. The exchange rate appreciated in real terms by 11.5 percent in 1992 and by another 5.6 percent in 1994. Research results show a significant limiting effect of unwarranted peso appreciation on the competitiveness of Philippine industries: With an additional real peso appreciation say 10 percent, about 8 percent of the industries which used to be competitive before the appreciation will not be competitive anymore in the export market.

The external account imbalances have been deteriorating rapidly in the past three years. Both the BOT-GNP and CA-GNP (without FCDUs) ratios are breaking record highs; -13.6 percent and -9.82 percent in 1994, respectively. Imports of consumer goods are likewise increasing fast. This could be the effect of the general lowering of tariff rates and the real appreciation of the currency.

Policy Remarks. Capital inflows are indeed necessary for the continued growth of the Philippine economy because domestic savings are short of meeting the required investments. But a surge in capital inflows could also be destabilizing, especially that the absorptive capacity of the economy is low, i.e. the domestic capital market is generally weak. Thus, these inflows have to be managed well, otherwise it could negate all the positive results that have been attained so far. Specifically, too much focus on sterilized intervention may not be sound economically this point in time. It could further distort relative prices through peso appreciation and maintain the high interest differential between local and international interest rates. Worse, sterilized intervention could further induce capital to flow in and therefore aggravate the situation.

The key concerns of policymakers of why they have to intervene in cases where there are massive inflows of capital are: (1) export sector will be at disadvantage since capital inflows are often associated with real appreciation of the exchange rate; (2) misallocation of resources will likely result if the capital inflows are not well intermediated; (3) "hot money" variety of capital inflows is easily reversible and could therefore leave behind the domestic economy in financial turmoil. The literature on capital flows offers some insights on how to deal with surges in capital inflows.

*Fiscal Policy.*¹² One policy response to capital inflows is to tighten fiscal policy. Thailand pursued this policy. Tightening fiscal policy may not likely stop capital inflow, but it may lower aggregate demand and curb inflationary impact of capital inflows. In addition, to the extent that a reduced fiscal spending minimizes the government's need to issue debt, such policy response may minimize the pressure on interest rate to increase. "However, contraction of government

¹²Based on the survey of Calvo, G. A., Leiferman, L, and Reinhart, C. (1994). "The Capital Inflows Problem: Concepts and Issues" Contemporary Economic Policy, Vol. XII

expenditure is always a sensitive political issue. Overall, it is hard to provide a strong case for adjusting fiscal policy, which usually is set on the basis of medium- or long-term considerations, in response to what may turn out to be short-term fluctuations in capital flows. However, if the authorities envision a tightening of the fiscal stance, the presence of capital inflow may call for earlier action in this respect".

*Chilean-Type Exchange Rate Policy.*¹³ Why Chile? The economy of Chile has been very stable all these years. The government has been able to insulate the local economy from the external shocks brought about by the collapse of the Mexican economy in 1994.

The exchange rate policy of Chile has been focused on limiting the exchange rate variability so as to maintain the real exchange rate within an agreed range, consistent with the medium-term external balance of the economy. External equilibrium or balance in Chilean context means the maintenance of a deficit in the current account of the balance of payments within 3 percent to 4 percent of GDP. It is believed that within this range the increase in debt will be compatible with the long-term growth of the economy, without introducing a significant source of external vulnerability to the economy.

What are some of the policy instruments used by the Chilean government in maintaining the economy's external equilibrium? The government imposed restrictions on capital movements. Examples of the restrictions are: (a) minimum period of one year permanency in the country for foreign direct or portfolio investments; (b) capital and profits may be remitted from the fifth year of the investment being materialized; (c) capital inflows through external credit lines, which are associated fundamentally with foreign trade, are subject to the application of a special deposit, which at present amounts to 30 percent of the balance maintained in external credit lines. In addition, credits entering the country are required in the formal exchange market and are wholly under the obligation of maintaining the special deposit, which has to be held for a one-year term, whatever may be the term agreed for the credit; and (d) deposits and placements in foreign currency are regulated and are subject to a special deposit of 30 percent.

The special deposit on external borrowing provided a method of increasing foreign borrowing costs and of providing greater room for maneuver in monetary policy. The deposit reduces the attractiveness of capital inflows, especially short-term ones. The special deposit is applied to all external financing flows apart from risk investment, including credit lines, deposits, loans and bonds. In effect, the greater role played by monetary policy under this restrictive regime allowed the authorities to raise the ceiling on real interest rate in the domestic market without inducing massive capital inflow and without putting pressure on the real exchange rate. That is, this restriction provided domestic monetary policy to raise domestic real interest rate above the levels existing on the international market, without causing pressure on the real

¹³Based on Guillermo Le Fort V. and Claudia Varela L. (1995). "The Chilean Capital Account and the Regional Composition of Capital Flows". A paper presented to the Pacific Economic Outlook Specialists Meeting, March 14-17, 1995, Osaka, Japan.

exchange rate.

Furthermore, limitations are maintained on the external capital flows in an attempt to limit the risks that the fluctuations in external capital markets might have on the economy, and to give a greater degree of freedom to the operation of monetary policy. Thus, in recent years, the Central Bank of Chile has been using monetary policy to influence the expansion of domestic expenditure, so as to make this consistent with macroeconomic objectives, in particular with a reduction of the rate of inflation.

*More Foreign Direct Investment*¹⁴ The key question is how to achieve a favorable composition of capital flows with more of direct investment. "No policy tricks can do the job. In order to induce investors to bolt down their capital, policymakers must muster a high degree of credibility and support clear, simple, and market-oriented policies."

"Until credibility is achieved, countries are well advised to be cautious about the intermediation of capital flows, especially if these flows are perceived to be primarily short-term and easily reversible. Countries that have successfully managed (to date) the surge in inflows have not relied on single policy measure. The approach has been eclectic, combining a number of the policy options." A reasonable sequencing of policies involves (1) initially limiting the intermediation of those flows by combining sterilized intervention, greater exchange rate flexibility, and possibly increased marginal reserve requirements; and (2) later on, adopting measures that gradually monetize these flows.

