

CLOSING REMARKS¹

I. Introduction

Distinguished speakers and paper presenters, esteemed guests, participants, members of the academe, research and international institutions, my colleagues from the Bangko Sentral ng Pilipinas, ladies and gentlemen, good afternoon.

For the past one-and-a-half days, we have greatly benefited from the very spirited discussions with our panel of speakers and discussants. I must, therefore, thank and congratulate them for sharing with us their wide-ranging perspectives. (Let us give them a round of applause.) Truly, the Bangko Sentral ng Pilipinas takes pride in having hosted this conference. I hope that the paper presentations and the discussions during this conference have generated a better appreciation of the nuances on key issues that bear on development and development policy, including the question of whether remittances are procyclical or countercyclical, the link between remittances and investment, and the implications of migration and its accompanying remittance flows on labor markets and human capital.

As we all know public institutions, like central banks, are among the most intensive users of economic research. Research serves as a valuable input in informing policy. I am certain that this conference will help bridge the gap between empirical research and the pressing policy questions as far as the long-term focus of remittance and migration policies in the Asian region is concerned.

II. Three key issues

Let me offer a few and surely not the ultimate words on three key issues that have emerged from our discussions. Like many development issues, the macroeconomic consequences of remittances are the subject of very lively debates. Remittance flows, in general, carry both positive and oftentimes negative collateral macroeconomic consequences.

The first issue I wish to address is the one on remittances, consumption and investment, and economic growth.

In theory, receiving households can use remittances to finance both consumption and investment expenditures. It can be noted that in most cases, the distinction between the two uses is not clear. For example, expenditures for medical care and education are considered consumption but they are really investment in human resources.

Available survey evidence indicates that remittances primarily fund consumption because of their compensatory rather than profit-seeking nature.² If spent for investment, remittances are usually used to accumulate housing and real estate assets. In her paper, **Maria Teresa Punzi** estimated from her sample that 45 percent of receiving households use remittances for asset accumulation such as houses. She argued that a more developed credit and mortgage system can amplify the impact of remittances on the housing market. Remittances reduce housing-related credit constraints when used as down-payment. In turn, higher housing demand can induce housing prices to rise. Therefore, monetary policy should

¹ Delivered by Deputy Governor Diwa C. Guinigundo at the BSP International Research Conference on Remittances at the Garden Ballroom, EDSA Shangri-la Hotel, Ortigas Center, Mandaluyong City, Philippines on 31 March 2009.

² Ralph Chami, et al (2008). Macroeconomic consequences of remittances. IMF Occasional Paper No. 259

be calibrated preemptively to curb any risks to inflation created by this remittance-driven housing bubble. Furthermore, care must be exercised since remittance-fueled housing booms can serve to heighten the procyclical component of remittance flows and even as a channel for the transmission of exogenous shocks from the remitting country to the domestic economy.

Ralph Chami, et al (2008) maintains that remittances are not necessarily associated with a more efficient allocation of domestic investment.³ Whether they lead to a more efficient allocation of investment depends on their impact on financial development and the marginal cost of financial intermediation. This underscores the need to strengthen the link between remittances and investment for remittances to impact on economic growth. Migrants and recipient households should be encouraged to spend a greater portion of their remittances for investment purposes.⁴ The result of the experiment presented by **Dean Yang** is worth mentioning. In particular, he found that migrants save more if they have greater control over the use of their remittances. This challenges regulators and monetary authorities to set up the policy environment to encourage banks and other financial institutions to innovate and optimize technology to enhance the overall quality of services available to migrant workers.

However, the first step will hardly be realized unless there is a supportive policy environment that facilitates the flow of remittances through formal channels. This requires government institutions, particularly central banks, to initiate the following moves: (1) enhance transparency and promote competition in the remittance market, with a view to encouraging banks to reduce remittance charges, and (2) encourage migrants' 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 migrant workers and their beneficiaries.

For its part, the BSP has been conducting regular financial learning campaigns (FLCs) for Overseas Filipinos and their beneficiaries. Since 2006, the BSP has conducted 28 FLCs in key cities and regions of the country from Tuguegarao City, Cagayan in the north to Zamboanga City in the South. In September 2008, the BSP launched the international leg of the FLC in Hong Kong. In October 2008, two FLCs were held in Singapore. Earlier this month, we held another FLC in Seoul, South Korea.

Let me touch on my second point and it is on remittances, exchange rates and domestic wages

The free movement of capital is conventionally viewed as a constraint on policymakers that decreases the possibility of selecting a fixed exchange rate. The presence of remittances, however, mitigates the costs of foregone domestic monetary policy autonomy. Thus, according to **David Andrew Singer's** paper, remittances reduce exchange rate volatility such that incentives to adopt a fixed exchange rate are created. This is not to admit of course that other equally if not more important factors govern the choice of exchange rate regimes. Fixing the exchange rate would also increase the negative repercussions of a *Dutch disease* episode (e.g. real exchange rate appreciation) as implied by the paper of **Pablo Acosta** and his colleagues.

We are, of course, aware of a number of policy options suggested by some experts to counter these adverse side effects which include the following: One, fiscal restraint; Two,

³ Ralph Chami, et al (2008). Macroeconomic consequences of remittances. IMF Occasional Paper No. 259. (Note: Dr. Chami was invited but not able to attend due to family constraint).

