PHILIPPINE OVERSEAS WORKERS AND MIGRANTS’ REMITTANCES: THE DUTCH DISEASE QUESTION AND THE CYCLICALITY ISSUE

by Ma. Cyd N. Tuaño-Amador, Racquel A. Claveria, Ferdinand S. Co and Vic K. Delloro

I. Introduction

Remittances of Filipino migrants and overseas workers play a significant role in the Philippine economy. Since the early part of this decade, remittances have become the second largest source of foreign exchange for the Philippines, next to merchandise export receipts. Remittances are also a relatively stable source of foreign exchange compared to direct investment and other private capital flows. Globally, the Philippines ranked 5th in terms of the absolute amount of remittances in 2005 (Figure 1). In 2006, the Philippines climbed to the 4th place among the top remittance-recipient countries. In terms of the share of remittances to GDP, the Philippines occupied the 23rd place for both years.

Figure 1
Top remittance - recipient country
2005 - 2006

Source of data: World Bank Global Economic Prospects 2006: Economic Implications of Remittances and Migration and Remittances Factbook, except for the Philippines where data was sourced from the balance of payments statistics, Selected Philippine Economic Indicators, Bangko Sentral ng Pilipinas

1 The views expressed in this paper are those of the authors and do not reflect the official policy or position of the Bangko Sentral ng Pilipinas.

2 In per capita terms, the Philippines ranked 9th in 2005 and 10th in 2006 in the list of top remittance-receiving countries.
As with many development issues, the macroeconomic implications of remittances is the subject of lively discussion. Some observers consider remittances as conferring clear welfare benefits to the economy, and as a cornerstone of the development framework for those countries with a large segment of the population residing and working overseas and sending money home. Ratha (2003) finds that remittances offset output losses (including loss of tax revenue) that a developing country experiences from the out-migration of its workers. According to Faini (2001), remittances help overcome capital market imperfections and enable recipients to accumulate productive assets, including investments in physical, human and financial capital, therefore promoting output growth. Remittances also have a direct welfare effect, since they go directly to households unlike foreign aid, a part of which can leak to bureaucracies in the form of rent-seeking or administrative costs. Kapur (2003) says that “Immigrants, rather than governments, then become the biggest provider of ‘foreign aid’.

Remittances augment hard currency resources. They relax foreign exchange constraints and reduce the need for foreign borrowing. In addition, since remittances are unrequited transfers, they do not create any future obligation or liability such as debt servicing or profit transfers.

Other observers are more circumspect in extolling the macroeconomic impact of remittances. Some are doubtful that remittances are a sustainable solution to the developmental challenges facing recipient countries. They cite the adverse effects of remittances on reservation wages and labor supply (Puri and Ritzema 1999) and express concern that remittances can promote a culture of dependence and policy complacency. Tullao et al. (2006) find that, in the Philippines, international migration and the accompanying remittance flows have raised the reservation wage of individuals coming from households receiving remittance income. They note that, as a result, the supply of labor may have declined beyond that which can be explained by the outflow of manpower. They concluded that, instead of addressing the problem of unemployment, temporary overseas employment has the potential of depressing activity and contracting employment in domestic industries similar to the effects of the Dutch disease. A similar argument is put forward by Burgess and Haksar (2005) when they note that remittance income could reduce the recipient’s need to work. Cross-country research has also found evidence of the Dutch disease in some remittance-receiving countries.

This paper focuses on two dimensions of the macroeconomic implications of remittances in the Philippines: the Dutch disease phenomenon and the cyclicality of remittances. There are other interesting facets to remittances of course, including their impact on income distribution and on the development of the financial system, particularly in the rural areas, and these could be the subject of further study. Kapur (2003) also observes that the effects of remittances depend on the characteristics of migrants and their households, their motivations, and the overall economic environment. This view is shared by Puri and Ritzema (1999) who find that the migrants’ remittance utilization patterns are central to any meaningful discussion on the development implications of migration. However, no attempt is made in this paper to consider these microeconomic issues. These are interesting subjects for further research in the Philippine context.

The paper is organized as follows: the first part presents some highlights of the trends in remittances. The second part looks at the Dutch disease phenomenon and ascertains its relevance to the Philippines. It ends with some policy implications. The third part examines the cyclicality of remittances in the Philippines and offers some policy implications as well. The fourth part concludes. It is hoped that a careful analysis of these two dimensions of the macroeconomic implications of remittances will lead to the formulation and adoption of policies that would optimize the gains from remittances while minimizing unintended consequences.
Some Stylized Facts on Remittances

Remittances are financial resource flows arising from the cross-border movement of nationals of a country. In this article, remittances cover transfers sent by both Filipino migrants and overseas workers. In the Philippines, remittances data are sourced from the balance of payments (BOP) statistics under the following classifications:

(1) compensation of employees, including wages, salaries and other benefits received by workers who have stayed abroad for less than one year (lodged in the income account);
(2) workers’ remittances from workers who have lived abroad for one year or more (lodged in the current transfers account);
(3) gifts and donations received by individuals (lodged in the current transfers account);
(4) migrants’ transfers, referring to capital transfers of financial assets made by migrants as they move from one country to another and stay for more than one year (lodged in the capital account).

As shown in Figure 1, the magnitude of remittances to the Philippines has been significant, whether measured in absolute terms or as a percentage of GDP and other economic indicators. Figure 2 and Table 1 show these measures for the Philippines across time. In 1996, remittances accounted for only 5.2 percent of GDP. This has risen to close to 11 percent in 2006 as well as in the first half of 2007.3

![Figure 2](image)

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Level (US$B)</th>
<th>Growth Rate (%)</th>
<th>GDP</th>
<th>Remittances as % of:</th>
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<td></td>
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<td>XGS</td>
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<td>5.2</td>
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<tr>
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<tr>
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</tr>
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<tr>
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<td>15.3</td>
<td>10.9</td>
<td>10.7 (Jan-Jun)</td>
</tr>
</tbody>
</table>

3 Cash remittances coursed through the banks

Source of data: Bangko Sentral ng Pilipinas, authors’ calculations

As by way of comparison, it is estimated that for Asia as a whole, remittances on average accounted for 2 percent of GDP (Source: International Fund for Agricultural Development, United Nations, 2006).