¹⁴Based on Calvo, et al. 1994.

Annex 1: Definition of Foreign Investments

Annex 1: Definition of Foreign Investments

These cover portfolio investment and all capital transactions between the domestic enterprise and the foreign investor or vice versa aimed at creating or expanding some kind of permanent interest in said enterprise.

I. Inflows include:

- I.a *Withdrawal of Philippine investments abroad* - this represents proceeds of sale of assets abroad, retirement of foreign bond holdings, stocks and other securities and repatriation of equity investments in enterprises abroad;
- I.b *New foreign investments in the Philippines* - these are receipts for investments made to create or expand some kind of permanent interest in local branches and subsidiaries;
- I.c *Portfolio investments* - these refer to foreign investments in issues of Philippine stocks and bonds and other securities;
- I.d *Reinvested earnings or investment income of multinationals operating in the Philippines* - these refer to income which has been plowed back to the industry;
- I.e *Debt conversions* - these refers to the obligations of both the monetary and non-monetary sectors converted into equity by non-resident investors under Circular 1111 and Circular 1267. Likewise, covered are other voluntary reduction schemes which include debt-to-asset, debt-for-debt, debt-for-nature, debt-for-notes, and other peso repayment transactions.

II. Outflows include:

- II.a *Capital for direct investment abroad* - these are remittances of residents for investments in a foreign firm or enterprise to create or expand some kind of permanent interest;
- II.b *Capital withdrawal from the Philippines* - this represents proceeds of sale of non-resident stocks and bond holdings in domestic corporations remitted outward; and
- II.c *Portfolio investment* - these are remittances of residents for investments in stocks and bonds of foreign enterprises.

