

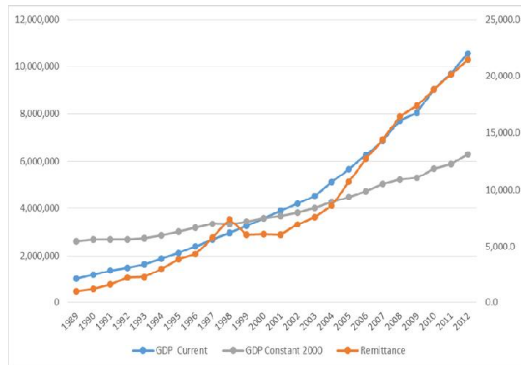
OFW Remittances: Magic Bullet?

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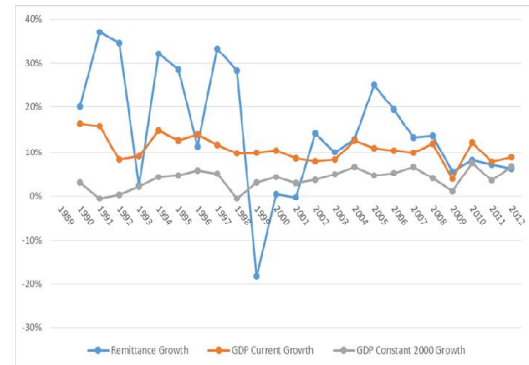
Introduction

- Law of Motion
- OFW Remittances as a force on the economy
- Impact on
 - households
 - financial system

Nature of Remittances



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Nature of Remittances

- a peak of 10.44 percent in 2006
- climbed up to USD 21.4 billion in 2012
- 6.3 percent increase
- foreign direct investment (FDI) stood at USD 2.0 billion
- while net official development assistance (ODA) rested at just USD 5.1 million
- inflow of dollars are seen as an important source of funds to service these obligations
- poor aspire of working abroad and lifting their kin out of poverty

The Philippine Economy

- a promising economy in the 1950s and 1960s
- “sick man of Asia”
- recently back to “Tiger cub” economy
- trouble in terms of investment and infrastructure development
- phenomena can be best observed with the Philippine power industry
- government’s poor fiscal situation prevents it from supporting the economy by shoring up infrastructure such as roads and power supply

The Philippine Financial Sector

- 30% of the regions are still unbanked and a larger portion still was under banked
- only roughly two out of 10 households in the country have at least one bank deposit account.
- excluding employer provided insurance, only 1.6 percent are covered by private insurance
- less than 1 percent own some type of investment instrument aside from an insurance policy
- only 5.5 percent of household expenses are on education
- food, rent, transportation and communication costs together make up 67.7 percent of expenses

The Philippine Financial Sector

	Total	Bottom 40%	Top 60%	Rural	Urban
Account at a formal financial institution (% age 15+)	26.6	10.4	39.6	19.5	37.1
Account used to receive remittances (% age 15+)	12.2	4.2	18.6	10.7	14.5
Account used to receive wages (% age 15+)	8.5	2.4	13.3	5.8	12.5
Loan from a financial institution in the past year (% age 15+)	10.5	5.1	14.9	9.8	11.6
Loan from a private lender in the past year (% age 15+)	12.7	10.6	14.3	11.5	14.5
Loan from an employer in the past year (% age 15+)	11.7	11.6	11.9	12.3	10.9
Loan from family or friends in the past year (% age 15+)	39.0	43.7	35.1	44.9	30.1
Loan in the past year (% age 15+)	58.1	58.2	58.1	62.5	51.5
Loan through store credit in the past year (% age 15+)	26.6	33.1	21.4	33.6	16.1
Mobile phone used to receive money (% age 15+)	12.5	11.8	13.1	16.0	7.3
Mobile phone used to send money (% age 15+)	7.3	6.3	8.1	8.2	6.0
Outstanding loan for funerals or weddings (% age 15+)	5.4	6.5	4.5	7.3	2.6
Outstanding loan for health or emergencies (% age 15+)	28.7	31.3	26.6	32.3	23.3
Outstanding loan for home construction (% age 15+)	5.8	5.5	6.0	7.2	3.6
Outstanding loan to pay school fees (% age 15+)	20.7	22.9	19.0	25.2	14.0
Outstanding loan to purchase a home (% age 15+)	3.6	4.5	2.9	4.4	2.4
Saved any money in the past year (% age 15+)	45.5	32.7	55.8	41.9	50.9
Saved at a financial institution in the past year (% age 15+)	14.7	3.0	24.1	9.7	22.3
Saved for emergencies in the past year (% age 15+)	36.9	26.4	45.4	33.5	42.0
Saved for future expenses in the past year (% age 15+)	31.8	22.4	39.3	30.0	34.5
Saved using a savings club in the past year (% age 15+)	6.5	4.3	8.3	4.2	10.0

