

# **Remittances in a an Economywide Setting**

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Caucasus

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# Remittances in Perspective

1. Macro
2. Meso (industries, households, and other public and private stakeholder groups)
3. Micro (individual firms and households)

# Macro Perspective

- A classic, unrequited foreign exchange transfer
- Domestic labor resource outflow
- Stimulus to import demand
- Exchange rate appreciation undermines export competitiveness
- Ultimate ER effect depends on patterns of origin (rouble vs. euro)

# Remittances and Aid

Country/Region	Remittances	Aid	Ratio
CE Europe & Central Asia	4.16	2.7	1.54
Turkey	1.96	0.33	5.94
Philippines	5.46	1.96	2.79
Colombia	1.16	0.23	5.04
Mexico	1.19	0.09	13.22
Middle East & N. Africa	7.19	3.07	2.34
Egypt	8.69	6.85	1.27
Morocco	6.68	2.76	2.42
South Asia	2.87	4.68	.61
India	1.59	0.64	2.48

# Meso Perspective

- Recipients - diverse recipient profiles, can be pro-poor
- Induced demand effects – potential for Dutch Disease
- Labor opportunity cost - depends on occupational status of migrants (brain drain, labor surplus outlet, etc.)
- Financial sector issues – depends on patterns of retention (saving), intermediation, and induced borrowing

# Micro Perspective

- Direct income
  - Increased purchasing power
  - Risk management, consumption smoothing
  - Social capital
- Liquidity and working capital
  - Smallholder
- Technology transfer
  - May increase import content of consumption/investment
  - Skill transfer, adoption stimulus
- Human capital
  - Education, network externalities
- Labor supply
- Bottom Line – the effect of remittances depends on how they are used
  - Experience/permanence matters
  - Transactions costs matter (indirect “fees”, fungibility, transparency, etc.) - remittance infrastructure a public good?
  - Networks matter
  - Gender matters (at both ends)
  - Immigration (destination) policy matters

# Remittances and Labor Supply

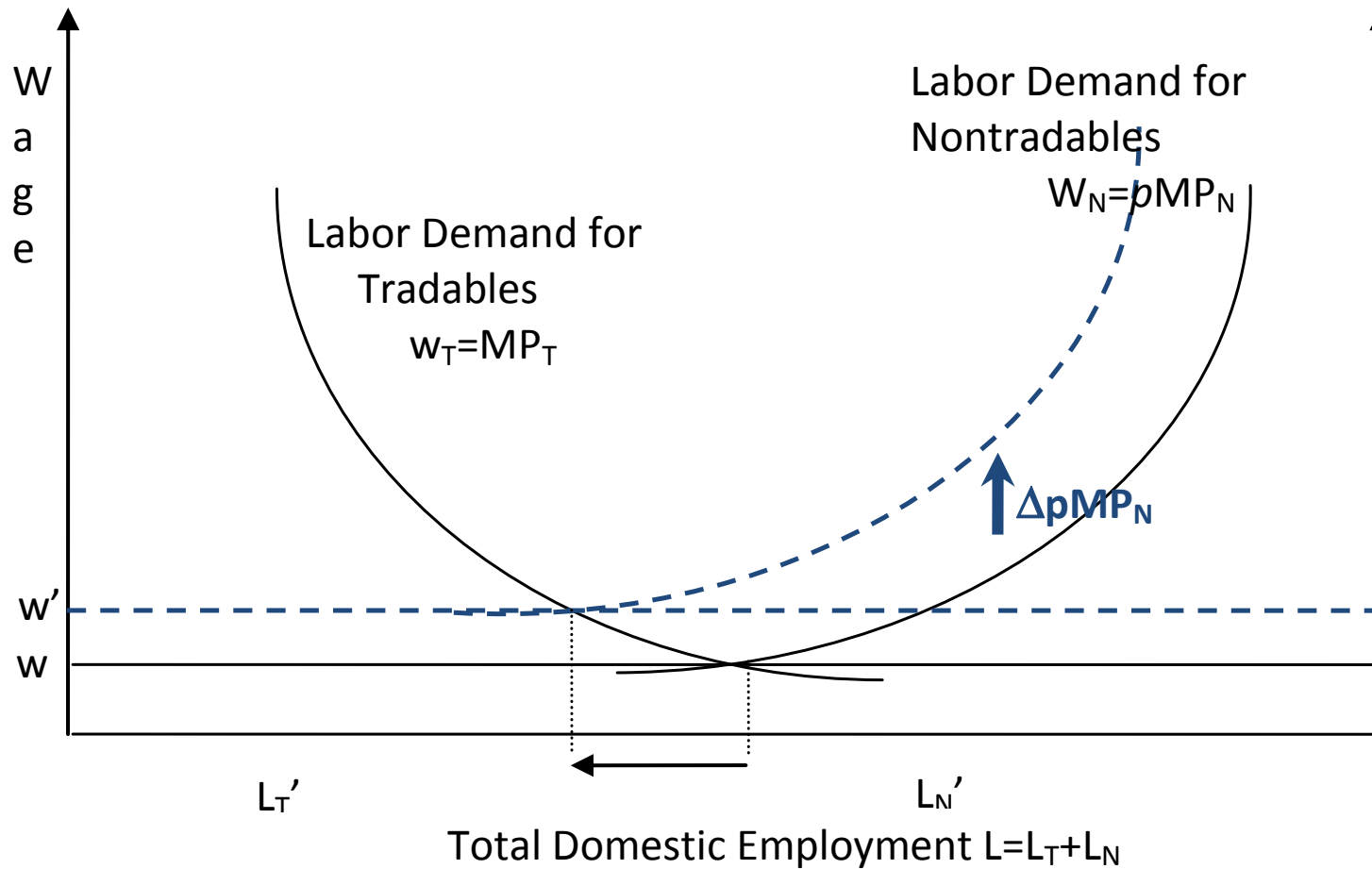
- Migrants increase vacancy rates
- Remittances may increase household reservation wages
  - Evidence for Jamaica, Philippines, indicates a negative correlation
  - May also be due to increased education (China)
- Demand side stimulus may offset this depending on tightness of labor markets



