



## Philequity Corner (July 19, 2021)

### Remittances to help stabilize the peso

In our article last week, we discussed the weakness of the Philippine peso and its recent breach of 50. This move was driven by the strong US dollar, higher oil prices, portfolio outflows, and increasing imports caused by the economic recovery. On the other hand, *Bangko Sentral ng Pilipinas (BSP)* Governor Ben Diokno noted that the depreciation of the peso may be counter-balanced by the country's high gross international reserves (GIR), remittance flows from Overseas Filipinos, and BPO revenues.

### Remittances post strong rebound in April and May

Based on the official government estimate, there are more than 10.2m Filipinos living abroad. According to the latest report of the Commission on Filipinos Overseas (CFO), there were 2.5m registered Overseas Filipinos working in various countries around the world. Considering its importance to the Philippine economy, there were concerns that remittances may start to fall due to the pandemic. It is thus reassuring to note that remittances inflows were not as affected and still continued to grow despite the lockdowns and loss of jobs in many affected countries.

In the table below, we show that remittances in April and May grew 13.1% and 13.3%, respectively. The growth rate for year-to-date (ytd) cumulative remittances has steadily improved each month from -1.7% in January to 6.6% in May. By comparing these growth rates to the economy's 4.2% contraction in 1Q21, we can see that remittances are indeed recovering faster than many sectors in the country.

#### Monthly Breakdown of Jan to May 2021 Remittances

	Monthly	YoY Chg	Ytd Cumulative	YoY Chg
Jan	2,895	-1.7%	2,895	-1.7%
Feb	2,759	5.2%	5,653	1.6%
March	2,801	5.6%	8,454	2.9%
Apr	2,574	13.1%	11,028	5.1%
May	2,652	13.3%	13,680	6.6%

Amounts in million US dollars

Source: BSP

In the tables below, we show the breakdown of remittances by region and by country. The US accounted for 40.1% of the total, but this figure also includes remittances coming from other countries that are coursed through US banks.

#### Breakdown of Jan to May 2021 Remittances by Region

Country	Remittances	% of Total
Americas	5,533	45.1%
Asia	2,809	22.9%
Middle East	2,083	17.0%
Europe	1,492	12.1%
Others	362	3.0%
Total	12,280	

Amounts in million US dollars

Source: BSP

### Breakdown of Jan to May 2021 Remittances by Country

Country	Remittances	% of Total
US	4,922	40.1%
Singapore	873	7.1%
Saudi Arabia	698	5.7%
Japan	605	4.9%
UK	592	4.8%
UAE	514	4.2%
Canada	433	3.5%
Korea	356	2.9%
Qatar	317	2.6%
Taiwan	310	2.5%
Hong Kong	298	2.4%
Malaysia	265	2.2%
Germany	242	2.0%
Kuwait	204	1.7%
Oman	162	1.3%

Amounts in million US dollars

Source: BSP

### BPO sector – another bright spot

Aside from remittances, the BPO industry is one of the few sectors that are doing well despite the pandemic. Revenues from the BPO sector are tallied under the subsector “Information and Communication” which grew by 5% in 2020 and 6.3% in 1Q21 even as most subsectors are still contracting. Like remittances, the BPO sector has been a key driver of our economy even before the pandemic erupted. These two sectors have provided the country with a stable flow of dollars which strengthened our reserve position while also contributing to the rise of a solid middle class.

### Fundamentals to dictate direction of peso

The peso recently breached 50 and is down 4.9% ytd primarily due to the strong US dollar. Despite this, the continued growth of remittances and BPO revenues should contribute in stabilizing the peso. This can temper excessive peso weakness or volatility amid the surging US dollar, higher oil prices, as well as wider current account and budget deficits. In this light, it is integral for the government to continue supporting Overseas Filipinos and the BPO sector by coming up with policies that encourage their growth. In the meantime, the government must maintain its focus on keeping COVID-19 cases manageable even as the country moves forward with its vaccination program. These efforts have become more critical and urgent in light of the detection of the first locally transmitted cases of the COVID-19 delta variant.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity’s managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email [ask@philequity.net](mailto:ask@philequity.net).*