

OPENING REMARKS¹

I. Introduction

Distinguished Speakers and Paper Presenters,
Esteemed Guests and Participants,
My Colleagues at the Monetary Board and the BSP,
Ladies and Gentlemen, Good Morning.

It gives me great pleasure to welcome you to the BSP International Research Conference on Remittances. I extend a special welcome to our foreign guests and hope that their stay here in our country will be both interesting and fruitful. This is the second International Research Conference sponsored by the BSP. Last year, in partnership with the Bank for International Settlements (BIS), we hosted a High-Level Conference on Transparency and Central Bank Communication.

This year's theme – “The Macroeconomic Consequences of Remittances: Implications for Monetary and Financial Policies in Asia” highlights a timely and topical issue as it recognizes important trends among emerging economies over the past decade. The World Bank estimates remittance flows to developing countries to have reached US\$ 305 billion in 2008, almost triple its level in 2002. For many countries, including the Philippines, remittances are now providing more inflows than foreign direct investment, portfolio investment and official development aid. They now amount to a substantial portion of imports and a nontrivial fraction of GDP for these economies. They are also proving to be more stable², unrequited and represent private transfers that do not result in claims on assets, debt service or other contractual obligations³.

In the light of the global financial crisis, remittances have become even more important to developing countries. With output in the advanced economies now expected to contract and growth in emerging and developing economies expected to slow sharply in 2009, under the drag of falling export demand and financing, lower commodity prices, and much tighter external financing constraints (especially for economies with large external imbalances), the question of the resilience of remittances to a global downturn has indeed become even more crucial.

Against this emerging scenario, the BSP hosts this Conference to shed some light on several key issues on remittances as they relate to recipient economies, including the Philippines.

¹Delivered by Gov. Amando M. Tetangco, Jr. at the BSP International Research Conference on Remittances held on 30 March 2009 at the Garden Ballroom, Edsa Shangri-la Hotel, Ortigas Center, Mandaluyong City, Philippines.

² According to The Economist (*Trickle-down economics*, 21 February 2009): “Although they are likely to fall as a result of the slumping world economy, they may be less fickle than more publicized private-capital flows, such as equity and lending by foreign banks.”

³ Brown, Stuart. (2006). “Can Remittances Spur Development? A Critical Survey,” *International Studies Review*. 8:55-75 and Kapur, Devesh (2005). “Remittances: The New Development Mantra?” in Samuel Maimbo and Dilip Ratha (eds.) *Remittances: Development Impact and Future Prospects* (Washington, D. C.: The World Bank).

II. Macroeconomic Consequences of Remittances

Remittances give rise to a host of macroeconomic effects on recipient economies. During this conference, we pose and seek clarity on questions that will 1) impinge on short-term and medium-term policy strategies and 2) guide strategic research for determining the optimal path for long-term policy formulation. Allow me to highlight three of these issues.

First, the debate on the procyclicality of remittance flows. While there is extensive literature on the impact of remittances on business cycle frequencies, the empirical evidence has been ambiguous. For instance, while research done on countries such as Morocco,⁴ India,⁵ and a large sample of developing and emerging market economies⁶ show that remittances tend to be countercyclical, similar work on the Philippines⁷ does not support the purported countercyclical effect of remittance flows.

The migration and remittance processes continue to evolve. And questions remain to be answered on the set of conditions in remittance-receiving and remittance-sending countries that would determine whether these flows would be procyclical or countercyclical. Similar questions arise on the business cycle implications for countries such as the Philippines wherein the deployment of workers is highly-diversified, both in terms of countries of destination and in the skills set of outbound workers.

Taking the issue a step further, it would also be important to consider and determine procyclical behavior that could amplify economic booms and downturns.

A second area of interest pertains to the microeconomic channels through which worker remittances impact the macroeconomy. These include household savings and expenditure patterns, labor supply and entrepreneurship. Again here, the impact of remittances varies. For instance, remittances cause “positive” shocks that lead to increased human capital accumulation and entrepreneurship in migrant workers’ origin households. How so? From remittances, these households are able to either spend more on higher education or increase working hours and investment in relatively capital-intensive household enterprises. On the other hand, there is evidence (at least in the case of the Philippines), that international migration and the accompanying remittance flows tend to raise the reservation wage of individuals coming from households receiving remittance income. (Note: Reservation wage is that threshold wage which determines whether individuals would join the workforce or not) Higher reservation wages could discourage members of migrant’s origin household from working, and hence lead to reduced domestic labor supply.