The significant rise in OF remittances in 1998 is due in part to the change in the data reporting system. In January 1998, transactions reported under Form 1 of the then Foreign Exchange Department (FED) of the BSP as Peso Conversion of Foreign Currency Deposits (FCDs) of the BOP Services account were reclassified into specific transaction accounts. The bulk went into Personal Income (i.e., what is now currently referred to as OF remittances), explaining the big jump in remittances, and a small portion into Travel Receipts. The Peso Conversion Account included those withdrawals from the FCD account which were converted to pesos.
When considering the magnitude of remittances, official remittance figures may underestimate the size of the flows as some cash remittances are not coursed through the formal banking system, and therefore go unreported in the BOP statistics. However, since 2001, the Bangko Sentral ng Pilipinas (BSP) has corrected for this underestimation. As a result, some of the observed rise in remittances starting in 2001 can be attributed to better recording. More fundamentally, the increase in remittances can be explained by three main factors:

(1) Trend rise in the number of deployed workers and immigrants. The level of remittances in the Philippines has risen in tandem with the increase in the stock of overseas Filipinos (OFs)—workers and migrants—over the years (Figure 3).

As defined by the Commission on Filipino Overseas (CFO), OFs consist of: a) permanent residents or Filipino immigrants or legal permanent residents abroad whose stay do not depend on work contracts (including those who have acquired foreign citizenship); and b) overseas Filipino workers (OFWs). The latter refers to temporary workers, or those whose stay overseas is employment-related and who are expected to return at the end of their work contracts, and irregular workers, including those not properly documented, without valid residency or work permits, or who are overstaying in a foreign country (Figure 4).

According to the CFO, in 1996, OFs numbered 6.4 million, of which 70.0 percent were overseas workers. The number of OFs has risen to 8.3 million in 2006 or about 10.0 percent of the total population of the country (Figure 5).

(2) Change in the skill composition of Filipinos workers and migrants (Figure 6). From 1995 to 2005, there was a distinctive rise in the number of deployed Filipino workers in the services and professional categories. In 2006, the number of higher-paid

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5 A raising factor (determined on the basis of the Survey on Overseas Filipinos, a rider to the NSO’s Labor Force Survey) is applied to cash remittances coursed through the banking system to obtain global cash remittances (i.e., flows coursed through both formal and informal channels). Please see Appendix 1 for a fuller discussion.

6 The Department of Foreign Affairs (DFA) provides data on undocumented (including irregular) workers to the CFO. The DFA obtains the data from the Philippine consulates and embassies in the workers’ host countries. These data are complemented by information from the Overseas Workers Welfare Administration under the Department of Labor and Employment (DOLE).
and skilled workers such as those working in the medical, healthcare, information technology, food and hotel services continued to rise despite the decline in the number of professional workers.

II. Dutch Disease: Has the Philippines Contracted it

What is the Dutch disease? The term refers broadly to the harmful effects of large increases in a country’s income. By way of a background, the discovery of large natural gas deposits in the North Sea in the 1960s led to a dramatic rise in the wealth of the Netherlands. This highly favorable development, however, led to serious consequences on the economy as the Dutch guilder became stronger, making Dutch non-oil exports less competitive (IMF 2003). This state of affairs has come to be known as “Dutch disease” or the “natural resource curse.” Apart from the discovery of natural resources, the Dutch disease can refer to any situation in which capital inflows (including foreign direct investment) or any foreign exchange inflows (such as foreign aid and those arising from large increases in commodity prices) cause real appreciation that jeopardizes the prospects of the tradable goods sector and leads to a significant deterioration in a country’s export performance, including manufactures exports.8

More rigorously, Corden and Neary (1982) discuss the phenomenon as follows: an economy experiencing an export boom has three sectors: (1) the booming export sector, (2) the lagging or conventional export sector and (3) the non-tradable goods (NTG) sector. As Figure 7 illustrates, the first two sectors are the

Figure 7
Sectoral Composition, Dutch Disease Model

(3) Measures adopted by the BSP and the banks to encourage overseas Filipinos to remit through the financial system.7 The BSP’s initiatives to improve the remittance environment have focused on enhancing transparency and promoting competition in the remittance market; enhancing the payment and settlement system as well as improving the access to financial services, including through new technologies (such as by allowing the use of the internet and mobile phones for financial transactions); and cultivating financial education among OFWs and their beneficiaries with a view to leveraging remittances flows for economic development by encouraging them to increase their savings and investments.

There are a number of reasons why it is likely that remittances will continue to be a significant force in the Philippine economy over the medium term. Higher incomes in host countries serve as magnet to those whose skills are in demand overseas. Globalization as well as aging populations in some host countries together with rising global labor mobility also encourage the movement of Filipino workers. It is therefore useful to assess the macroeconomic implications of remittance flows in order to better understand their implications on the country’s medium-term prospects for broad-based and strong economic growth.

7 Please see Appendix 2 for the BSP’s initiatives on improving the environment for OF remittance flows.
8 It is called a “disease” since the reduction in the domestic production of tradables and the reallocation of productive resources from the tradable goods sector to the non-tradable goods sector result in a sharp decline in economic growth. In many instances, aggregate economic activity slows down, on average. Oomes and Kalcheva (2007) explain that permanently lower growth as a result of the Dutch disease occurs because manufacturing tends to be more competitive and innovative than other sectors and is characterized by technological spillovers.
two tradable goods (TG) sectors while the NTG sector supplies domestic residents and covers such activities as services, property, construction and retail trade. Corden and Neary find that when a country contracts Dutch disease, the traditional export sector gets crowded out by the other two sectors.  

A concise explanation of the impact of the Dutch disease is presented in an article of the IMF (2003) as follows (in the case of a country experiencing a boom in the oil export industry):

“A jump in the country’s oil exports initially raises incomes, as more foreign exchange flows in. If the foreign exchange were spent entirely on imports, it would have no direct impact on the country’s money supply or demand for domestically produced goods. But suppose the foreign currency is converted into local currency and spent on domestic non-traded goods.

If the exchange rate is fixed, the conversion of the foreign currency into local currency would increase the country’s money supply, and pressure from domestic demand would push up domestic prices. This would amount to an appreciation of the “real” exchange rate—that is, a unit of foreign currency now buys fewer “real” goods and services in the domestic economy than it did before. If the exchange rate is flexible, the increased supply of foreign currency would drive up the value of the domestic currency, which also implies an appreciation in the real exchange rate, in this case through a rise in the nominal exchange rate rather than in domestic prices. In both cases, real exchange rate appreciation weakens the competitiveness of the country’s exports and hence causes its traditional export sector to shrink. This entire process is called the ’spending effect.’

