

Research

Research Home page
Popular Economics
Stock Picks
Economic Indicators
Downloads
Today's News

Services

Codex: News Archives
RSS
Audio
BusinessWorld Wired
BW Communications
Connections:
Business Directory
Calendar of Events
Advertising
Subscriptions
Corporate Bulletins
Write Us Now
Site Map

Contact Information**BusinessWorld Research**

Raul L. Locsin Building I
95 Balete Drive Extension,
New Manila, Quezon City,
1112 Philippines

Trunkline: (632) 535-9901
Extensions: 301, 302 & 308
Direct lines: (632)
535-99-42 and (632)
411-03-08
Fax: (632) 535-96-58

Email: [BusinessWorld
Research Department](mailto:BusinessWorld@pwORLD.com.ph)



Download the country's
premier business daily in
PDF format.

July 21, 2006 | Manila, Philippines

BY **D'LAARNI A. ORTIZ**, *Research Head*

Remittances and economic shocks

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

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

How exactly do those left behind benefit?

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

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

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

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

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

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

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

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

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

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

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

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

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



Equipped with a vast database of economic and

financial information, the **BusinessWorld Research** provides *BusinessWorld* readers and prospective clients essential and timely industry analyses and reports.

Through government and non-government facts and figures, the team generates comprehensive reports that help policy makers, industry observers, planners, and students get a clearer view of the performance of various industries and the domestic economy as a whole.

This is particularly highlighted in the **BusinessWorld Research team's** reports such as *Economic Indicators* (a discussion of trends and possible developments on a particular economic sector), *Stock Picks* (analyses on listed domestic companies and their stock market performance) *Quarterly Banking Reports* (a comprehensive review of the domestic banking industry) and *Corporate Profiles* (a feature on breakthrough and start-up companies).

The **BusinessWorld Research team** also aims to educate its readers by introducing economic and finance concepts through its series of *Popular Economics* and the *BusinessWorld Guide to Series*.

The team, likewise, takes pride of *The Top 1,000 Corporations in the Philippines*, an annual publication that ranks companies based on annual gross revenues. [Read more about us](#)

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

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

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

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

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

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

Sources:

- "International Migration, Remittances, and Household Investment: Evidence from Philippine Migrants' Exchange Rate Shocks," by

Dean Yang, Working Paper No. 12325, National Bureau of Economic Research, June 2006

- "Migration and Foreign Remittances in the Philippines," by Robert Burgess and Vikram Haksar, IMF Working Paper, June 2005

 [E-mail this to a friend](#)

 [Printer-friendly version](#)

Popular Economics Archive

- [JPEPA and its perceived effects on Philippine agriculture \(102607\)](#)
- [Measuring the success of pro-poor agenda \(101907\)](#)
- [The US slowdown and its effects \(101207\)](#)
- [Explaining the GDP \(092807\)](#)
- [The basics of foreign direct investments \(091407\)](#)
- [Explaining the MISSI \(083107\)](#)
- [Foreign capital and economic growth \(082407\)](#)
- [Understanding the exchange rate \(081007\)](#)
- [Pro-poor growth in Asia \(080307\)](#)
- [Asia's integration and its role in the global economy \(072707\)](#)
- [Succession planning \(072007\)](#)
- [Rationale of income tax abolition \(071307\)](#)
- [The economics of air transport \(060807\)](#)
- [Women and the economy \(060107\)](#)
- [The services sector and its contribution to the economy \(051107\)](#)
- [Investing in children and economic growth \(050407\)](#)
- [Population aging in Asia and its implications \(042707\)](#)
- [Productivity further explained \(041307\)](#)
- [The economics of Microinsurance Industry \(033007\)](#)
- [The economic costs of government indecision \(032307\)](#)
- [The output gap as an indicator of inflation \(031607\)](#)
- [Defining frictional, structural and cyclical unemployment \(030907\)](#)
- [Explaining the current fiscal deficit \(030207\)](#)
- [Inland fisheries and poverty alleviation \(022307\)](#)
- [Population aging \(021607\)](#)
- [Economics of digital piracy \(020907\)](#)
- [Productivity and its importance \(020207\)](#)
- [Food poverty estimation and monitoring \(012607\)](#)
- [Tariffs and trade reforms in the Philippines \(011907\)](#)
- [Drinking water, poverty and decentralization \(011207\)](#)
- [Defining core inflation \(010507\)](#)
- [The economics of copyright \(122906\)](#)
- [Explaining the inflation targeting arrangement \(122206\)](#)