

Philippines: Remittance growth jumps but the coronavirus could be a game changer

Remittances sent home by Overseas Filipino (OF) workers grew 4.1% in 2019, helping to prop up consumption and stabilise external reserves



Source: Shutterstock

Remittance growth hit 4.1%

December remittance flows grew 1.9%, bringing full year growth to 4.1% with roughly \$30.1 billion worth of flows reaching the Philippines. Remittances provide a steady stream of foreign exchange to help offset the widening trade gap and limit the current account deficit. Together with business process outsourcing receipts, OF remittance flows augment domestic wages, translating into potent purchasing power to fund household consumption, and even capital formation.

Is the coronavirus a game changer?

In the past, OF remittance flows managed to defy sceptics, posting strong growth even in times of global recession or geopolitical events which caused substantial upheaval of Filipinos in their host countries. OFs are deployed across the globe in several jurisdictions and in several diversified services professions, making them more able to sidestep economic downturns. Case in point, remittances from the Middle East, a mainstay source of OF remittances, have remained in contraction for the last year and yet overall remittance flows have remained largely

positive. However, given the reach and nature of the coronavirus, this stable source of FX flows and peso purchasing power now faces a real threat. The virus has spread across the globe and will likely affect both deployment and actual work of Filipinos based abroad. The outbreak also forces people to go into quarantine or affects consumption patterns which could have an adverse impact on the services industry, where most OFs are employed. The recent plight of cruise ships around the world will likely put pressure on cruise liners and the hospitality industry as a whole, making it difficult for Filipinos to send home remittances should their salaries be curtailed or they lose their jobs altogether.

OFs to find a way again?

Filipinos found a way to send home remittances throughout the global financial crisis and every other economic downturn experienced around the globe. While the coronavirus presents a new challenging landscape for these flows, we expect OF remittances to post modest growth from the average 3-4% growth clip per year, given the altruistic nature of the flows. A less vigorous pace of OF remittance flows at a time of projected widening in the trade deficit could translate to renewed pressure on the peso in the near term.