Mizuho Flash: Philippines

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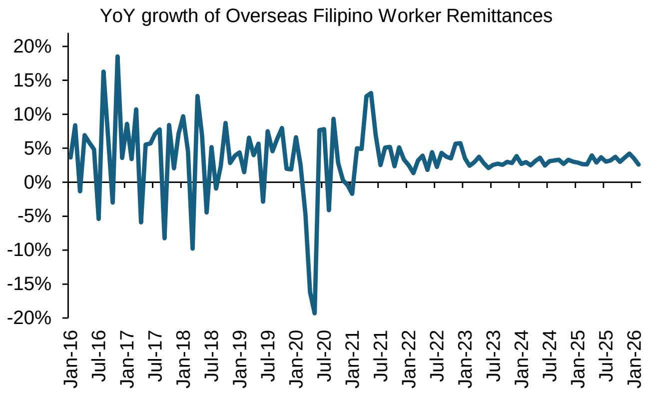
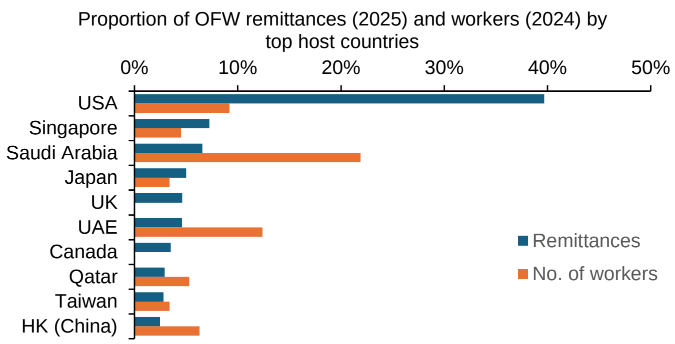
Ng Jing Wen | Macro Strategist

Remittances: Resilient Pillar with Growing Fault Lines

In a Nutshell: Cash remittances from Overseas Filipino Workers (OFWs) remain one of the Philippines' most reliable FX inflows but are **facing their most significant headwinds post-COVID due to the US-Iran conflict and US' implementation of a 1% tax on cash remittances**, testing the resilience of a flow that has underpinned PHP stability. On the conflict front, while repatriation of OFWs from the Middle East have been small (under 1%) and major employers like Saudi Arabia and UAE have continued their energy exports, employment in construction and tourism-related sectors may face stress and dent remittance flows. Furthermore, uncertainties over expatriate movement and consequent impact on the domestic services sector could also lead to near-term drag on remittances and weigh on future growth due to delays of deployment of OFWs. Meanwhile, the US tax on remittances is small (at 1%) but could dampen remittances or shift flows to informal channels, further weighing on the US share of remittances which has already been on a declining trend. Overall, while OFW remittances will continue to support the PHP, **these headwinds signal softening support at the margins amid increasing external pressures from elevated energy import cost and broad USD strength.**



Sources: CEIC, Mizuho



Sources: CEIC, Mizuho
* The proportion of OFWs indicated under USA included OFWs in North and South America while data for UK is grouped under Europe which employs 10.6% of total OFWs

- **Cash remittances**, recorded as secondary income in the current account, have served as a buffer against the Philippines' trade deficit, offsetting about 80% of the goods and services trade gap on average over the past decade.
- Remittances grew at a 2.9% CAGR over the same period, with the share of GDP broadly stable at 7-8%.
- Additionally, remittances have proven to be resilient to global shocks. Flows remained firm during the 2008-2009 Global Financial Crisis and contracted by only 0.8% in 2020 during the COVID-19 pandemic.
- A breakdown of remittance sources highlights a high degree of regional concentration. In 2025, North America accounted for approximately 41.4% of total inflows while Asia contributed 40.9%, indicating that remittance flows are largely concentrated in these two regions.

- The **Middle East accounts for around 18% of total remittances**, representing a meaningful concentration risk given ongoing US-Iran conflict.
- The authorities in the Philippines revealed that about 7,400 Filipinos have returned from the region so far, representing less than 1% of the estimated 1m OFW population in the Middle East. Self-funded returns are likely to be minimal given the logistical challenges of arranging land transport crossings to designated exit points.
- That said, risks are differentiated across Middle Eastern countries with varying degrees of economic resilience and security exposure.
- Saudi Arabia and UAE retain export bypasses via the Red Sea and the Gulf of Oman respectively (representing 11.2% of remittances in 2025 and 27.2% of OFWs in 2024), helping to mitigate economic disruption. Meanwhile LNG exports from Qatar have declined sharply, as it relies on Hormuz as a key export route.
- Security risks are uneven, with some countries such as the UAE having experienced relatively higher intensity of attacks from Iran.
- The wider expatriate outflow from the region also risks weakening demand for OFWs in domestic services and hospitality, possibly introducing a drag on remittance flows. This, along with pressures in more cyclical sectors such as construction and hospitality, may slow new hiring and deployment, posing downside risks to remittance flows if sustained.
- Overall, near-term income compression risk is likely to be modest, though a prolonged conflict could dampen Middle East hiring pipelines and weigh on future growth of remittances as deployment of OFWs into the Middle East face delays.
- Aside from the geo-political conflict, policy changes in the US presents a more immediate downside risk following **the implementation of a 1% excise tax on cash-based transfers** from January 2026, under the “One Big Beautiful Bill”.
- With US-origin flows coming in at about US$14b annually, the Philippines DOF estimates an annual drag of around US$20-150m, implying a reduction of under 0.1-1.1% in US-origin flows and approximately 0.06-0.4% of total remittances.
- Even as the direct impact remains contained, two second-order effects bear watching.
- For one, the tax will be a headwind to the share of remittances from USA that has been declining, even as the proportion of OFWs working in USA has increased slightly post-COVID.
- Second, higher transfer costs may nudge a small portion of flows towards informal remittance channels, marginally dampening recorded inflows and measured FX support.
- For PHP, remittances remain a net positive and is a persistent supply of USD that tempers depreciation pressure even as the trade deficit widens driven by higher energy import costs.
- That said, with the PHP already trading near record lows, this **buffer appears less effective at the margin**, as the scale of external pressures, particularly from elevated energy import cost and global USD strength dilute the relative impact of remittance inflows despite continued headline growth.