At the same time, resources (capital and labor) would shift into the production of domestic non-traded goods to meet the increase in domestic demand and into the booming oil sector. Both of these transfers would shrink production in the now lagging traditional export sector. This is known as the ‘resource movement’ effect.”

By definition, the TG sectors are subject to international competition. Meanwhile, the NTG sector is not subject to global competition and prices here are determined only by domestic demand and supply. Insofar as remittances are concerned, the spending effect occurs when remittances raise aggregate demand in the economy. Since some of the expansion in demand is spent on services, the prices of services will rise while the prices of manufactures stay the same since it is assumed that these prices are determined in the global markets. This causes real exchange rate appreciation.

Meanwhile, the resource movement effect could occur as follows: if the wages paid for overseas employment is higher than those offered domestically (and assuming labor is sufficiently mobile across sectors), this will induce labor to move from manufacturing and services to overseas employment. Overseas employment will rise while output and employment in manufacturing and services will drop. The price of labor (wages) in the services sector will need to increase if labor is to be encouraged to stay in the services sector. The result is an increase in the price of non-tradables relative to tradables, leading to an appreciation of the real exchange rate.

With the rise in wages and possibly other production costs in the services sector, firms in the manufacturing sector are forced to raise their wages and prices as well. However, since these firms cannot compete by raising their prices, profits will fall and output will decline, leading to what Corden and Neary refer to as de-industrialization.

From the discussion above, the following are the symptoms of the Dutch disease:

- The first is the appreciation of the local currency due to the large inflows of foreign exchange. If sustained, this leads to a loss in export competitiveness.
- The second symptom is the decline or the slowdown in the growth of production of manufactures and other tradable goods as a result of the loss in external price competitiveness, and as resources are shifted away from the traditional tradable goods sector.
- The effect on the services sector cannot be readily determined. The spending effect could lead to a rise in output and employment in the services sector but resources could move away from services to

9 The assumptions of the Dutch disease model are that there is: full and efficient employment of production factors, a mobile production factor transferable before sectors, and a perfectly elastic demand for tradable goods consistent with the small economy assumption

10 This is sometimes referred to as the hollowing out of the manufacturing sector.
overseas employment. The net effect on output and employment in the services sector would depend on whether the impact of the spending effect or the resource movement effect is predominant.

- The fourth symptom arising from the expansion in the NTG sector (that occurs at the expense of the TG sector) is the rise in the relative price of non-tradables over tradables. The increase in demand for non-tradables, together with higher production costs (including wages), result in an increase in the relative price of non-tradables which causes the real exchange rate to appreciate further.

Several studies have tested the applicability of the Dutch disease to countries at the receiving end of a large amount of remittances (including Kapur (2003), Bourdet and Falck (2006) and Amuedo-Dorantes and Pozo (2002)). Bourdet and Falck (2006) investigated the effect of Cape Verde remittances on the traded goods sector. They find that the local currency appreciated due to the large foreign exchange inflows and, as a result, the export sector suffered a fall in productivity. Amuedo-Dorantes and Pozo (2002) find that remittances resulted in real exchange rate appreciation in a panel study of 13 Latin American and Caribbean countries.11

Evidence of the Dutch Disease in the Philippines

In this section, we test empirically whether the four symptoms of the Dutch disease (as discussed in the preceding section) can be observed in the Philippines.

A. Real Appreciation

Figure 8 plots remittances vis-à-vis the three real effective exchange rate (REER) indices compiled by the BSP, namely the major, broad and narrow baskets. The computation of the three indices are based on the trade weights of the country’s major trading partners (for the major REER index), and its trade competitors (for the broad and narrow REER indices).12 Figure 8 shows that the appreciable rise in remittances beginning 2002 has been accompanied by a broadly steady level of real exchange rates across the three baskets until 2006. However, in 2007, a modest increase in the REERs started to become apparent.

The deviation of the three REER indices from some base REER likewise provides an indication of the extent of real appreciation during the period.13 The years 2000 and 2002 can be used as the reference years since these were the periods when the country recorded a relatively balanced current account position alongside a relatively favorable macroeconomic performance.14

Figure 9 shows the trends of the actual REER indices relative to the average REER in 2000 and 2002. The broad and major REER indices were undervalued from 2003 to 2005 while the narrow REER index remained undervalued until the first half of 2007 despite markedly higher inflows of remittances starting 2002. In 2006, the broad and major REER indices

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11 The Caribbean countries under study were: Argentina, Belize, Bolivia, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Peru and Trinidad & Tobago.

12 The major trading partners include the US, Japan, the European Monetary Union (EMU) and the UK. The broad competitor countries consist of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong while the narrow competitor countries are composed of Malaysia, Thailand and Indonesia.

13 The real effective exchange rate (REER) is computed by the BSP as the weighted average exchange rate of the peso vis-a-vis a basket of foreign currencies, adjusted for inflation differentials (defined as \( p_d - p_f \) where \( p_d \) is the inflation of the Philippines and \( p_f \) is the inflation of other countries).

14 On the external front, the Philippines recorded a broadly balanced current account position in 2000 and 2002. On the domestic front, GDP growth and inflation averaged 4.1 percent and 4.6 percent, respectively, for both years.
were in line with those in the reference years. However, starting the second quarter of 2006, REER indices for the major and broad baskets have risen above the average levels for 2000 and 2002. Likewise, the narrow REER index has surpassed the REER level for the reference years beginning the third quarter of 2007. These developments indicate some relative reduction in external price competitiveness.15

It seems therefore that, of late, the peso’s strengthening trend has translated into a real appreciation, which indicates some weakening in terms of external price competitiveness.16

**B. Decline in the Traditional Tradable Goods Sector**

To test for the other symptoms of the Dutch disease, we employ sector-level data to compare output, employment and cost of production (proxied by wage rates) across sectors in the Philippine economy. The sectoral data are based on the classification used in the National Income Accounts (NIA). In the foregoing discussion, we define the “tradable” goods sector to consist of agriculture, mining and quarrying and manufacturing, and the “non-tradable” goods sector to consist of construction, electricity, gas and water and all sub-sectors of the services sector under the NIA. It would have been interesting to separate the output of these sectors into those that are consumed domestically and those that are exported/sold overseas. This is particularly interesting in the case of the services sector, since the Philippines has been experiencing of late a thriving business process outsourcing industry, with contact centers engaged in servicing the needs of foreign firms.