Source: Central Bank of the Philippines

Annex 2: Tables and Figures

Figure 1: Portfolio Flows to Developing Countries

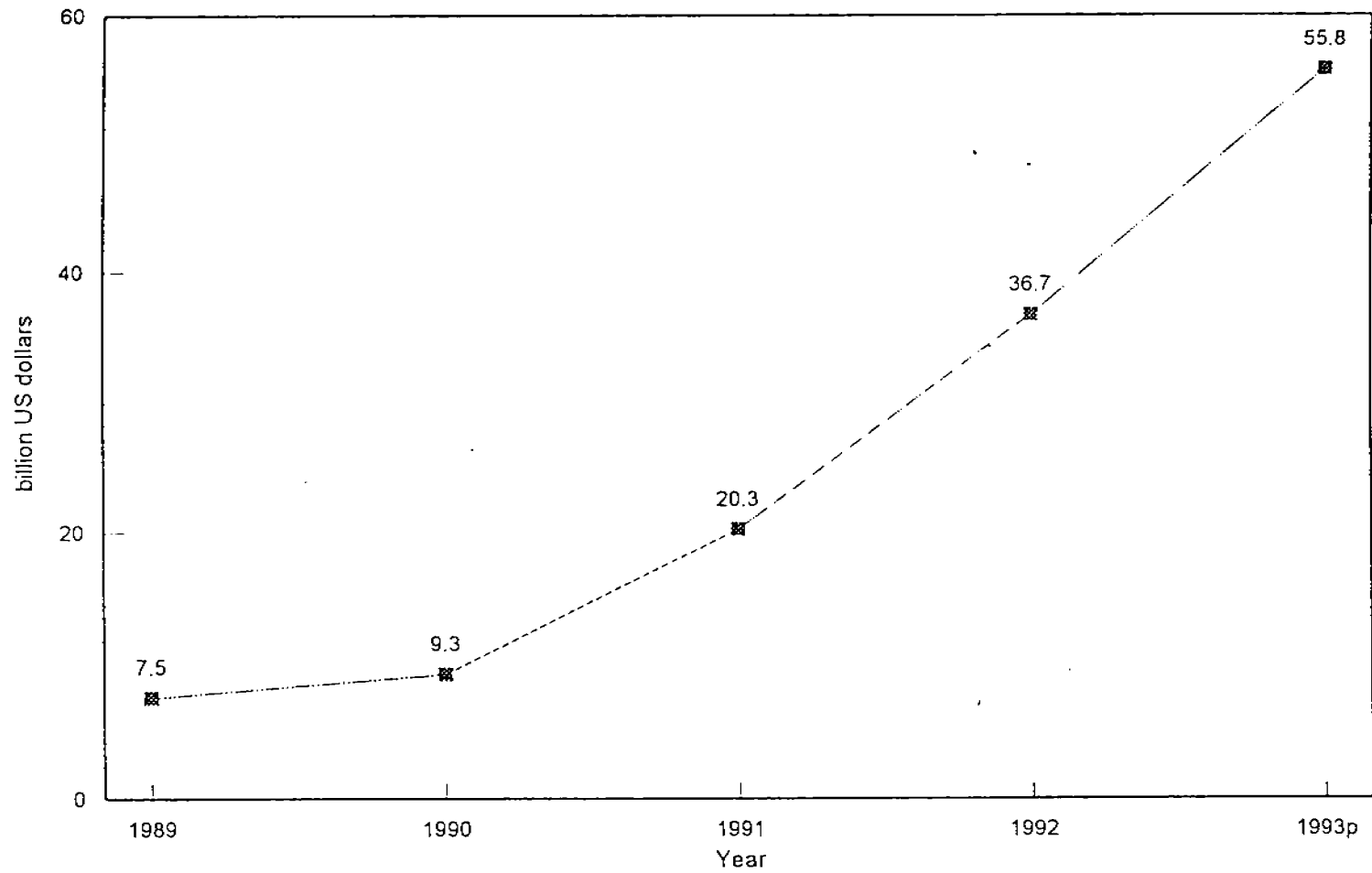