What others have said:

- Ang (2007)
- remittances functioned as income-insurance policy at the macro level
- link between remittances and entrepreneurship was weak
- Ang, Sugiyarto, and Jha (2009)
- recipient households had larger family sizes while also having fewer number of employed members, and had more extended family members
- recipient households relied more on investment income and had higher savings, while non-recipient households relied more on entrepreneurial income
- remittance receivers spend more on education and health
- domestic demand driven growth rebalancing doesn't seem to be likely

What others have said:

- Fayissa and Nsiah (2010)
- positively impact economic growth of Latin American countries relative to external sources of capital such as foreign aid and foreign direct investment
- channel remittances into more productive activities than simple consumption
- Chami, Fullenkamp, and Jahjah (2005)
- higher amounts of remittances were associated with lower growth
- compensatory nature of remittances
- Giuliano and Ruiz-Arranz (2009)
- impact of remittances is maximal in countries with less developed financial systems
- acted as a substitute for financial services
- found that remittances boost investment in countries with a less developed financial sector

What others have said:

- Aggarawal, Demirguc-Kunt, Peria (2006)
- remittances have a statistically significant effect on credit and deposits to GDP
- Bettin and Zazzaro (2009)
- cost-income ratio to measure bank efficiency
- remittances enhance economic growth where banks are sufficiently efficient
- Brown, Carmignani, and Fayad (2013)
- strong inverse relationship between remittances and financial development
- Gupta, Pattilo, and Wagh (2007)
- found that remittances had a promotional effect on financial development

Research: OFW Profile

Number of Deployed Overseas Filipino Workers by Type from 2008 to 2012

TYPE	2008	2009	2010	2011	2012
Total	1,236,013	1,422,586	1,470,826	1,687,831	1,802,031
Landbased	974,399	1,092,162	1,123,676	1,318,727	1,435,166
New Hires	376,973	349,715	341,966	437,720	458,575
Rehires	597,426	742,447	781,710	881,007	976,591
Seabased	261,614	330,424	347,150	369,104	366,865

Number of Deployed Landbased Overseas Filipino Workers by Top Ten Occupational Categories, New Hires (2008-2012)

OCCUPATIONAL CATEGORY	2008	2009	2010	2011	2012
All Occupational Categories - Total	376,973	349,715	341,966	437,720	458,575
Household Service Workers	50,082	71,557	96,583	142,689	155,831
Nurses Professional	11,495	13,014	12,082	17,236	15,855
Waiters, Bartenders and Related Workers	13,911	11,977	8,789	12,238	14,892
Caregivers and Caretakers	10,109	9,228	9,293	10,101	10,575
Wiremen and Electrical Workers	8,893	9,752	8,606	9,826	10,493
Plumbers and Pipe Fitters	9,664	7,722	8,407	9,177	9,987
Welders and Flame-Cutters	6,777	5,910	5,059	8,026	9,657
Laborers/Helpers General	9,711	8,099	7,833	7,010	9,128
Charworkers, Cleaners and Related Workers	11,620	10,056	12,133	6,847	8,213
Cooks and Related Workers	5,791	5,028	4,399	5,287	6,344
Other Occupational Categories	238,920	197,372	168,782	209,283	207,800

Research: Average Households

Percentage of Households with Savings (PH)	2013		2014	
	Q1	Q2	Q3	Q4
Overall	24.5	22.4	24.5	26.2
Less than P10,000	14.8	12.9	14	15
P10,000-P29,999	33.2	28.9	31.6	36.9
P30,000 and over	57.1	62.1	68.5	67.3

Percentage of income allocated to savings (PH) 2014, Q1

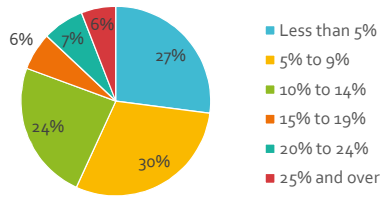


TABLE 5 Expenditure Pattern for the Bottom 30 Percent and Upper 70 Percent Per Capita Income Group, at Current Prices, Philippines: 2012

Expenditure Items	All Income Groups	Bottom 30%	Upper 70%
Total Expenditure (in billion pesos)	4,125	571	3,555
Percent	100.0	100.0	100.0
Food	42.8	62.3	39.7
Alcoholic beverages	0.6	0.9	0.6
Tobacco	0.9	1.5	0.7
Clothing and footwear	2.4	2.1	2.5
Furnishing, household equipment and routine household maintenance	2.8	1.9	2.9
Health	3.7	1.8	4.0
Housing, water, electricity, gas and other fuels	20.7	15.3	21.5
Transport	7.5	4.8	7.9
Communication	2.7	1.2	3.0
Recreation and culture	1.4	0.7	1.5
Education	4.1	2.0	4.4
Accommodation services	0.2	0.1	0.2
Miscellaneous goods and services	6.6	4.7	6.9
Other expenditure	3.7	0.7	4.2

Note: Details may not add up to total due to rounding.