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15 In nominal terms, the exchange rate appreciated by about 19 percent as of end-2007 relative to the end-2006 level. In 2006, the cumulative appreciation of the peso was around 8 percent. In real effective terms, the peso appreciated by 23 percent against major trading partners and the broad basket of competitor countries, and 17 percent against the narrow basket of competitor countries from end-2005 until end-2007.

16 It bears emphasizing that there are other factors other than prices that determine overall external competitiveness, including product quality and uniqueness.
in call centers, medical and legal transcription, animation, and software development. However, the availability of data constrains this line of inquiry. The BSP has conducted a benchmark study on the macroeconomic contribution of the BPO industry, but data are available only for 2004-05.

As Figure 10 shows, the share of the tradable goods sector (including manufacturing) to total output has declined since 2003. The sector likewise exhibited a general downward trend in terms of its share to total employment since 1996 (Figure 11). These developments could be symptomatic of the contraction of the traditional tradable goods sector (including manufacturing) typically associated with the Dutch disease.

![Figure 10](image1.png)

**Figure 10**
Share of Tradable and Non-Tradables to Total Output

![Figure 11](image2.png)

**Figure 11**
Share of Tradable and Non-Tradable Goods Sectors to Total Employment

However, Figure 12 shows that the rise in remittances has been accompanied by a broadly steady share of merchandise exports to GDP.\(^{17}\) At the same time, there has been a relatively steady rise in the volume index of exports (Figure 13). One explanation that could be offered to these seemingly contradictory findings is that the exports of manufactures have been influenced primarily by non-price factors such as relatively robust global demand, with Philippine products concentrated on highly dynamic markets such as those for electronics and niche markets in garments, handicrafts, among other products. Related to this, the diversification of Philippine exports across markets and products could have also moderated their dependence on prices and exchange rates as the basis for external competitiveness. Moreover, and importantly, this trend could reflect the earlier finding that the appreciation of the real exchange rate has only occurred recently and may not yet have significantly affected export performance.\(^{18}\) It is worth noting that recent data show that exports in August 2007 dropped by 4.0 percent year-on-year, although it subsequently recovered, growing by 4.7 percent in September. Year-to-date, the growth rate of exports (January-September 2007) decelerated to 4.9 percent from about 18 percent for the comparable period in 2006 and about 15 percent for the whole of 2006.

To refine the analysis, we excluded electronics and electrical products from merchandise exports to determine whether these non-traditional types of

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\(^{17}\) Using National Income Accounts data in constant 1985 prices.

\(^{18}\) The literature on the J curve (and the inverted J curve) states that there is a low price elasticity of demand for exports in the immediate aftermath of an exchange rate change, as contracts for traded goods will have already been completed over the near term.
exports are influencing the conclusions. We find that, when these products are excluded, the share of merchandise exports to GDP remains roughly steady since 2002.  

C. Growth in the Non-Tradable Goods Sector

Meanwhile, the proportion of the non-tradable goods sector (including services) to aggregate production has been rising since 2002. In addition, the share to total employment of the non-tradable goods sector has been increasing. The relative increase in output and employment in the non-tradable goods sector indicates that the spending effect has dominated the resource movement effect insofar as this sector is concerned.

Earlier, it was suggested that the rise in the output and employment share of the services industry could be due to the expansion of the business process outsourcing industry, whose products are largely sold overseas. It would have been interesting to weed out the effect of this industry from the output and employment of the services sector in order to concentrate on services that are meant for domestic consumption alone. Available data from the BSP benchmark survey on the macroeconomic contribution of the industry is limited to the period 2004-05 only. Data for that period show that, while the industry is growing appreciably, its estimated services exports amounted to only about P50 billion in 2004 and P77 billion in 2005, as against the value added of the entire services sector (per National Income Accounts) amounting to P2,593 billion and P2,923 billion, respectively.

D. Rise in the Relative Price of Non-Tradables over Tradables and Increase in Wages

The fourth symptom of the Dutch disease refers to a rise in the relative price of non-tradables over tradables, via the resource movement effect as labor and capital shift away from the traditional tradable goods sector to the non-tradable goods sector, and via the spending effect as demand for non-tradables increases. Figure 14 shows that both non-tradables and tradables have posted price increases. However, the relative price of non-tradables over tradables was on a downtrend during the period 2001-2006. In the first half of 2007, however, the relative price increased.

Figure 14 shows that the relative wages of the non-tradable goods sector over the tradable goods sector follow a generally declining path from 2001 to 2006 (there is no update available for 2007). This implies that real wage increases in the tradable sector have outpaced the rise in the real compensation in the non-tradable goods sector.

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19 Appendix 3 shows the graph that plots remittances vis-à-vis merchandise exports excluding electronic and electrical products.

20 The volume index of exports refers to the ratio of the sum of the current quantities of exports at base period to the sum of the quantities of exports during the base period valued at base period prices. Alternatively, it can be derived by dividing the value index by the price index. It is a measure of real growth or performance at constant price.

21 The implicit price index is computed as \( \left( \frac{P_c}{P_r} \right) \times 100 \), where \( P_c \) is the current price; and \( P_r \) is the constant price with 1985 as the base year.
Policy Implications

The developments in the exchange rate and in sectoral output growth and employment as well as relative prices cannot be attributed to remittance trends alone. These are the outcome of other forces as well, including other sources of foreign exchange and underlying structural shifts in the economy that may be independent of the migration story. However, given the magnitude of remittances involved, it is difficult to dispute that remittances have had a contributory role to these developments.

There is evidence to suggest that remittances have led to some of the symptoms of the Dutch disease phenomenon in the Philippines. In particular, the strong remittance trend may have contributed to the recent appreciation of the peso in real terms. We also find that there appears to have been a shift in output and employment away from the tradable goods sector toward the non-tradable goods sector. However, exports of manufactures as a percentage of GDP have remained broadly steady. Meanwhile, the price increases of non-tradable goods have remained broadly in line with the price increases of tradable goods except for the recent period where a slight uptrend was observed.22 Notwithstanding the identification of some of the symptoms of the Dutch disease in the Philippines, we do not find the sharp decline in economic growth that some studies suggest could visit those countries that suffer from the disease. In contrast, real output growth has been respectable since 2002, when remittances started to rise appreciably.

