Philippines: Likely missing the remittance cushion in 2020

The steady stream of remittances from Filipino migrant workers set to contract in 2020 due to Covid-19.

Source: Shutterstock

8.5% of GDP

Overseas Filipino remittance volume in relation to PHL GDP

Remittances crucial to Philippine consumption

Overseas Filipino workers (OFW) have routinely sent home an average of $2.3bn a month over the past 5 years with 2019 remittance inflows totaling $30.1 bn or roughly 8.5% of GDP. Remittances have augmented domestic incomes to support consumption and more recently capital formation with the Filipino middle class ushering in an investment boom. Annual growth of OFW remittances over the past few years has averaged 4.1% with the steady stream of foreign currency also helping support the Philippine external position and bolster the PHP.

Covid-19 may knock out consistent remittance flows

OFW remittance flows have been consistent to say the least, even in the face of previous global economic slowdowns. The natural hedge of Filipinos deployed across the globe meant that weaker remittances from one region of the world could be compensated for by funds sent from less affected areas.

Covid-19 however challenges this view with the virus spreading to almost every corner of the globe. Meanwhile with lockdowns implemented in several countries, Filipinos deployed overseas may not have enough income to send back home to their families in the first place. Lastly, we note a worrisome trend showing that more than 16,000 Filipino workers (and counting) returning from host countries and sea faring vessels as Covid-19 destroyed jobs across the globe. Remittances from abroad will likely experience a 2.5% contraction due to Covid-19 which could affect both growth prospects and the external position of the Philippines.

Philippines to soon feel the loss of the OFW remittance cushion

Impaired remittance flows in 2020 has forced us to drop our growth estimates while we believe that PHP will come under pressure once remittance support fades once lockdown measures are relaxed. We now expect a worst case -2.2% GDP for 2020 with growth momentum severely impaired by the lockdown (which was extended to 30 April) and with OFW remittances expected to contract.

Furthermore, we expect depreciation pressure to hit PHP once the lockdown is lifted as corporate import demand resumes with the government announcing it pursue its infrastructure plans in the second half of the year. Remittance data for February is delayed but we expect 2020 data to record several months of contraction as more and more Filipino workers are sent home due to Covid-19. The loss of remittance support coupled with a resumption of import demand induced by government's infrastructure plans will push PHP back up to 52.67 by year end although government's recent announcement that is has secure up to $6.5bn worth of foreign borrowings could temper the depreciation trend .