

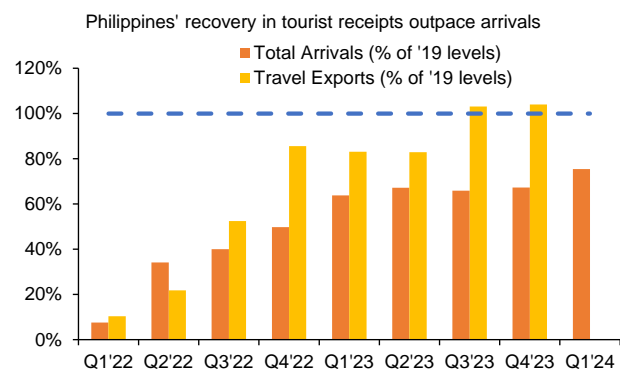
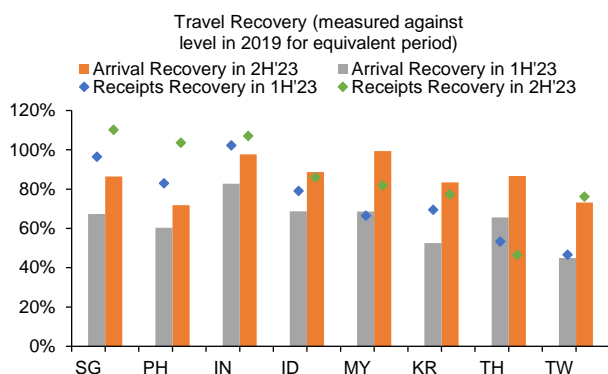
Philippines Tourism: What the Numbers Say

In a nutshell:

- The pace of recovery for Philippines' tourism receipts is one of the fastest among regional peers despite seemingly dismal tourist arrival numbers. Underlying drivers likely stemmed from healthy recovery in arrivals of American and South Korean tourists as well as their on-going drive to capture the Middle Eastern markets.
- While the return of Overseas Filipino Workers has given visitor arrivals a huge boost, their traditionally lower expenditure implies much small gains in terms of the growth impulse.
- Given that Chinese tourists accounted for a good ~17% of tourist arrivals in the 2016-2019 period, any easing of the presently tedious visa requirements could be a low-hanging fruit for further outperformance in coming quarters, given lagging Chinese tourists arrivals to Philippines relative to regional peers.
- Nonetheless, the expected services income growth is likely insufficient to support current account balance back to surplus in view of still large goods trade deficit.
- Coupled with slow-to-consolidate fiscal deficits relative to regional peers, PHP rallies likely to be restrained.

Arrivals...

At the outset, tourism recovery in Philippines appears to be lagging behind peers. Visitor members in 2H 2023 have only recovered to ~72% of 2019 levels for the same period, compared to the regional recovery average of ~86%. However, a deeper look into tourism data suggests that tourism recovery has been rather encouraging as tourism revenues in 2H 2023 have already exceeded 2H 2019 levels, making Philippines one of the outperformers alongside Singapore and India.

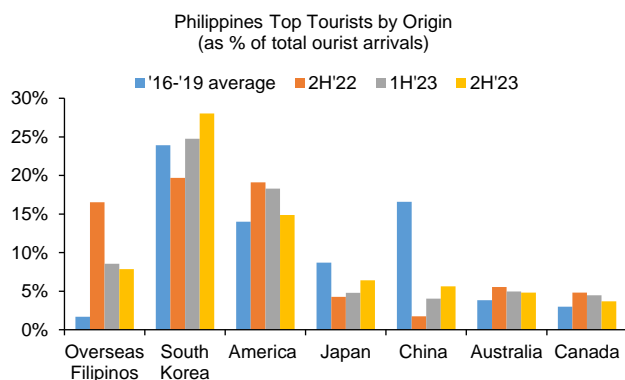


...vs Revenue

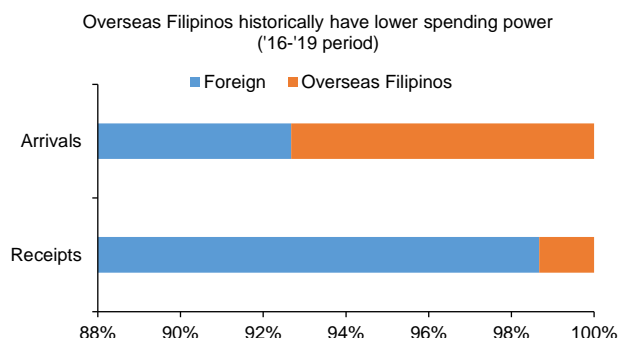
We postulate the outperformance in tourism revenue recovery to be attributed in part to Philippines' push to attract Middle East tourists gaining traction and healthy recovery from American and South Korean tourists. Tourist arrivals from several oil-rich nations surpassed pre-Covid levels, and notwithstanding that these tourists constitute a small proportion of tourists, these tourists are likely to be higher spending ones.