Figure 2: Net Capital Inflows to RP

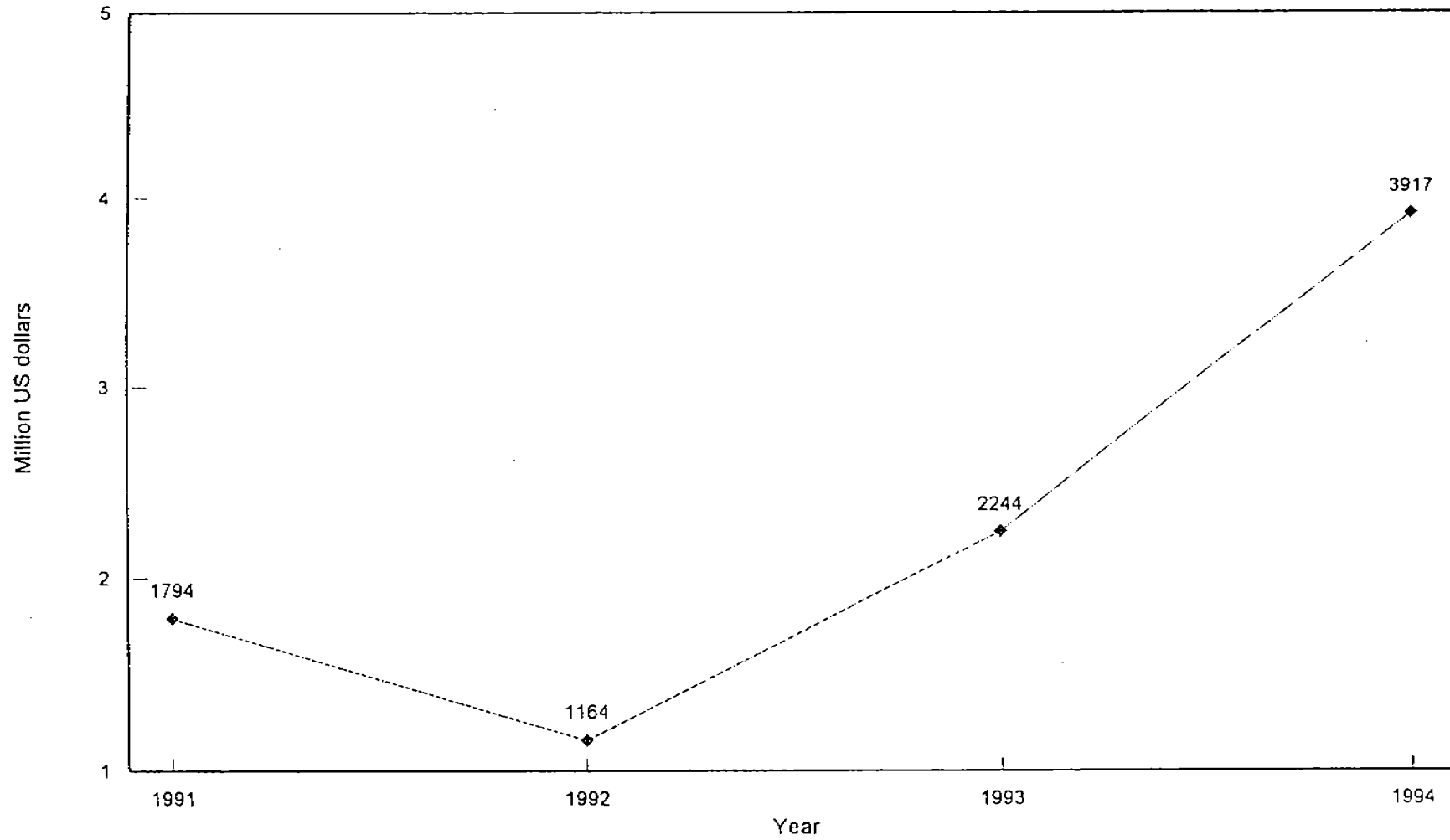
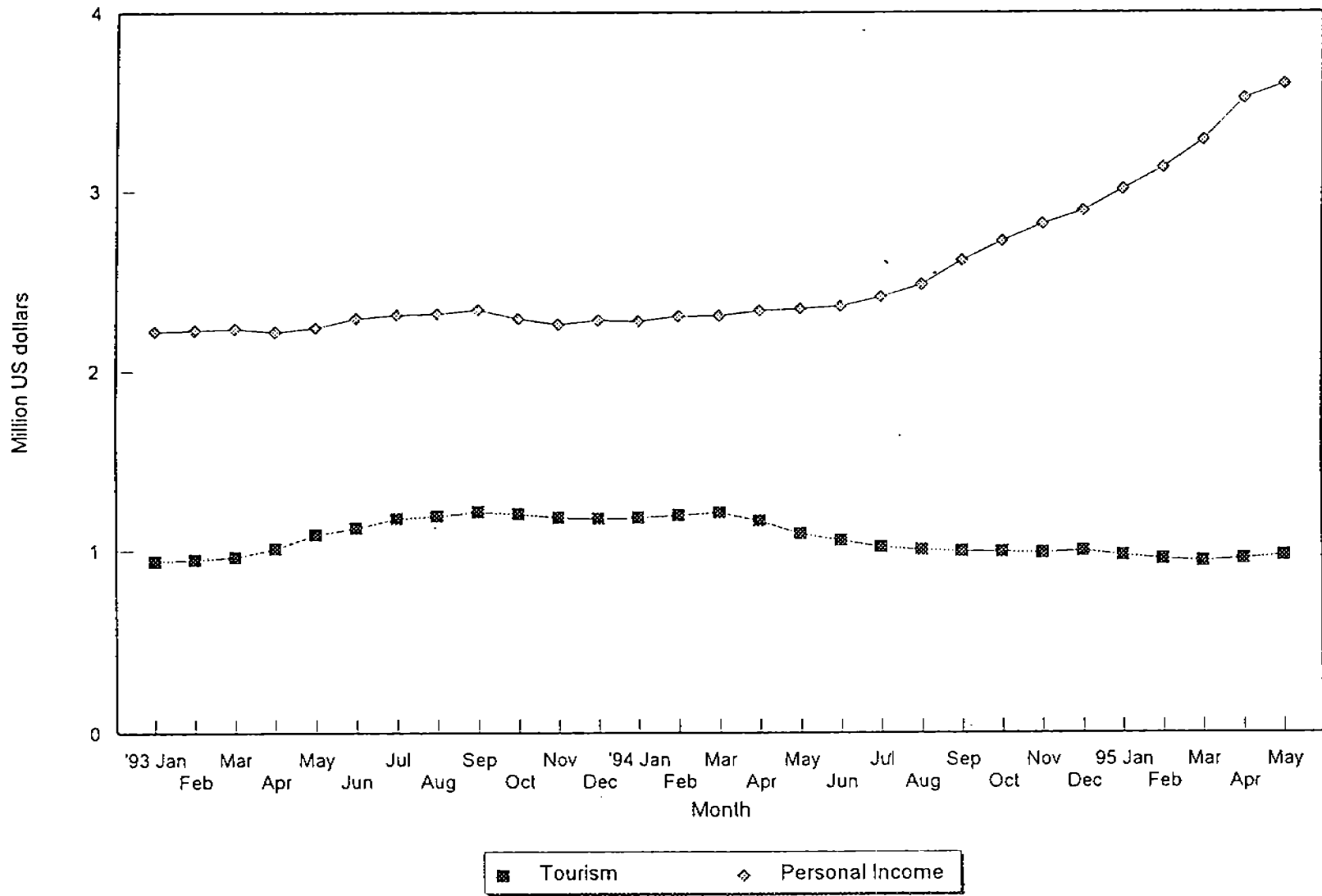
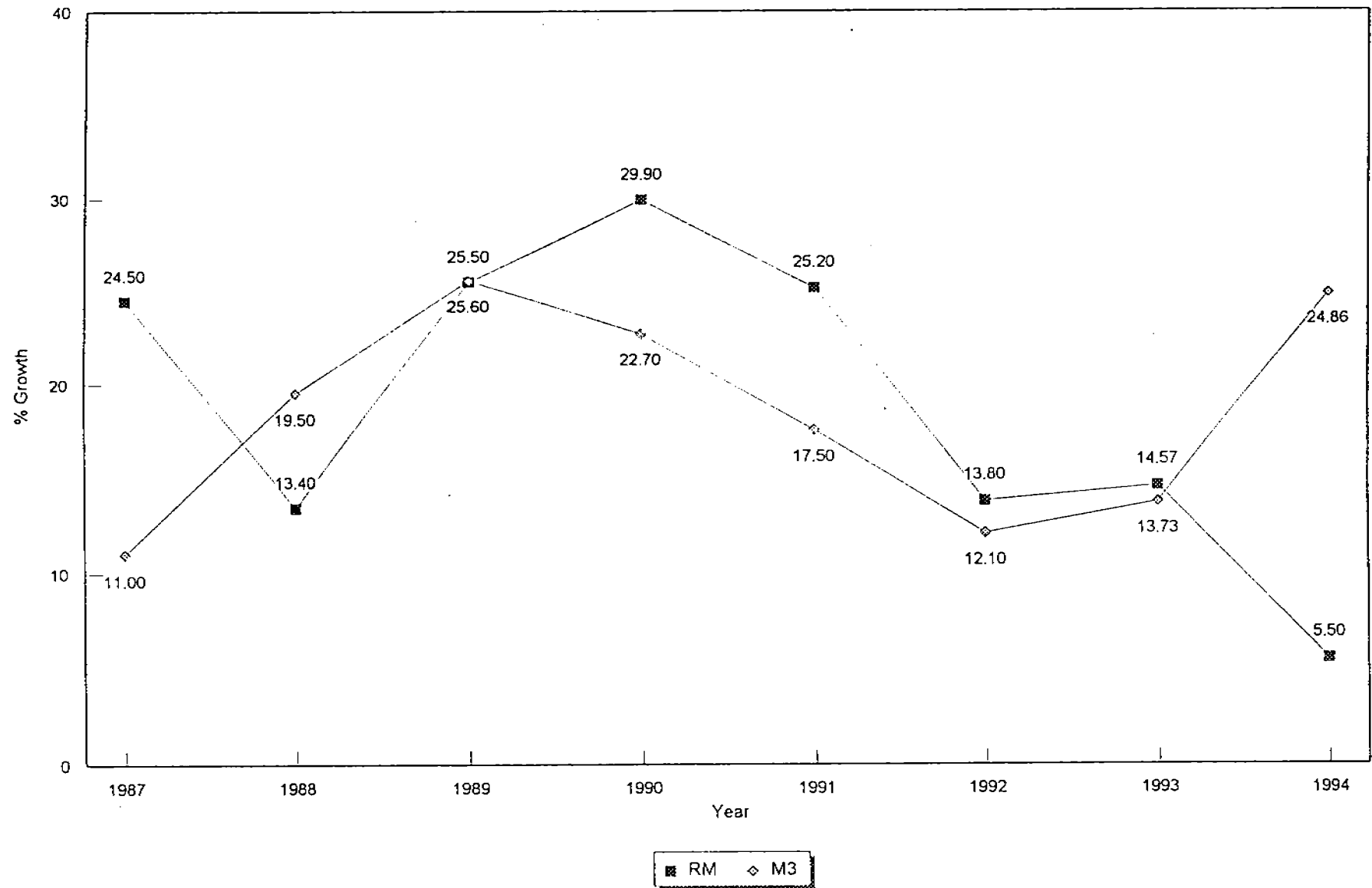