A third area of interest is the relationship of remittances to the financial and external sectors. Of particular concern here would be the impact of remittances on the macroeconomy under varying exchange rate regimes as well as how remittances create depth in the financial sector as they provide different motivations for consumption and investment.

⁴ Bougha-Hagbe, Jacques. (2004). “A Theory of Workers’ Remittances with an Application to Morocco” IMF Working Paper, WP/04/194.

⁵ Gupta, Poonam. (2005). “Macroeconomic Determinants of Remittances: Evidence from India” IMF Working Paper, WP/05/224.

⁶ Aggarwal, Reena and Nikola Spatafora. (2005). “Workers’ Remittances and Economic Development” in *World Economic Outlook April 2005* (Washington: International Monetary Fund)

⁷ Burgess, Robert and Vikram Haksar. (2005). “Migration and Foreign Remittances in the Philippines” *IMF Working Paper* WP/05/111.

In short, there are many strands of thought and evidence on how remittances affect the receiving country, both at the macro and micro level. To cover this vast array of issues, we have lined up distinguished speakers. You will notice from the topics for discussion, it hasn't been altogether easy to disentangle one strand of concern from another. Let me now quickly give you a flavor of this.

Prof. Katsushi Tabata and Dr. Federico Mandelman would be presenting papers that provide some clues on how financial deepening in the home country and international risk diversification may play significant roles in bringing about cyclical outcomes from remittance flows.

Meanwhile, the papers of Dr. Prachi Mishra on the effects of labor market integration and of Dr. Pablo Acosta on Dutch disease⁸ provide useful inputs on examining competitiveness issues.

The papers by Prof. David Andrew Singer and by Dr. Ioannis Halikias provide significant insights for a more nuanced policy on external sector management.

III. Policy Implications of Remittances

We look forward to discussing the various findings from these papers over the course of the conference. As we do so, however, we would be well served to remember that the primary value of these discussions are the insights that could guide policymakers in dealing with key policy questions, in light of country-specific macroeconomic circumstances.

Let me illustrate. For emerging economies, including the Philippines, the fulcrum on major policy decisions depends largely upon the answers to questions such as whether remittances can support consumption under the current global environment or whether there will be a reversal of migration flows. Although remittance flows now constitute increasingly larger portions of recipient countries' GDPs, these still cannot be readily counted upon to moderate "sharp" fluctuations or swings in the economy or to hedge against macroeconomic shocks. Indeed policymakers would be wise not to be drawn into complacency that remittances can help the economy comfortably weather economic downturns.

Therefore, policy responses in receiving countries should be directed towards improving the quality of policies and institutions so as to reinforce the positive impact of remittances. During this conference, we will consider two specific aspects for policy improvement. First, policies should be directed toward creating the environment that would help recipient families to funnel more of the inflows toward productive activities, such as entrepreneurship and sound financial investment. Second, policies should be directed toward human capital resource development, an engine of long-term growth that has yet to be fully taken advantage of (or exploited) by developing countries.

The presentations of Prof. Ma. Teresa Punzi (on utilizing remittances to overcome credit constraints) and of Dr. Dean Yang (on using technology and financial innovation to

⁸ The Dutch disease can refer to any situation in which capital inflows or any foreign exchange inflows cause real appreciation that jeopardizes the prospects of the tradable goods sector and leads to significant deterioration in a country's export performance, including manufacturers exports (Tuaño-Amador, et al, Bangko Sentral Review, 2007).

improve savings mobilization) would provide some suggestions on directing remittance flows to more productive activities.

The papers by Prof. Edita Tan and by Prof. Tereso Tullao would, for their part, provide meaningful inputs on reforming our higher education sector to preserve and sustain the gains from remittance flows.

IV. Conclusion

Ladies and gentlemen... Remittances can be a potent engine of economic growth as the flows continue to make up a larger portion of the GDP pie among recipient countries. The main challenge therefore for policymakers in recipient countries, including the Philippines, is to design policies that would further promote remittances and increase their benefits while mitigating any adverse side effects.

The Bangko Sentral ng Pilipinas (BSP) is honored to host this International Research Conference on Remittances. Through the discussions that will take place today and tomorrow, we hope to be able to shed some light on the policy issues I have broadly outlined. Hopefully, at the end of this conference, we would have a better handle on how the macroeconomic effects of remittances can be effectively managed so that we are able to fully harness their development potential.

Before I end my remarks, allow me to thank in advance our presenters, discussants and other participants for what I am certain will be enlightening discussions.

Let me end by saying that I wish this conference on remittances will be fruitful and highly successful, not only in terms of generating policy insights but also in fostering a rich and productive exchange of ideas.

Thank you and Mabuhay!