Good MornING Asia - 17 October 2018

Malaysian, Indonesian and Thai officials are raising the prospect of using pre-emptive capital controls to stave off financial crises. This is not necessarily unreasonable

In this bundle

The return of capital controls to Asia?
Malaysian, Indonesian and Thai officials are raising the prospect of using pre-emptive capital controls to stave off financial crises. This is not...

ASEAN Morning Bytes
General market tone: Wait and see Risk sentiment steadied on Tuesday with market players digesting positive earnings reports, while tensions between the...

India
India: Mixed economic signals for the oversold rupee
The economic activity data for September released over the last couple of days provides mixed signals on inflation and the external trade gap. An oversold...

Philippines
Philippines: August remittance flows slip
August Overseas Filipino Worker (OFW) remittances slip 0.9% but year to date remittances chug along at 2.5%

Opinion | 17 October 2018

The return of capital controls to Asia?

Malaysian, Indonesian and Thai officials are raising the prospect of using pre-emptive capital controls to stave off financial crises. This is not necessarily unreasonable.

Source: Shutterstock

Capital markets are not the same as markets for goods and services

I would go as far as to say that every ***reputable economist*** would agree that free trade is better at creating wealth than restricted trade and that more trade is better than less trade. NB Emphasis on reputable and economist. Clearly, not everyone agrees.

The same does not hold true for capital markets though. There is, to the best of my knowledge, no similar uncontested and voluminous theoretical support for unfettered movement of capital, nor any suggestion that more capital flows are unambiguously better than less.

That is not to say that it is not so, and in the absence of a strong case against this premise, supra-national bodies like the IMF have simply tended to assume that capital works more or less the same as trade, and so more open markets are better. Usually. Because there is also a long history of countries seeking to liberalize capital markets ending up wrecking their banking systems.

Sometimes twice. Even so, that tends to be viewed as an unfortunate consequence of moving to a better state, an omelette does require the breaking of a few eggs, after all.

Pre-emptive controls?

It is no surprise that the latest suggestion to do more with capital controls comes from Malaysia's central bank governor. After all, under PM Mahathir in the Asian financial crisis, Malaysia aggressively implemented capital controls to protect the Ringgit, and with the massive benefit of hindsight, history seems to have judged that decision reasonably kindly, though not at the time.

What is also interesting about the new suggestion, spearheaded by the Malaysian Central Bank Governor, Nor Shamsiah Mohd Yunus, is that the controls would be implemented "pre-emptively". In other words, they would be imposed before a crisis developed.

This raises all sorts of interesting questions like, when do you opt to implement them? Is the Fed tightening one of the factors that might lead ASEAN central banks to implement such controls? Why not just try to limit hot capital inflows if you are worried about subsequent outflows? And hasn't Malaysia's capital account, which is far from free and open, got enough controls already? None of which I intend to answer here.

All I will say in conclusion is that this initiative is not necessarily and intrinsically harmful to the economic prospects of the countries advocating it. Some version of this proposal might, under some circumstances, have some economic merit. Defining that version and those circumstances is unlikely to be easy, and a one-size-fits-all policy remedy for Malaysia, Indonesia and Thailand is not very likely.

Moreover, while the IMF has softened its dogmatic criticism of capital controls over the decades since the Asia crisis, it's gut instinct is still to support open markets, so I don't expect they will be rushing to support this proposal.

Author

Olivia Grace
Editor
olivia.grace@ing.com

Julian Geib
Junior Economist, Global Trade
julian.geib@ing.de

Zoltán Homolya
Economic research trainee
zoltan.homolya@ing.com

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Senior Economist, Healthcare & Technology
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporate Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Article | 17 October 2018

ASEAN Morning Bytes

General market tone: Wait and see Risk sentiment steadied on Tuesday with market players digesting positive earnings reports, while tensions between the West and Saudi Arabia remain a concern.

International theme: Strong earnings soothe frayed nerves, for now

- Risk-on tone helped markets rebound with earnings reports showing strong gains. Traders look to FOMC minutes for further direction.

EM Space: ASEAN central banks talk capital controls

- **General Asia:** Asian markets may rebound after the Dow's strong showing, though with a cautious treading ahead of the FOMC minutes and still unresolved issues in the Middle East.

- **ASEAN:** A Financial Times report cited heads of central banks of Malaysia and Thailand as advocating management (control) of capital flows to stabilize financial markets during times increased volatility. Both Malaysia and Thailand are well-known for their capital controls. We consider markets in Malaysia at greater risk of potential controls than those in Thailand.
- **Malaysia:** As per the FT report, BNM Governor Nor Shamsiah Mohd Yunus viewed capital controls as a "legitimate policy tool that can be deployed in a pre-emptive manner to deal

with potential risk to financial market stability". Upon his return to power in May this year, PM Mahathir downplayed the need of capital controls unless people start "fiddling" with the currency.