Figure 3: Tourism and Personal Income*



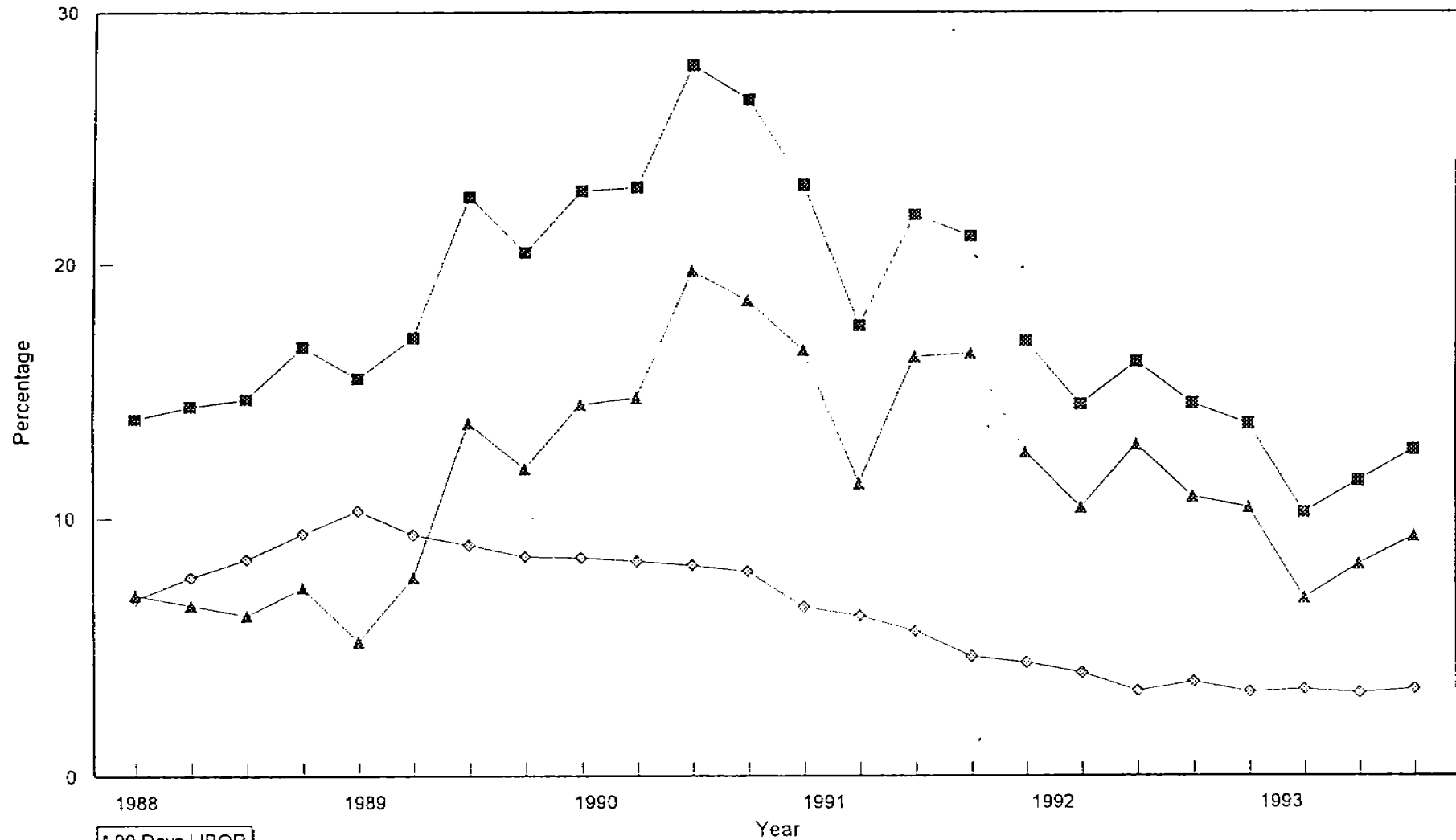
*12-month running totals

Figure 4: Growth of Monetary Indicators*



* average of monthly growth, computed on an annual basis

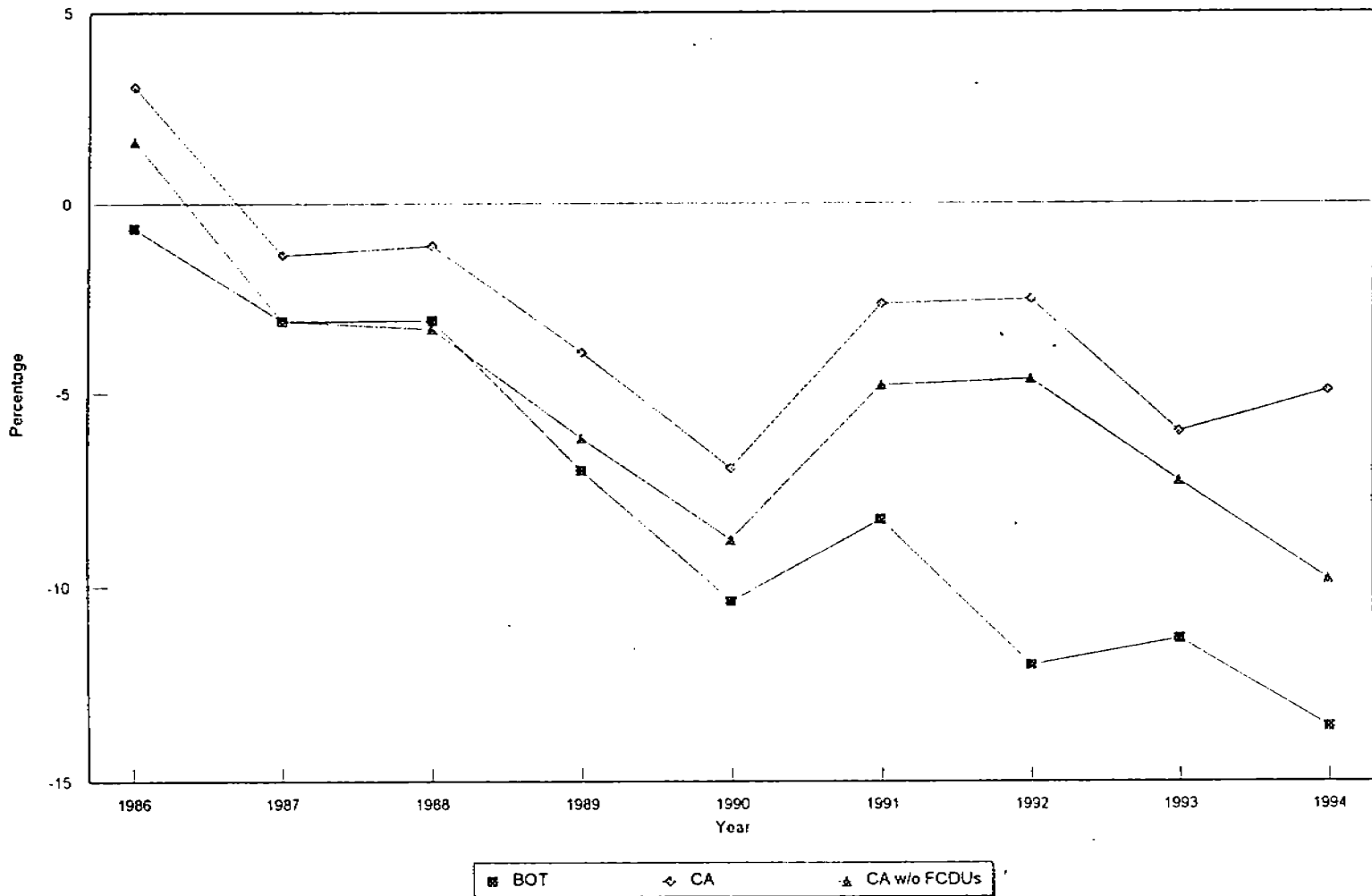
Figure 5: Interest Rates (In %)