On a macroeconomic level, the Dutch disease phenomenon is also said to have the potential of leading to adverse incentives at the national level. It is argued that the incentives for the government to implement much-needed reforms and correct policy slippages and missteps are reduced as the inflow of sizable amounts of remittances provide the government with a steady stream of foreign exchange, removing or mitigating the pressure on the economy to make the necessary policy adjustments. Chami et al. (2003) observe that the government may be able to ignore imbalances in the economy and avoid taking politically unpopular steps to address them with the expectation that remittances will continue to prop up the domestic economy. They caution that such a policy failure could lead to greater dependence on remittances and decreased effort on the part of local workers and entrepreneurs. Kapur (2003) argues that countries can maintain larger fiscal deficits if remittances are high. Since the current account deficit would be lower, the likelihood that a high fiscal deficit will precipitate a BOP crisis is reduced, dampening the pressure to undertake important economic reforms. Puri and Ritzema (1999) caution that the influx of remittances and their beneficial impact on the balance of payments may sidetrack “governments from attending to the underlying facts of unemployment, inequality and underdevelopment which have led to migration in the first place.”

It could well be that in some countries remittances have fostered complacency about the need for stronger adjustments to establish an environment that is conducive to stronger and more broad-based growth. However, in other countries, remittances have provided economies the much-needed foreign exchange and policy space to undertake the necessary macroeconomic policy adjustments and institute structural reforms.

Cross-country experience shows that the natural resource curse is avoidable. Malaysia and Indonesia are two countries that have experienced substantial increases in their national incomes due to windfalls from the sale of abundant natural resources. However, they appear to have avoided the resource curse problem mainly by pursuing a strategy of economic

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22 The Corden-Neary Dutch disease model is an abstraction that rests on the simplifying assumptions discussed in footnote 9. It can be argued that the mixed findings on the presence of the Dutch disease in the Philippines is due to the absence of some of these assumptions in the Philippine setting: with an unemployment rate of 7.8 percent (July 2007), there is less than full employment in the Philippines, and with labor rigidities, labor is not perfectly mobile across sectors. Other empirical studies that test the presence of the Dutch disease also use these simplifying assumptions.
diversification (IMF 2006). Similarly, the Dutch disease stemming from remittances is avoidable. The challenge with the Dutch disease therefore lies not so much on the foreign exchange coming in but in directing these private inflows toward productive activities. While these are private transfers, the government can ensure that the policy environment is conducive to the use of these remittances for investment in productive activities such as entrepreneurial endeavors and investment in better health care, education and housing for the families of remitters.

The promotion and maintenance of macroeconomic stability as well as the implementation of structural reforms are also integral to avoiding the Dutch disease. If there are concerns about inflation risks stemming from the expansion in demand brought about by remittances, the BSP should be ready to undertake the necessary monetary policy actions. The government too can actively seek to invest in activities that would boost productivity in the non-tradable goods sector, diversify exports and retrain and retool workers that are in the lagging export industries. In particular, flexibility in product and labor markets should be enhanced so that the demand stimulus resulting from the rise in remittances do not place undue upward pressure on inflation and the real exchange rate. This takes on greater importance if the shift in resources away from some of the traditional export goods is part of a natural adjustment process that accompanies the structural transformation of the economy. Successful country experiences point to the important role of economic diversification policies in overcoming the challenges of Dutch disease. In this regard, the measures that the government is taking to foster and diversify exports, including through steps to lower the costs of doing business and to improve public infrastructures, are moves in the right direction. These measures will ultimately make the country less dependent on remittances and less vulnerable to external shocks, including during times when the remittance flows become less plentiful.

III. Cyclicality of Remittances: Does it Matter and Why?

The timing of remittances flows is important because remittances can amplify or moderate income volatility, depending on their cyclical behavior. The issue of income volatility, in turn, is important because macroeconomic stability is a desired characteristic for sustained and balanced economic growth.

The conventional wisdom is that remittances are particularly attractive as a source of foreign exchange because they are a more stable, and therefore more dependable, source of funding than private capital flows. As Table 2 shows, over the period 1996-2006, remittances have been a very important source of foreign exchange in the Philippines, next to exports of goods and services and foreign borrowing. Moreover, remittances are relatively stable compared to direct and portfolio investments. Ratha (2003) argues that remittances are more stable than private capital flows in the form of either debt or equity, which often move procyclically, tending to boost income during good times and to lower income during bad times. By contrast, remittances are thought of as having the potential to rise during economic downturns. He adds that remittances are also less likely to suffer the sharp withdrawal or euphoric surges that characterize portfolio flows. As such, remittances can contribute to the stability of the economy, including the domestic financial system.

Table 2
Relative Magnitude and Volatility of Selected Foreign Exchange Inflows, 1996-2006

<table>
<thead>
<tr>
<th>Sources of Foreign Exchange Inflows</th>
<th>Percentage of GDP</th>
<th>Coefficient of Variation 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of Goods and Services</td>
<td>51.0</td>
<td>12.0</td>
</tr>
<tr>
<td>External Borrowing</td>
<td>9.3</td>
<td>13.7</td>
</tr>
<tr>
<td>OF Remittances</td>
<td>8.9</td>
<td>32.6</td>
</tr>
<tr>
<td>Foreign Direct Investments</td>
<td>1.6</td>
<td>57.5</td>
</tr>
<tr>
<td>Foreign Portfolio Investments</td>
<td>1.9</td>
<td>95.7</td>
</tr>
</tbody>
</table>

1/ computed as standard deviation/mean x 100

Source of data: BSP Department of Economic Statistics, authors’ calculations

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23 According to the IMF’s Regional Economic Outlook (April 2007), the Indonesian government maintained broadly prudent macroeconomic policies, which supported agriculture and manufacturing, and used windfall gains to increase spending on public infrastructure, health services and education. Partly as a result, the share of non-oil exports to total exports rose markedly. Malaysia has also deliberately sought to achieve rapid economic diversification. The government invested a large portion of resource revenues in public infrastructure and human capital development, and this contributed to the development of the export-oriented manufacturing sector and led to the diversification of the production base.

24 Leuth and Ruiz-Arranz define cyclicality as the correlation between the inflow and GDP, both detrended.

25 According to Sayan, identifying the cyclicality of remittances is particularly important for these countries that use or intend to use future potential remittances as collateral for international loans.
Remittances are thought of as providing an insurance against income shocks, with workers expected to send more to their families during economic downturns to compensate them for unemployment or reduced income from domestic activities. There is cross-country evidence indicating a negative relationship between remittances and income for some countries, with remittances tempering the magnitude of the drop in GDP in times of severe economic crises and acting as a stabilizer to large fluctuations in output over the business cycle (Sayan 2006). Using the microfoundations approach and panel techniques, Chami, Fullenkamp and Jahjah (2003) also find that remittances move countercyclically, if all countries included in their study are taken collectively.