⁴ Investment performs dual role in the macroeconomy. It affects aggregate demand in the short-run and affects aggregate supply in the long-run via capital accumulation.

limiting the use of sterilization; Three microeconomic interventions like promoting competition in the domestic market; Four, shifting from payroll taxes to VAT or sales taxes; and Five, allowing some currency appreciation.⁵

To me, the best way to minimize these negative (unintended) consequences is precisely to promote and maintain sound macroeconomic fundamentals and implement structural reforms. For instance, financial market development may be an important element in managing Dutch disease effects more broadly. Deeper and more sophisticated financial markets, while very challenging to do, should help lessen the appreciation effects of remittances on the local currency.⁶

Recognizing the impact of remittance flows on the exchange rate, **Ioannis Halikias** provided useful insights which could be used as inputs in the implementation of current exchange rate policies by remittance-receiving nations.

It should be recalled that the exchange rate affects not only consumer prices but also domestic wages. The paper of **Prachi Mishra** shows that the pass-through from the exchange rate to domestic wages depends on the degree of integration between domestic and foreign labor markets.⁷ This suggests that the greater the mobility of labor, the greater is the impact of exchange rate on domestic wages, thus affecting the volatilities of employment, output and prices. Indeed, there are numerous trade-offs to consider.

Finally, my last point is on remittances, migration and education.

On these, **Federico Mandelman** and Andrei Zlate argue in their paper that emigration increases with the expected stream of future wage gains, but is dampened by the sunk cost reflecting border enforcement.⁸ Yesterday of course, we all made the point that it is possible that the more binding constraint is the actual strict immigration controls as well as the possible lack of employment opportunities outside the home economy, or perhaps the possibilities of finding such opportunities in adjacent territories. To enhance labor supply in order to meet global job orders that offer higher wages **Edita Tan** suggested in her paper two imperatives, to wit: One, improve the quality of education/training and two, ease the financial constraints on investment in skills.⁹ These can be done by strictly adopting an internationally accepted academic standard and reallocating government resources to fund scholarship of deserving students. This prescription of improving the quality of academic programs in order to develop the stock of human resources of labor-exporting economies and to increase the readiness of higher education institutions in meeting the labor demand of the global market is also supported by the research findings of **Tereso Tullao, Jr.** and John Paolo Rivera.¹⁰ They also consider the liberalization of educational services to introduce competition and induce greater quality of teaching in the educational system, taking into consideration the overall thrust of higher education institutions.

⁵ Humberto Lopez, Luis Molina and Maurizio Bussolo (2007). Remittances and the Real Exchange Rate. World Bank Policy Research Working Paper 4213, April.

⁶ Pablo A. Acosta, Nicole Rae Baerg and Federico Mandelman (2009). Financial Development, Remittances, and Real Exchange Rate Appreciation. Federal Reserve Bank of Atlanta Economic Review No. 1.

⁷ The elasticity of domestic wages to real exchange rate is 0.1 after a year for countries with high barriers to external labor mobility, but about 0.4 in countries with low barriers to mobility.

⁸ During booms in the destination economy, the scarcity of established immigrants lessens capital accumulation, labor productivity and the native wage. The welfare gain from the inflow of unskilled labor increases with the complementarity between skilled and unskilled labor, and with the share of the skilled among native labor.

⁹ The elasticity of supply of outgoing skills determines the impact on migration.

¹⁰ Dr. Tullao and his colleague found evidence that temporary labor migration (overseas employment) has increased the demand for higher education.

Interestingly, the team of **Katsushi Tabata** noted from preliminary results that the following potential risks associated with remittances, such as: labor supply disincentive¹¹, exchange rate volatility¹² and reduced capital accumulation¹³ are less serious than originally considered, at least in the countries of Asian region included in the study. Furthermore, their main finding indicates that the increase in remittance flows coincides with economic growth and its expected impact depends on the levels of financial deepening. I know that this finding will be the subject of further debate and would challenge more researches in the future.

III. Conclusion

Overall, the conference papers find mixed evidence on the net macroeconomic consequences of remittances. 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 including poverty alleviation as the paper of Kelly Bird would show even on a case study basis

My own view here is that perhaps there is a learning gap between these polar cases. Complacency can be a product of lack of information and appreciation/understanding on what these remittance flows can do in the context of both microeconomic and macroeconomic considerations. This is why it is critical for all remittance-receiving economies to have an idea on the set of conditions which determine the impact of remittance flows at business cycle frequencies. It is equally critical to identify the steps policymakers can initiate to direct the impact of remittance flows to desired objectives of higher savings, higher investment and expanded economic activities.

Indeed, these issues are far from being closed books. In a few years, I would expect the issues will be different because the economic lot of receiving countries shall have henceforth changed, and changed for the better!

But this conference should not start and conclude on research findings and useful perspectives. We need to progress this process. Last night we were discussing with Dilip Ratha the possibility of putting up a Global Institute for Workers' Remittances to do surveillance, monitoring and even advocacy. You all will hear from the World Bank about the forthcoming Institute. We can concretize the call for action by institutionalizing all these efforts for setting reasonable goals for the future.

Again, let me thank all of you.

To all, good day and mabuhay!

¹¹ Whether remittances will reduce labor incentive in domestic countries and lead to higher volatility of labor supply

¹² Whether remittances will bring appreciation of currency in domestic countries

¹³ Whether capital accumulation will not be strengthened due to expansion of consumption