* 90 Days LIBOR

■ RPTBILL ◆ LIBOR3Q* ▲ DIFFERENCE

Figure 6: External Account Balances (% of GNP)



% of GNP	1986	1987	1988	1989	1990	1991	1992	1993	1994
BOT	-0.65	-3.11	-3.10	-7.01	-10.38	-8.27	-12.01	-11.34	-13.60
CA	3.06	-1.36	-1.11	-3.93	-6.96	-2.66	-2.54	-5.99	-4.94
Without FCDUs Withdrawals	1.65	-3.11	-3.32	-6.17	-8.80	-4.79	-4.64	-7.27	-9.82

Table 1
Portfolio Flows to Developing Countries,
(in billion US dollars)

By Region	1989	1990	1991	1992	1993p
East Asia & Pacific	2.9	3.1	4.0	10.0	15.9
Europe & Central Asia	2.3	1.9	0.8	5.2	9.2
Latin America & the Caribbean	1.4	3.8	15.0	20.5	27.2
Global investment funds	0.1	0.0	0.3	0.1	2.6
Other regions	0.9	0.5	0.2	0.9	0.8
ALL DEVELOPING COUNTRIES	7.5	9.3	20.3	36.7	55.8
By Instruments					
Bonds, CPs & CDs	4.0	5.5	12.7	23.7	42.6
Direct equity investment	1.3	0.8	1.5	5.8	3.2
Deposit Receipts	0.0	0.1	4.9	5.9	7.3
Country Funds	2.2	2.9	1.2	1.3	2.7
TOTAL	7.5	9.3	20.3	36.7	55.8

p = projected

Source: Quoted from Lamberte, 1995. The original source is Claessens and Sudrashan, 1994

Table 2
Net Capital Inflows to the Philippines

	1991	1992	1993	1994	1995 (Jan-Apr)
Net Capital Inflows to the Philippines					
Value (million US dollars)					
Medium/Long-term Loans, Net	922	666	2105	1334	-104
Short-term Loans, Net	349	660	-148	1002	426
Foreign Investments, Net	654	737	599	1424	280
of which:					
Direct Investment, Net	128	218	228	739	296
Portfolio Investments, Net*	110	40	-164	-437	-278
Capital Reflows**	348	-181	264	157	-19
Total	2273	1882	2820	3917	583
Percent Distribution (%)					
Medium/Long-term Loans, Net	40.6	35.4	74.6	34.1	-17.8
Short-term Loans, Net	15.4	35.1	-5.2	25.6	73.1
Foreign Investments, Net	28.8	39.2	21.2	36.4	48.0
of which:					
Direct Investment	5.6	11.6	8.1	18.9	50.8
Portfolio Investments	4.8	2.1	-5.8	-11.2	-47.7
Capital Reflows	15.3	-9.6	9.4	4.0	-3.3
Total	100.0	100.0	100.0	100.0	100.0

* deficit in Table 5

** defined as errors and omission in the BOP accounts

Table 3
Medium and Long-Term Loans
(In Million US Dollars)

	1991	1992	1993	1994
Medium and long-term loans, Net	922	666	2,105	1,334
Inflow	3,613	7,436	4,853	5,857
Availments	2,000	5,741	4,035	4,332
Pipeline	181	102	2,571	2,807
Multi-Bilateral	181	102	2,293	2,195
Banks and FIs	0	0	263	385
Supplier's credit	0	0	15	227
Bonds	0	0	0	0
New Money	1,615	5,431	1,464	1,525 ¹
Multi-Bilateral	1,467	2,203	401	
Banks and FIs	110	34	84	
Supplier's credit	38	62	114	
Bonds	0	3,132	865	
Others	204	208	0	869
Rescheduled	1,613	1,695	818	656
Outflow	2,691	6,770	2,748	2,998
Payments	1,383	5,443	2,010	2,260
Multi-Bilateral	623	611	1,299	1,678
Banks and FIs	587	4,646	540	377
Others	173	186	171	205
Rescheduled	1,308	1,327	738	618

¹ no breakdown available as of July 1995.