We also observe a significant increase in Overseas Filipinos arrivals. However, the impact of this segment

on tourism revenue is likely to provide marginal contribution rather than being a key driver. Point being, Overseas Filipinos account for a disproportionately smaller proportion of revenues when compared to arrival numbers. In the period 2016-2019, average daily expenditure of overseas Filipinos was US\$40, only about one-third the daily expenditure of foreign tourists (US\$117). And even if overseas Filipinos may stay for a longer duration compared to foreign tourists, their overall expenditures still looks to be disproportionately lower relative to foreign tourist expenditures. In the 2016-2019 period, overseas Filipinos accounted for 7.3% of all tourist arrivals, but only accounted for 1.3% of total tourist receipts.



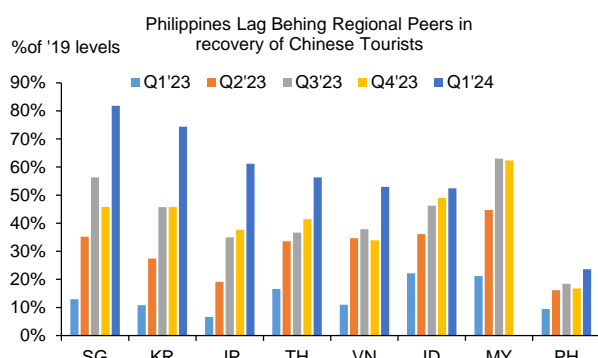
Source: CEIC; Mizuho Bank



Note: Chart above not drawn to scale. See horizontal axis.

Source: CEIC; Mizuho Bank

Looking ahead, tourism tailwinds is likely to remain supportive though further progress may require more support from government policies. Lagging tourist recovery (in arrivals terms) suggest scope for further acceleration given that many tourists have yet to come back. In particular, Philippines lags behind regional peers in the recovery of Chinese tourists. To encourage stronger inflows, a relaxation of visa requirements could facilitate easier tourism access for Chinese tourist. We have witnessed a faster tourism recovery for destinations that have reinstated friendly visa policies, with the likes of Singapore, Malaysia and Thailand. While recent efforts in November 2023 to introduce e-visa applications in China was encouraging, the suspension of e-visa applications after a 3-month trial had meant that Chinese visitors need to apply for visas physically again.



Source: CEIC; Mizuho Bank

Visa Requirements for Chinese Tourists

Destination	Visa Requirements
Thailand	Visa-Free (eff 25 Sep 2023)
Malaysia	Visa-Free (eff 1 Dec 2023)
Singapore	Visa-Free (eff 9 Feb 2024)
South Korea	Visa-free to Jeju or if transitting to certain destinations only
Vietnam	eVisa; Visa-free for Phu Quoc only
Philippines	Apply Visa at consulate following suspension of eVisa on 30 Nov 2023
Japan	eVisa

Source: Government agencies; various news outlets; Mizuho Bank

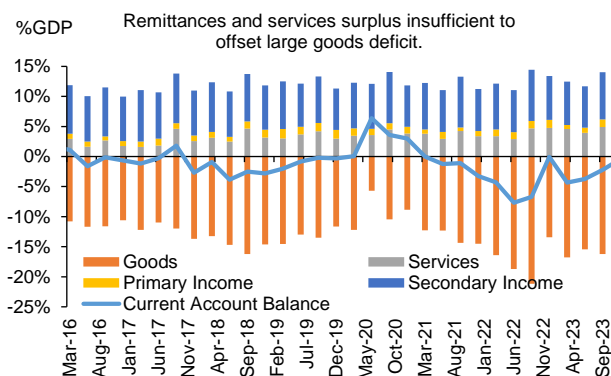
Subdued PHP

Nonetheless, despite the resilience of the services sector on the back of tourism and stable remittances growth, the lift is likely insufficient to offset the country's large goods deficit in view of its large import expenditure even as Philippines is poised to benefit from the electronics cycle turnaround. We expect Philippines current account position to remain in deficit territory this year, albeit narrower compared to 2023 (2.6% of GDP).

Historical Budget Deficits (as % of GDP) and Fiscal Trajectory

	'16-'19 avg	2022	2023	2024E	Fiscal Trajectory
ID	2.3%	2.4%	1.7%	2.8%	Expected to be maintained within 3% of GDP ceiling
MY	3.3%	5.6%	5.0%	4.3%	Target at 3.5% of GDP for 2024-2026 under Medium Term Fiscal Framework
PH	2.7%	7.3%	6.2%	5.6%	Target to reach 3.7% of GDP by 2028.
TH	2.8%	3.5%	3.3%	3.6%	2025 budget deficit widen to 4.4% on digital wallet plans.
VN	2.9%	4.4%	4.1%	3.6%	2021-2025 National Financial Plan targets fiscal deficit at 3.7% of GDP.

Source: CEIC; National Authorities; Mizuho Bank



Source: CEIC; Mizuho Bank

The current account deficit position coupled with a fiscal deficit that is slow to consolidate by regional standards point to rather unsupportive macro fundamentals would likely mean less durable PHP rallies, especially in the face of a higher-for-longer Fed. We thus expect still-soft PHP in the coming quarters even if there is modest recovery to the external sector.

All in, Philippines' tourism recovery has been rather encouraging and could reap more benefits should visa requirements be relaxed. Nonetheless, persistent current account and fiscal deficits would continue to weigh on the PHP against a macro backdrop that is biased towards a stronger USD as the Fed holds for longer and geopolitical undercurrents linger.

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