Philippines: September remittance growth tops expectations

Overseas Filipino remittance flows post surprise 6.3% gain despite contracting flows from Hong Kong and the Middle East

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OF remittance flows gain despite global headwinds

Despite global headwinds and the threat of a worldwide slowdown in economic activity, Overseas Filipino (OF) remittance flows posted surprise growth of 6.3% for the month of September with $2.65 billion worth of funds sent home. Remittance flows have provided a steady dose of peso purchasing power once converted by recipients and is expected to help drive fourth quarter growth closer to the 6.7% target of the national government. For the year, OF remittances have hit $22.19 billion which translates to 4.2% growth over the same period in 2018.

UAE and Hong Kong remittances in contraction

September growth was recorded despite hefty contractions seen from traditional sources of OF remittances: Hong Kong and United Arab Emirates. OF remittances sent home from Hong Kong dipped by 7.5% as civil unrest stymies business activities while remittances from UAE plunged by 36% with oil prices subdued. Taken together, remittance flows from these two key jurisdictions total 8.2% of total OF flows and could weigh on growth going forward.

Remittances to help bolster domestic consumption in 4Q

OF remittances have been able to provide the Philippines a stable source of foreign currency to shore up dollar liquidity and in turn boost peso purchasing power to help drive the engines of domestic consumption. With a 4.2% year-to-date increase in these flows, the current account deficit will likely narrow as the trade balance has shrunk due to import compression. This development has helped to provide some support to the peso, which continues to be bolstered by financial market flows given the relatively high real yields of the Philippines. Going forward, we expect OF remittance flows to be sustained for the balance of 2019 and into 2020, which will in turn boost growth momentum and cushion the peso from possible pressure should import demand become resurgent in 2020.