- **Thailand:** Thailand's strong external position and its best-performing currency in Asia eliminate the risk of capital controls for now. Tourist arrivals rose 2.1% YoY in September, a modest slowdown from 3% growth in the previous month led by continued declines in Chinese tourist. Arrivals from China were down 15% YoY. Lower tourism inflows and falling trade surplus will be associated with narrower current account surplus this year.
- **Indonesia:** Indonesian government officials expect growth in 2019 to stabilize at 5.12% and the local currency to average at 15,000 as increased energy subsidy contributing to the weakness of the IDR going forward. Indonesia is said to be one of the ASEAN central banks in favor of Malaysia's push for capital controls to pre-empt financial market stress.
- **Philippines:** Government officials revised growth targets lower for 2018 to 6.5-6.9% (from 7-8%) after the disappointing 1H performance and with inflation sapping growth momentum. Meanwhile, a BSP policymaker signalled a dovish bias, indicating that the central bank may pause from hiking rates if month-on-month inflation shows a decelerating trend.

What to look out for: FOMC minutes and inflation from Europe

- FOMC minutes (18 October)
- Fed Bullard (18 October)
- Fed Kaplan (19 October)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Article | 16 October 2018 India

India: Mixed economic signals for the oversold rupee

The economic activity data for September released over the last couple of days provides mixed signals on inflation and the external trade gap. An oversold Indian rupee (INR) position since August provides the currency with an edge to outperform in a softer US dollar environment, though there is no lasting relief in sight due to persistently high oil prices

Source: Shutterstock

Mixed inflation data

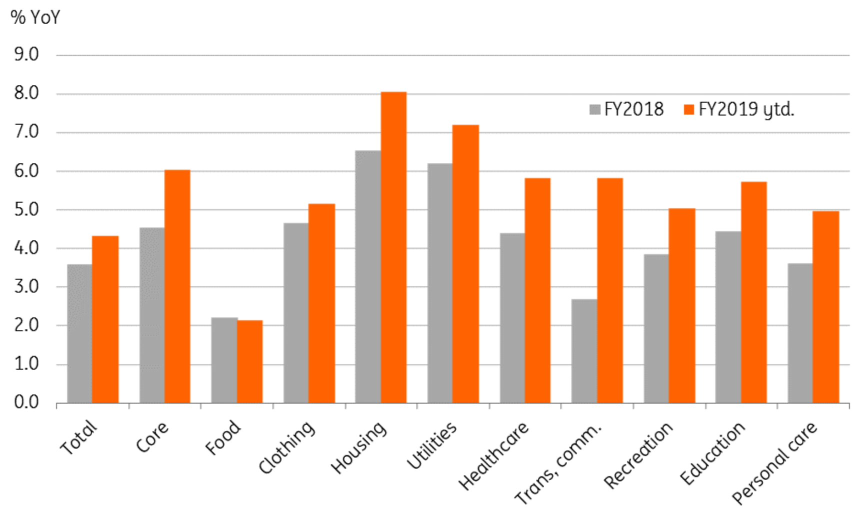
September consumer price inflation of 3.8% year-on-year was yet another downside surprise, though it's still an uptick from the 3.7% rate in August. Food prices continued to surprise. But transport has started to accelerate while most other components remained elevated, led by an 8.5% increase in utility prices.

It seems the high base-year effect is outweighing the underlying upward inflationary pressure from higher global crude prices and the weak currency. The base effect will remain in play for the rest of FY2019 (ending in March 2019), and, with the central bank's (RBI) policy driven solely by inflation, this could stave off any pressure to hike rates. However, while food has kept the headline CPI muted, inflation in all other CPI components has been on an upward trend this year (see figure).

And wholesale prices have painted a different picture to consumer prices. A spike in WPI inflation in September to 5.1% year-on-year from 4.5% in the previous month was steeper than expected. As in the CPI, food inflation continued to be low but utility inflation was in the high double-digits due to rising oil prices, which drove the headline WPI rate higher.

Higher factory gate prices will eventually be passed on to consumers.

Non-food inflation has been up



Source: Bloomberg, CEIC, ING

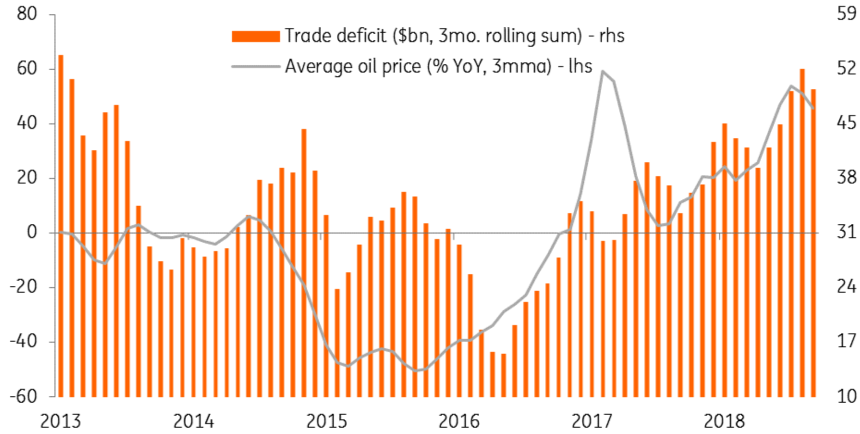
Narrower trade gap

The external trade deficit surprisingly narrowed to $14.0 billion in September from $17.4 billion in August. This was despite a sharp slowdown in export growth to -2.1% YoY, the first negative print since March, from 19.2% growth in August. But import growth also slowed to 10.5% from 25.4% on a broad-based slowdown in both oil and non-oil imports.