Other studies that have examined the correlation between remittances and GDP have obtained the opposite result. Leuth and Ruiz-Arranz (2007) find that Sri Lankan remittances drop when the investment and political climate worsens. They conclude that remittances provide little insurance against a BOP crisis. Sayan (2006) confirms cross-country differences in the cyclicality of remittances. He examined the behavior of workers' remittances into 12 developing countries during the period 1976-2003 and finds that countercyclicality of receipts is not commonly observed across these countries. His results show that remittances move procyclically or acyclically with output for some countries within the group. Giuliano and Ruiz (2005) find procyclicality in two-thirds of the countries that they examined (their sample comprised 100 developing countries).

Procyclicality in remittances has the potential to exert a destabilizing force. It could amplify output fluctuations, leading to serious macroeconomic effects, including deepening crises even further. Procyclicality in remittances could also reduce the creditworthiness or external liquidity of countries at a time when they are most in need of external financing. Knowing the cyclicality of remittances is therefore important so that policymakers are appropriately forewarned about the need to formulate appropriate policies that would minimize income volatility.

Cyclicality is, however, largely dependent on the motivation behind or the nature of the transfers (Sayan 2006). If remittances are altruistically motivated, then one would expect countercyclical behavior. If remittances are motivated by portfolio investment or insurance considerations, then one would expect procyclicality as remittances behave like other investment-related capital flows. More typically, remittances are likely to be motivated by various considerations. In this case, remittances could exhibit an acyclic behavior or the net effect would depend on which flow (altruistically or investment motivated) is of greater magnitude. It could also depend on migrant characteristics, with the expectation that remitters from low-income households would be remitting more for altruistic reasons while remitters from more affluent households would be remitting more for investment and insurance considerations.

26 Please refer to Appendix 4 for a listing of countries included in the study of Sayan (2006).

27 Using a panel estimation of aggregate remittances from 113 countries, Chami, et al. find that remittances are countercyclical. However, on a country-by-country estimation, 13 countries were found to be countercyclical, four are procyclical while the rest showed insignificant results.

28 Amuedo-Dorantes and Pozo (2003) point out that that remittances are provided for basically three reasons: altruism, investment and insurance. First, remittances are sent altruistically to provide for the consumption needs of the remitter's household. Second, remittances are used to invest in capital goods. Third, remittances are a means by which a migrant “buys” insurance in the face of uncertainty regarding the outcome of his/her migratory experience, along the lines discussed by Lucas and Stark (1985). They consider two ways by which migrants insure themselves against income risks: family-provided insurance (by making periodic payments to family members back home to ensure that the migrant will receive support from the family upon his/her return) and self-insurance (by accumulating precautionary savings back home). For a fuller discussion, see Amador (2006).
Cyclicality of Remittances in Remittances in Philippines: Empirical Evidence

In this section, we investigate empirically the cyclical nature of remittances in the Philippines. Our approach takes after the methodology employed by Sayan (2006), using quarterly data series for real GDP and remittances. First, we eliminate the trend within each series using the Hodrick-Prescott (HP) filter to identify the business cycles of the Philippine economy and to analyze the cyclical nature of remittances. In doing so, we can examine the co-movements of deviations of output and remittances from their respective trends. Figure 16 illustrates the cyclical components of output and remittances for the period 1989 Q1–2007 Q1.

We then compute the pair-wise correlations between the cyclical components of GDP and remittances. The computed pair-wise correlation coefficients measure the extent to which remittances move in line with GDP. The coefficients are then used to characterize remittances as being either procyclical (if the correlation is positive) or countercyclical (if the correlation is negative). When the correlation is not statistically different from zero, remittances are classified acyclical. To allow for non-contemporaneous (or asynchronous) co-movements of GDP and remittances, pair-wise correlations are computed up to one lag. Table 3 reports contemporaneous cross correlations, as well as asynchrononous correlations between the cyclical components of GDP and remittances for the period 1989 Q1 and 2007 Q1.29

Table 3

<table>
<thead>
<tr>
<th>Autocorrelation</th>
<th>Correlation with GDP Cycle*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lag</td>
</tr>
<tr>
<td>GDP autoregression</td>
<td>0.542</td>
</tr>
<tr>
<td>Remittances</td>
<td>0.373</td>
</tr>
</tbody>
</table>

*All coefficients are significant at the 5% level.

Table 3 likewise includes the autocorrelation coefficients of GDP and remittances. The autocorrelation coefficient measures the persistence of cyclical fluctuations of the variables of interest. An autocorrelation coefficient close to 1 indicates more persistent, and therefore less frequent, fluctuations while an autocorrelation coefficient close to 0 indicates that fluctuations are more transitory. The relatively low autocorrelation coefficient of GDP (0.542) indicates that fluctuations are transitory and therefore more frequent. The autocorrelation coefficient of remittances is likewise low (0.373), indicating the susceptibility of remittances to frequent fluctuations.

More importantly, the positive and significant correlation coefficient of the current level of remittances with the one quarter lag of GDP (0.119) indicate that remittances are procyclical and asynchronous, i.e., they tend to rise when economic activity in the Philippines improves and decline when economic conditions weaken one quarter earlier.

Interestingly, the procyclical and non-contemporaneous nature of remittances in the Philippines is supported by the validation exercise we performed for the period 1989Q1-2007Q1 using the methodology of Chami (2003).30 Introducing a one-quarter lag to the differential between Philippine GDP and US output reveals that the output differential impacts positively on remittances after one quarter (Table 4). This supports our earlier finding that remittances are procyclical and asynchronous.

29 Sayan (2006) notes that remittances also respond to the state of economic activity in the host countries. If the business cycles in the home and host countries move in tandem, it may be difficult for remitters in a crisis-struck economy to assist family members facing similar conditions at home. He adds that, because of this, the remittances flows themselves in some cases can contribute to the transmission of the effects of a contraction in the host economy to the recipient country.

