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Remittances and economic shocks

With over 900,000 Filipinos heading out of the country each year to find employment abroad, it comes not as a surprise that the Philippines is now the world's third largest recipient of remittances, next only to India and Mexico.

Coupling this trend, more and more families are benefiting from moneys sent home to them by overseas Filipino workers (OFWs). In fact, about 10% of household income in the country are now derived from remittances.

How exactly do those left behind benefit?

Studies are mixed as to the relevance of remittances on family income and spending.

But for Dean Yang of the University of Michigan's Gerald R. Ford School of Public Policy, one thing is clear -- the benefits are more pronounced in times of economic shocks.

In a paper, Mr. Yang observed through regression analysis that for every 10% increase in the country's exchange rate, remittances improve by 6%. This Mr. Yang found by looking at exchange rate fluctuations during the Asian financial crisis, specifically from July 1997 to October 1998.

During that time, the dollar and the currencies of Middle Eastern countries appreciated by 50% against the peso. Likewise, currencies of Taiwan, Singapore, and Japan rose by 26%, 29% and 32%, respectively, against the peso.

With the local currency's depreciation, OFW families received a considerable amount more than what they usually get from month to month prior to the crisis.

"A striking feature of the Philippine economy over the last two decades has been the relative stability of consumption as compared to income," said Robert Burgess and Vikram Haksar in a paper entitled "Migration and Foreign Remittances in the Philippines."

Many consider OFW remittances as having a hand in this phenomenon, that is, remittances jack up families' buying power and help them weather whatever economic downturn there may be.

However, the researchers were unable to conclusively say that this is the case. "We were unable to empirically confirm, however, that remittances smooth income and consumption when looking at high frequency fluctuations in the Philippines," they said. "One possible explanation for this finding is that the remittances are not so closely driven by cyclical fluctuations in the home country, but more by exogenous forces," they added.

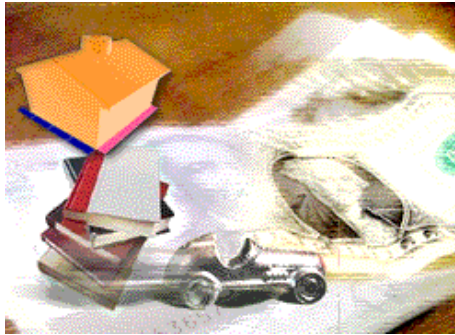
For the researchers, outside forces may include cyclical conditions in host countries of OFWs, competition from migrant workers from other countries, as well as changes in the skill composition of OFWs.

In his paper, however, Mr. Yang noted that what is more pertinent than the appreciation of remittances is the change in the spending pattern of OFW families.

"These exogenous increases in migrant resources [were] used primarily for investment in origin households, rather than for current consumption," he said.

In particular, households spend more for education and entrepreneurial endeavors rather than for the basics -- food and clothing. Of late, spending for shelter among OFW families has also gained significant ground.

"Households experiencing more favorable exchange rate shocks raise their non-consumption disbursements in several areas likely to be investment-related, keep children in school longer, take children out of the labor force, raise their hours worked in self-employment, and are more likely to start relatively capital-intensive entrepreneurial enterprises," Mr. Yang noted.



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All told, Mr. Yang said the findings shed light on how policies affecting migrant workers could impact families in poor countries. He also suggests that policy makers take these into consideration when formulating policies.

"...Rich-country policies expanding employment opportunities for workers from overseas can stimulate human capital investment and entrepreneurship in poor-country households," he said.

The reverse could also be expected when migration policies are tightened.

Lastly, given remittances' potentially huge role in poverty alleviation, countries should also facilitate migrant savings and stimulate remittances as what the Mexican government did when it issued matriculas consulares or identification cards that Mexican migrants could present to banks when opening an account.

Studies show that about 30% of OFW remittances remain undocumented by the Bangko Sentral ng Pilipinas as these are sent through informal channels such as those hand-carried by vacationing OFWs or by private couriers.

OFW remittances as of the first five months of the year reached \$4.9 billion, 14.8% higher from a year ago.

Sources:

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