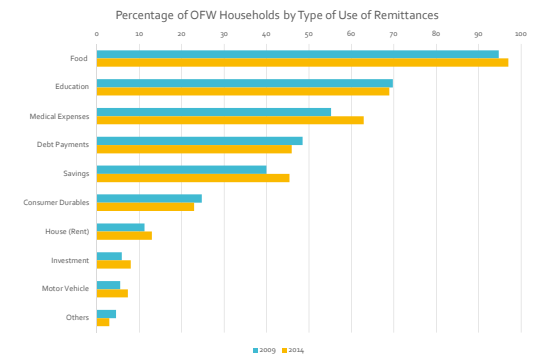
Research: Average Households

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TABLE 6 Total Annual Family Income and Expenditure and Percent Distribution by Per Capita Income Decile and by Region: 2012 (Estimates are in millions)

Region Per Capita Income Decile	Income		Expenditure	
	Total	Percent	Total	Percent
Philippines	5,026,798	100.0	4,125,312	100.0
First Decile	146,984	2.9	156,081	3.8
Second Decile	197,980	3.9	195,477	4.7
Third Decile	231,134	4.6	219,078	5.3
Fourth Decile	277,621	5.5	258,953	6.3
Fifth Decile	328,517	6.5	296,986	7.2
Sixth Decile	390,886	7.8	344,582	8.4
Seventh Decile	490,002	9.7	420,732	10.2
Eighth Decile	613,665	12.2	508,442	12.3
Ninth Decile	817,204	16.3	647,624	15.7
Tenth Decile	1,532,805	30.5	1,077,357	26.1

Research: Remittance Recipients



Regression

- Financial Development = Remittances + Foreign Direct investment + Exchange Rate + Interest Rate
- Financial Development variables :
 - deposits to GDP – utilization, scale of bank utilization with respect to the economy;
 - bank assets to GDP – magnitude, size of the banking industry with respect to the economy
- Explanatory variables:
 - OFW remittances – main topic of interest; acts like direct cash injection into the economy from an external source. Positive correlation is expected in theory; given large infusion of cash, recipients must have some left over from consumption and would normally be expected to enter the financial system via deposits. Also, as incomes increase, people are expected to be involved in the financial system through savings or investments.
 - FDI – foreign direct investments also lead to more funds in the system; again we assume that private enterprise would utilize the resource productively or would push up demand for a better financial system thus leading to higher financial development
 - Exchange rate (USD) – increases in the exchange rate would lead to additional savings as goods become more expensive and consumers would spend less
 - Interest rate – higher interest rates should lead to an increase in deposits as people choose to take advantage. Bank assets should also increase as banks would need to channel the increased liability (deposits) productively.

Regression

Change in X variable	Effect on Growth of rate of utilization
growth of 1% increase in remittances	Positive growth in both remittances and FDI cause bank utilization to accelerate.
growth of 1% increase in FDI	
exchange rate depreciation	As the Peso depreciates, utilization also accelerates
deposit rates	Deposit rate hikes also cause utilization to accelerate.
growth of lending rates	Lending rate hikes also cause utilization to accelerate.
Change in X variable	Effect on Growth of banking sector
growth of 1% increase in remittances	Positive growth in remittances and FDI cause bank sector size to shrink
growth of 1% increase in FDI	
exchange rate depreciation	As the Peso appreciates, the banking sector grows
deposit rates	Deposit rate hikes cause the banking sector to grow
growth of lending rates	Lending rate hikes also cause growth in the banking sector

Conclusion

- remittances are not a magic bullet
- have localized impacts by providing much needed income to the poor
- even outside the financial sector, if properly harnessed, this resource could provide additional funding to sectors that need access to it, acting as another reservoir of funds.
- entrepreneurial activity and investment in capital goods would yield dividends.
- if the financial sector was at a more developed and high functioning state
 - households could participate and boost the total resources available to the system
- GOODJOB
- greater financial inclusion
 - via several financial literacy and financial advocacy campaigns is encouraging.
- development of micro enterprises
 - grow into small and medium enterprises
- BUT
- national government must match this with complimentary programs
- funding has been half of the issue, the other half has been the encouragement of investment and the efficient execution of projects that would stimulate the economy.
- remittances can only do so much
- development of key sectors such as manufacturing is critical to achieve success

FIN

THANK YOU

ありがとうございます
ございます

謝謝

“GIVE A MAN A FISH AND YOU FEED HIM FOR A DAY, TEACH A MAN TO FISH AND YOU FEED HIM FOR A LIFETIME”