30 Monthly and quarterly series for remittances are available beginning 1989 onward.

31 Please see Equation 10, page 20 of Chami (2003).
Exchange Rate and the Procyclicality of Remittances

It could be well that the procyclicality of remittances is being driven in part by exchange rate movements, since overseas Filipinos’ decision on how much to remit is expected to be influenced by the peso value of the remittances. A strengthening economy could lead to the appreciation of the peso and this, in turn, necessitates a higher dollar remittance amount if the remitter needs to provide for a fixed family budget in peso terms. The reverse would be expected to occur in a weakening economy: a weaker economy could lead to the depreciation of the peso and this would lead to a smaller amount of dollar remittances (all other things, including inflation unchanged). This would lend further support to the procyclicality of remittances. To weed out the effect of exchange rate movements, estimations were done adding the nominal exchange rate (lagged like the other variables) or the real exchange rate to the above equation. The results, however, were not helpful as the sign of the exchange rate variable was insignificant.

Dakila and Claveria found evidence that an appreciation of the peso leads to an increase in remittances. Figure 17 replicates one of the impulse response functions generated by the vector autoregression (VAR) on real T-bill rate, exchange rate measure, GDP per capita, OFW deployment and OFW remittances per capita.32 As shown in Figure 17, a one-time standard deviation increase in the real bilateral exchange rate leads to a rise in the OF remittances (in logarithmic terms).33 The maximum impact on OF remittances is estimated to occur after four quarters and remain positive until the end of the forecast horizon. This indicates that an appreciation (depreciation) of the peso leads to an increase (decrease) in OF remittances.

Table 4
Regression Results for the Philippines of Equation 10 of Chami (2003)
One-Quarter Lag of GDP

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.581985</td>
<td>0.568906</td>
<td>-1.022990</td>
<td>0.3100</td>
</tr>
<tr>
<td>(Philippines per capita GDP(-1)) - (US per capita GDP(-1))</td>
<td>0.000205</td>
<td>8.93E-05</td>
<td>2.298245</td>
<td>0.0247</td>
</tr>
<tr>
<td>(Philippines 91-day T-bill(-2))-US 90-day T-bill(-2))</td>
<td>0.016659</td>
<td>0.009325</td>
<td>1.786470</td>
<td>0.0785</td>
</tr>
<tr>
<td>AR(1)</td>
<td>0.966270</td>
<td>0.019675</td>
<td>49.11139</td>
<td>0.0000</td>
</tr>
<tr>
<td>MA(1)</td>
<td>-0.578184</td>
<td>0.109230</td>
<td>-5.293264</td>
<td>0.0000</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.896147</td>
<td>Mean dependent var</td>
<td>-0.444341</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.889947</td>
<td>S.D. dependent var</td>
<td>0.488947</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.162204</td>
<td>Akaike info criterion</td>
<td>-0.733006</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>1.762783</td>
<td>Schwarz criterion</td>
<td>-0.574904</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>31.38822</td>
<td>F-statistics</td>
<td>144.5362</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>1.836023</td>
<td>Prob (F-statistics)</td>
<td>0.000000</td>
<td></td>
</tr>
<tr>
<td>Inverted AR Roots</td>
<td>.97</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inverted MA Roots</td>
<td>.58</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

32 A VAR expresses a variable as a function of its lag values and the lag values of other variables in the model. An impulse response function traces the impact of a one-time shock to the current and future values of a variable. Please refer to Dakila and Claveria (2007) for a complete discussion of the specification of the VAR employed in the study.

33 The real bilateral exchange rate is defined in terms of the US dollar per Philippine pesos, adjusted for the inflation differential of the Philippines and the U.S.. An increase in the index represents a real appreciation.
Policy Implications

Procyclicality suggests that portfolio and investment considerations are important in influencing the trends in remittances. This indicates that remitters are influenced by investment opportunities as much as altruistic considerations for the reasons discussed in the previous two sections. Remitters are therefore an important segment to tap as investors into the Philippine economy. Government efforts to improve the financial education of remitters and their households are therefore welcome steps in harnessing the development impact of remittances.

Another important policy implication is that remittances cannot be readily counted upon to moderate sharp fluctuations or swings in the economy or to hedge against macroeconomic shocks. Policymakers should therefore not be drawn into complacency that remittances can comfortably help the economy weather economic downturns. There is no substitute for prudent macroeconomic policies. Hysenbegasi and Pozo (2002) notes that the potential for macroeconomic destabilization arising from the remitters’ strategic behavior occurs because greater flows would be more valuable when the central bank is attempting to stem a crisis. However, where there is procyclicality, flows occur after the crisis has passed. They conclude by saying that governments should be aware of this pattern of remittances flows so that appropriate macroeconomic policies can be implemented to counteract this procyclical tendency of remittances. The procyclicality of remittances have also important implications on liquidity flows and on the policy challenges confronting the BSP in managing these flows while pursuing a low-inflation environment.

IV. Conclusion

There is evidence to suggest that remittances have led to some of the symptoms of the Dutch disease phenomenon in the Philippines. In particular, the strong remittance trend may have contributed to the recent appreciation of the peso in real terms. We also find that there appears to have been a shift in output and employment away from the tradable goods sector toward the non-tradable goods sector. However, exports of manufactures as a percentage of GDP have remained broadly steady. Meanwhile, the price increases of non-tradable goods have remained broadly in line with the price increases of tradable goods except for the recent period where a slight uptrend was observed. Notwithstanding the identification of some of the symptoms of the Dutch disease in the Philippines, we do not find the sharp decline in economic growth that some studies suggest could visit those countries that suffer from the disease. In contrast, real output growth has been respectable since 2002, when remittances started to rise appreciably. While there has been a shift in output and employment toward the non-tradable goods sector, it is unclear if this can be attributed to remittances or as part of the structural transformation process of a small, open, growing economy with a relatively large population and against a changing global economic landscape.

The Dutch disease stemming from remittances is avoidable. The challenge with the Dutch disease therefore lies not so much on the foreign exchange coming in but in directing these private inflows toward productive activities. While these are private transfers, the government can ensure that the policy environment is conducive to the use of these remittances for investment in productive activities such as entrepreneurial endeavors and investment in better health care, education and housing for the families of remitters. In this regard, responsible economic
stewardship through disciplined macroeconomic policies and sensible structural reforms, including in the financial system, are key.