Table 4
Foreign Exchange Liabilities

	1990	1991	1992	1993 ¹	1994 ²
Total Foreign Exchange Liabilities (In million US Dollars)	28,549	29,956	30,934	33,787	37,698 ⁴
Increment	933	1,407	978	2,853	3,911
% Distribution					
Medium & Long-Term	84.7%	83.9%	83.0%	84.5%	84.8%
Short Term	15.3%	16.1%	17.0%	15.5%	15.2%
Deb/GNP	74.2%	64.2%	56.9%	61.3%	65.3%
Debt Service Ratio (%) ³	28.2%	20.7%	18.1%	16.5%	19.1%

¹ Total Foreign Exchange Liabilities as of November 30, 1993.

² Total Foreign Exchange Liabilities as of December 30, 1994.

³ data from NEDA.

⁴ Excludes amounts owed to FCDUs.

Table 5
Foreign Investments

	1991	1992	1993	1994	1995 (Jan-Apr)
A Foreign Investments, Net	654	737	599	1,424	280
1 Inflow	798	1,364	3,394	5,142	1,739
2 Withdrawal of Foreign Investments Abroad	15	22	112	706	102
3 New Foreign Investments in the Philippines	130	234	334	796	297
4 Portfolio Investments	227	566	2,257	2,979	1,014
5 Others	426	542	691	661	326
6 Outflow	226	627	2,795	3,718	1,459
7 Capital Withdrawal from the Philippines	102	411	1,360	2,078	635
8 Capital for Investments Abroad	2	16	106	57	1
9 Portfolio Investments	15	115	1,061	1,338	657
10 Others	107	85	268	245	166
Net portfolio (4-7-9)	110	40	(164)	(437)	(278)
Net foreign investment in Phil as % of net foreign investments $[(3 - 8)/A] \cdot 100$	19.57	29.58	38.06	51.90	105.71

Table 6
Foreign Exchange Rate

	1987	1988	1989	1990	1991	1992	1993	1994
<i>Philippine peso to US dollar</i>								
Forex (P/US\$)	20.57	21.09	21.74	24.32	27.48	25.51	27.12	26.42
Currency depreciation	0.9	2.5	3.1	11.9	13.0	-7.2	6.3	-2.6
RP Inflation	3.8	8.8	10.6	12.6	17.7	8.9	7.6	9.0
US Inflation	3.7	4.0	4.8	5.4	4.3	3.0	3.0	2.6
Real Currency depreciation	0.8	-2.3	-2.7	4.6	-0.4	-13.1	1.7	-9.0
<i>Philippine peso to Japanese yen</i>								
Forex (P/Y)	0.14	0.16	0.16	0.17	0.21	0.20	0.25	0.26
Currency depreciation		15.6	-4.1	7.2	22.5	-1.5	19.9	7.6
RP Inflation	3.8	8.8	10.6	12.6	17.7	8.9	7.6	9.0
Japanese Inflation		0.7	2.2	3.1	3.3	1.2	1.2	0.2
Real Currency depreciation		7.6	-12.5	-2.3	8.1	-9.3	13.6	-1.2
Weighted real foreign exchange change		1.7	-6.8	1.7	3.2	-11.5	6.8	-5.6

Table 7

Balance of Trade/GDP Ratio (%)

Country	1986	1987	1988	1989	1990	1991	1992	1993
Korea	3.97	5.62	6.29	2.07	-0.79	-2.37	-0.70	0.56
Indonesia	3.07	6.16	6.74	7.06	5.04	4.12	5.47	5.76
Malaysia	0.01	0.02	0.02	0.01	0.01	0.00	0.01	0.01
Thailand	0.93	-0.84	-3.36	-4.04	-7.88	-6.10	-3.77	-
Philippines	-0.68	-3.06	-2.86	-6.10	-9.07	-7.07	-8.86	-11.51

Current Account
(percent of GDP)

Country	1986	1987	1988	1989	1990	1991	1992	1993
Korea	4.40	7.23	7.78	2.28	-0.86	-2.97	-1.47	0.12
Taipei	21.60	14.42	14.50	7.68	6.92	6.58	4.00	2.72
Indonesia	-4.90	-2.76	-1.66	-1.17	-2.82	-3.65	-2.16	-1.41
Malaysia	-0.40	8.04	5.22	0.68	-2.14	-8.88	-2.84	-3.26
Thailand	0.60	-0.72	-2.68	-3.46	-8.50	-7.71	-5.75	-
Philippines	3.20	-1.34	-1.03	-3.42	-6.08	-2.28	-1.89	-6.08

Source: International Financial Statistics

Table 8

**Exports By Major Commodity Group
(Percent Distribution)**

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
I. Traditional Exports (unmanufactured)	46.1	44.0	42.3	37.3	37.2	32.6	28.9	26.4	24.3	21.5	19.4
Coconut Products	13.6	10.1	9.8	9.9	8.2	6.9	6.1	5.1	6.5	4.7	4.7
Coconut Oil											
Sugar and Sugar Products	5.2	4.0	2.1	1.2	1.0	1.4	1.6	1.5	1.1	1.1	0.6
Fruits and Vegetables	4.9	5.5	5.7	4.9	4.3	4.1	4.0	4.4	3.8	3.9	3.2
Forests Products	5.0	4.3	4.2	4.2	3.7	2.5	1.2	0.8	0.6	0.4	0.2
Mineral Products	9.2	12.3	11.1	8.1	10.8	10.6	8.8	6.9	6.4	6.0	5.8
Others	8.2	7.8	9.5	8.9	9.1	7.0	7.2	7.7	5.9	5.4	4.9
II. Nontraditional Exports											
Nontraditional Manufacturing	51.5	54.8	55.2	60.0	61.3	66.4	69.7	72.4	74.3	76.7	78.8
Elec & Elec Eqpt/Parts & Telecom	24.7	22.8	16.9	19.6	20.9	22.4	24.0	25.9	28.0	31.2	37.1
Garments	11.2	13.5	15.5	19.2	18.6	20.1	21.7	21.1	21.8	20.0	17.7
Chemicals	1.9	3.2	5.0	4.3	3.6	3.6	3.2	3.4	2.7	2.3	2.3
Machinery & Transport Eqpt.	0.7	0.6	0.9	1.4	0.8	1.5	1.8	2.0	2.9	3.2	3.5
Processed Food & Beverages	2.0	2.3	2.4	2.2	2.6	2.6	2.5	2.6	2.2	2.4	2.2
Others	11.0	12.4	14.4	13.4	14.9	16.2	16.5	17.3	16.6	17.7	16.1
III. Special Transactions	0.1	0.3	0.2	0.1	0.4	0.1	0.2	0.2	0.4	0.3	1.0
IV. Re-Exports	2.3	0.9	2.3	2.6	1.1	0.9	1.2	0.9	1.0	1.5	0.8
TOTAL EXPORTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Exports By Major Commodity Group
(FOB Value in million US dollars)**