Oil imports have been falling on a month-on-month basis since July and the year-on-year growth rate has nearly halved to 34% over the same period despite firmer global crude price inflation of over 40% through September. However, after the recent spike in oil prices above $80 per barrel and with elevated geopolitical risk in gulf countries (Iran, Saudi Arabia) we anticipate no lasting relief on the trade deficit front.

The cumulative deficit of $94 billion in the first half of FY2018-19 was still $20.7 billion wider on the year, supporting our view of a widening of the current account deficit to 2.6% of GDP in the current financial year from 1.9% in the last.

Oil drives trade deficit



Source: Bloomberg, CEIC, ING

No lasting relief for INR

The Indian rupee's oversold position over the last two months provides it with an edge to outperform in a softer US dollar environment. Indeed, the INR stood alongside Asia's best-performing Thai baht (THB) in last week's global equity sell-off. However, the four-day downward USD/INR streak last week was snapped on Monday, a sign that the markets aren't taking much comfort from the better activity data. And we aren't yet ruling out an intensified spillover from the recent high oil price on to the INR, leaving our year-end USD/INR forecast at 76.5 (spot 73.8).

Author

Olivia Grace
Editor
olivia.grace@ing.com

Julian Geib
Junior Economist, Global Trade
julian.geib@ing.de

Zoltán Homolya
Economic research trainee
zoltan.homolya@ing.com

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Senior Economist, Healthcare & Technology
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet
Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporate Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Philippines: August remittance flows slip

August Overseas Filipino Worker (OFW) remittances slip 0.9% but year to date remittances chug along at 2.5%

Source: Shutterstock

2.48%

Year-to-date OFW remittance growth

slow and steady structural flow

Remittances continue to provide structural FX flows despite volatile growth

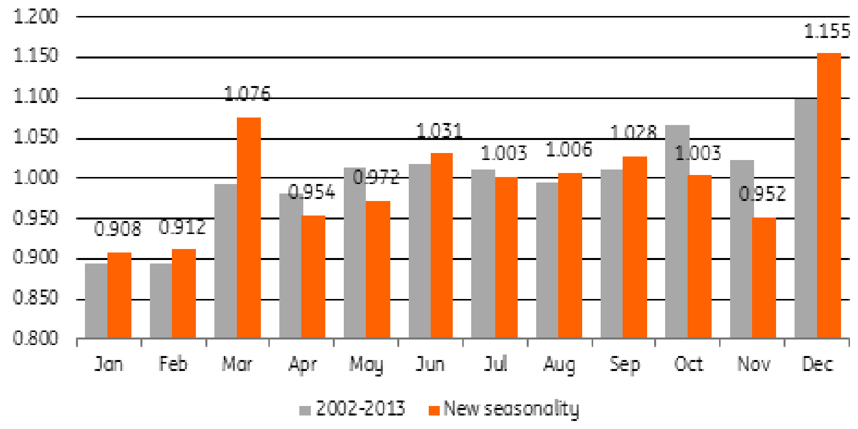
August Overseas Filipino remittances slipped by 0.9% year-on-year with a total of $2.476 billion sent home in August. All major sources of remittances saw growth save for the Middle East which experienced an inexplicable 28.8% drop in flows. This brings the year-to-date haul to $19.056 billion, up 2.5% from the same period in 2017 as OFW remittances continue to be a stable source of FX to the Philippines.

Changing season(ality)

The contraction in annual terms shows that the seasonality in remittances continues to shift, mainly due to school year changes as well as to possible late payments to workers. A structural shift occurred in 2014 to yield the new seasonality, with remittances apparently saved for the December holidays (more pronounced now) and in March. Nuances in exchange rates given the divergence in monetary policy may have also caused the discrepancy given yearly growth rates. Going forward, annual and year-to-date growth rates are still seen to average around 3%.

OF Remittance Seasonality 2002-2013 vs New

Seasonality of OF remittance flows



Source: BSP and ING estimates

2002-2013 vs new seasonality of overseas Filipino workers

Slow and steady vs fast and furious

Many sectors have lamented the fact that the trade deficit has zoomed past the traditional structural sources of FX, namely OF remittances and BPO call centre receipts. Given the robust growth in capital goods and raw materials imports, the trade deficit has ballooned to eclipse both remittances and BPO receipts, yielding current account deficits. However, once the investment cycle turns, we could expect remittances and BPO call centre receipts to chug along steadily while capital imports and raw materials peter out to once again yield current account surpluses after the Philippines has built up its infrastructure and productive capability.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Disclaimer