The promotion and maintenance of macroeconomic stability as well as the implementation of structural reforms are also integral to avoiding the Dutch disease. If there are concerns about inflation risks stemming from the expansion in demand brought about by remittances, the BSP should be ready to undertake the necessary monetary policy actions. The government too can actively seek to invest in activities that would boost productivity in the non-tradable goods sector, diversify exports and retrain and retool workers that are in the lagging export industries. In particular, flexibility in product and labor markets should be enhanced so that the demand stimulus resulting from the rise in remittances do not place undue upward pressure on inflation and the real exchange rate. This takes on greater importance if the shift in resources away from some of the traditional export goods is part of a natural adjustment process that accompanies the structural transformation of the economy. Successful country experiences point to the important role of economic diversification policies in overcoming the challenges of Dutch disease. In this regard, the measures that the government is taking to foster and diversify exports, including through steps to lower the costs of doing business and to improve public infrastructures, are moves in the right direction. These measures will ultimately make the country less dependent on remittances and less vulnerable to external shocks, including during times when the remittance flows become less plentiful.

The paper finds evidence pointing to the procyclicality of remittances. Procyclicality suggests that portfolio and investment considerations are important in influencing the trends in remittances. This indicates that remitters are influenced by investment opportunities as much as altruistic considerations for the reasons discussed in the previous two sections. Remitters are therefore an important segment to tap as investors into the Philippine economy. Government efforts to improve the financial education of remitters and their households are therefore welcome steps in harnessing the development impact of remittances. Another important policy implication is that remittances cannot be readily counted upon to moderate sharp fluctuations or swings in the economy or to hedge against macroeconomic shocks. Policymakers should therefore not be drawn into complacency that remittances can comfortably help the economy weather economic downturns. There is no substitute for prudent macroeconomic policies.
SELECTED REFERENCES


Appendix 1
Estimation Procedures for OF Remittances

• A raising factor is applied to cash remittances coursed through the banking system to get global cash remittances (i.e., flows coursed through formal and informal channels).

• The Survey on Overseas Filipinos (SOF), a rider to the NSO’s Labor Force Survey, is used as the basis for determining the raising factor. A 20 percent raising factor based on the 2004 SOF was first used when the new methodology for estimating global cash remittances was adopted for the 2004 BOP report. The factor was subsequently reduced to 15 percent in 2005, 10 percent in 2006 and 5 percent in 2007, given the higher amount of remittances sent through the banks following intensified efforts to encourage overseas Filipinos (OFs) to use the formal channels in remitting funds.

• Remittances in kind are estimated, also based on the SOF, and are added to imports of goods. These are estimated to be five percent of global cash remittances.

• Global cash remittances cannot be traced directly from one account of the BOP report due to the following:
  - OFs are classified according to the Balance of Payments Manual, Fifth Edition (BPM5) residency rule. All sea-based workers, regardless of the length of their contract, as well as land-based workers with a contract of less than one year (i.e., primarily performing artists) are treated as resident overseas Filipino workers (OFWs). All other land-based workers with work contracts of one year or more are classified as non-resident OFWs.
  - Remittances of resident OFWs are recorded under Compensation of Employees in the Income Account. Following the BPM5, the entries are presented based on gross earnings of the OFWs. These are estimated by multiplying the average salary by the stock of resident OFWs. Offsetting entries, however, are reflected under travel services account for expenditures abroad (e.g., living expenses, rent) and imports of goods for remittances-in-kind.
  - Remittances of non-resident OFs are recorded under the Workers’ Remittances in the Current Transfers Account. The account includes total cash remittances coursed through formal and informal channels of non-resident OFs. Expenses of non-resident OFs are not recorded in the BOP of the Philippines.
Appendix 2
BSP Initiatives to Improve the Environment for Overseas Filipinos’ Remittance Flows

On a broad level, the BSP’s initiatives to improve the remittance environment are directed toward increasing the confidence of OFs in the Philippine economy through the promotion of healthy macroeconomic fundamentals and a strong and efficient financial system.

More specifically, the BSP has been working to improve the remittance environment by:

• Facilitating the flow of remittances through formal channels;

• Enhancing transparency and promoting competition in the remittance market, with a view to encouraging banks to reduce remittance charges:

• Improving access to financial services; and

• Encouraging beneficiaries to channel their savings to investment instruments and entrepreneurial activities, including in small and medium enterprises (SMEs) and microenterprises, through advocacy programs that cultivate financial education among overseas Filipino workers and their beneficiaries.

The specific initiatives are as follows:

1. Enhance transparency, competition and lower remittance charges. Related to this, the BSP issued Circular No. 534, dated 26 June 2006, requiring banks and non-bank financial institutions to post remittance charges, classification of costs, and other relevant information for the benefit of remitters and beneficiaries.

2. Improve the payments and settlements system to facilitate remittances and help further reduce remittance charges. As the BSP takes the lead in promoting an efficient payments and settlements system, the BSP seeks to minimize layers in the remittance process and further reduce transactions costs. The BSP undertook the following initiatives in 2006: (1) grant of foreign currency deposit unit (FCDU) license to rural banks/cooperative banks; (2) full interconnection of major ATM networks; and (3) continuing approval of alternative modes of remittances, such as internet-based remittance and the use of mobile phones for performing financial transactions utilizing the short message services/text features of cellphones for balance inquiry, fund transfer and withdrawals.

3. Channel remittances to financial investment. The BSP has encouraged commercial banks to offer OFs specialized investment products and services such as insurance, pension and real estate, with direct payment schemes for the convenience of beneficiaries.

4. Simplify identification of bank clients. To further expand the access of OFs and their beneficiaries to financial services, particularly those in remote areas, the BSP issued on 3 April 2007 Circular No. 564 that aims to simplify existing regulations pertaining to identification requirements for banks and non-banks to implement their know-your-customer (KYC) policy while ensuring compliance with the Anti-Money Laundering Act (AMLA).

In addition, the BSP together with the Overseas Workers Welfare Administration (OWWA) and other concerned partner agencies are conducting financial education campaigns for OFWs and their beneficiaries to reach out to those who may be currently unbanked or unserved by formal financial institutions and to emphasize the importance of savings and inform participants of alternative opportunities for their remittances such as placements in financial instruments and investments in business ventures. Financial education is key to unlocking the potential of remittances as a tool for development in countries like the Philippines with a large segment of the population employed overseas.
Appendix 3
Remittances and Merchandise Exports (excluding electronic and electrical products)
# Appendix 4

## List of Countries Included in the Study of Sayan (2006)

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Countries</th>
<th>Nature of Co-Movement of Remittances and GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detrending and cross correlation techniques for individual countries</td>
<td>Algeria, Bangladesh, Côte d’Ivoire, Dominican Republic, India, Jamaica, Jordan, Lesotho, Morocco, Pakistan, Senegal, Turkey</td>
<td>Acyclical, Countercyclical and synchronous, Acyclical, Acyclical</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>