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
I. Traditional Exports (unmanufactured)	2,483	2,038	2,050	2,134	2,629	2,548	2,366	2,338	2,390	2,443	2,604
Coconut Products	733	466	474	566	582	541	503	447	643	532	638
Coconut Oil							361	299	481	358	474
Sugar and Sugar Products	279	185	103	71	74	113	133	136	110	129	76
Fruits and Vegetables	262	256	275	283	306	319	326	393	371	439	429
Forests Products	271	199	201	243	261	197	95	73	57	45	26
Mineral Products	494	570	539	462	764	829	723	610	627	686	774
Others	444	362	458	509	642	549	586	679	582	612	661
II. Nontraditional Exports											
Nontraditional Manufacturing	2,775	2,539	2,672	3,430	4,338	5,192	5,706	6,403	7,298	8,729	10,587
Elec & Elec Eqpt/Parts & Telecom	1,329	1,056	819	1,119	1,476	1,751	1,964	2,293	2,753	3,551	4,984
Garments	603	623	751	1,098	1,317	1,575	1,776	1,861	2,140	2,272	2,371
Chemicals	105	150	243	245	256	279	261	304	268	262	304
Machinery & Transport Eqpt.	36	30	45	78	54	115	150	181	288	363	468
Processed Food & Beverages	109	106	116	126	184	206	207	233	220	271	298
Others	593	574	698	764	1,051	1,266	1,348	1,531	1,629	2,010	2,162
III. Special Transactions	8	12	8	7	27	10	19	17	40	38	138
IV. Re-Exports	125	40	112	149	80	71	95	82	96	165	104
TOTAL EXPORTS	5,391	4,629	4,842	5,720	7,074	7,821	8,186	8,840	9,824	11,375	13,433

Source: Department of Economic Research, Bangko Sentral ng Pilipinas

Table 9

Imports by Major Commodity Group
(Percent Distribution)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Capital Goods	18.7	15.0	16.6	17.3	22.5	23.3	25.6	24.5	27.7	31.9	32.3
Raw Materials & Intermediate Goods	45.8	45.7	55.9	53.9	54.1	51.7	47.6	48.6	46.5	44.6	45.0
Mineral Fuels & Lubricants	27.2	28.4	17.2	18.5	13.4	13.4	15.1	14.8	14.1	11.5	9.5
Consumer Goods	3.9	6.3	5.4	5.8	7.3	8.6	8.7	8.2	8.6	9.0	9.8
Special Transactions	4.4	4.5	4.8	4.5	5.1	3.0	3.1	3.9	3.1	3.0	3.3
TOTAL IMPORTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Imports by Major Commodity Group
(FOB Value in million US dollars)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Capital Goods	1,133	769	839	1,164	1,837	2,424	3,122	2,952	4,023	5,610	6,859
Raw Materials & Intermediate Goods	2,783	2,338	2,821	3,628	4,415	5,388	5,808	5,851	6,759	7,855	9,552
Mineral Fuels & Lubricants	1,649	1,452	869	1,249	1,096	1,397	1,842	1,784	2,050	2,016	2,025
Consumer Goods	237	320	273	391	597	898	1,061	990	1,242	1,587	2,087
Special Transactions	268	232	242	305	414	312	373	474	446	529	709
TOTAL IMPORTS	6,070	5,111	5,044	6,737	8,159	10,419	12,206	12,051	14,520	17,597	21,232

Annex 3: Economic Indicators

Major Economic Indicators
PHILIPPINES

Indicators		1989	1990	1991	1992	1993	1994
Gross Domestic Products	% change	6.0	2.7	-0.4	0.6	2.1	4.3
Agriculture	% change	3.0	0.5	1.4	0.4	2.1	2.4
Industry	% change	8.1	2.6	-3.6	-0.5	1.6	6.1
Services	% change	6.0	4.1	1.5	1.7	2.5	3.8
Gross Domestic Investment	% of GDP	21.8	22.5	20.6	21.3	24.5	25.3
Gross Domestic Savings	% of GDP	20.1	17.0	18.8	16.4	15.7	17.4
Gross National Savings	% of GDP	18.9	17.2	20.3	19.0	18.7	21.2
Resource Gap (I-S)	% of GDP	1.8	5.5	1.7	4.9	8.8	7.8
Consumption	% change	5.1	5.6	1.8	2.9	3.3	3.4
Inflation Rate	% change in CPI	10.6	14.2	18.7	8.9	7.6	9.0
Exchange Rate (average)	P/S	21.7	24.3	27.5	26.5	27.1	26.4
Merchandise Exports	\$ billion	7.8	8.2	8.8	9.8	11.4	13.4
	% change	10.6	4.7	8.0	11.4	16.3	17.5
Merchandise Imports	\$ billion	10.4	12.2	12.1	14.5	17.6	21.2
	% change	27.7	17.2	-1.3	19.8	21.4	20.5
Trade Balance	\$ billion	-2.6	-4.0	-3.3	-4.7	-6.2	-7.8
Current Account Balance	\$ billion	-1.5	-2.7	-1.0	-1.0	-3.3	-3.0
	% of GDP	-3.4	-6.1	-2.2	-2.0	-6.1	-4.7
External Debt	\$ billion	28.5	30.5	30.6	32.5	33.0	36.0