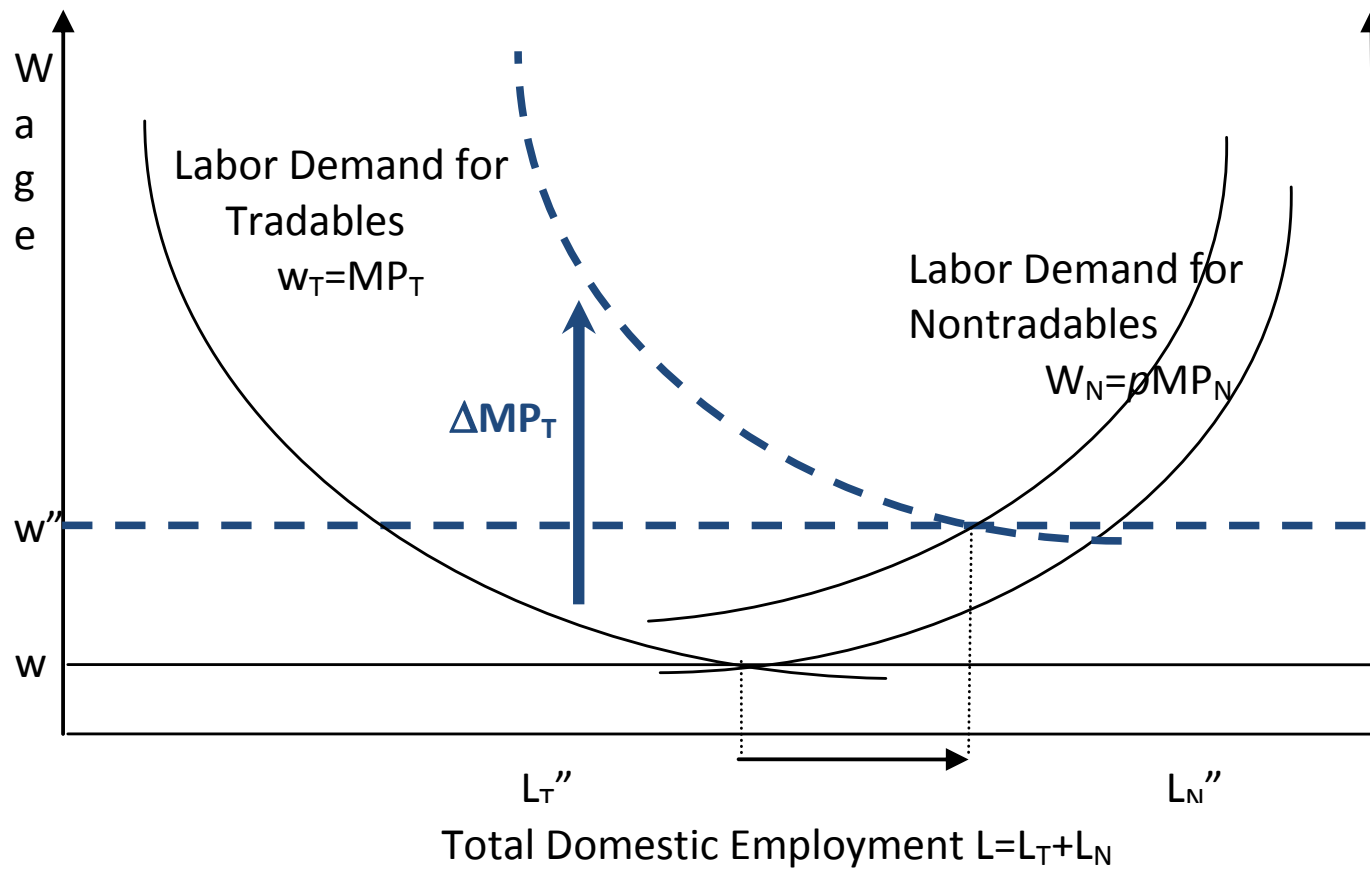
# Structural Effects

- Like all foreign income, remittances can alter demand patterns in favor of nontradables (Dutch Disease)
- This will induce real exchange rate appreciation and undermining export competitiveness
- Obviously, this depends on income elasticities, which differ significantly between countries and income groups

# Dutch Disease Schematically



# What's Special about FDI? Productivity



# Scenarios for the Kyrgyz Republic

Any external inflow can affect the variables, but the net effect is an empirical question.

For the Kyrgyz republic, we contrast two simple scenarios:

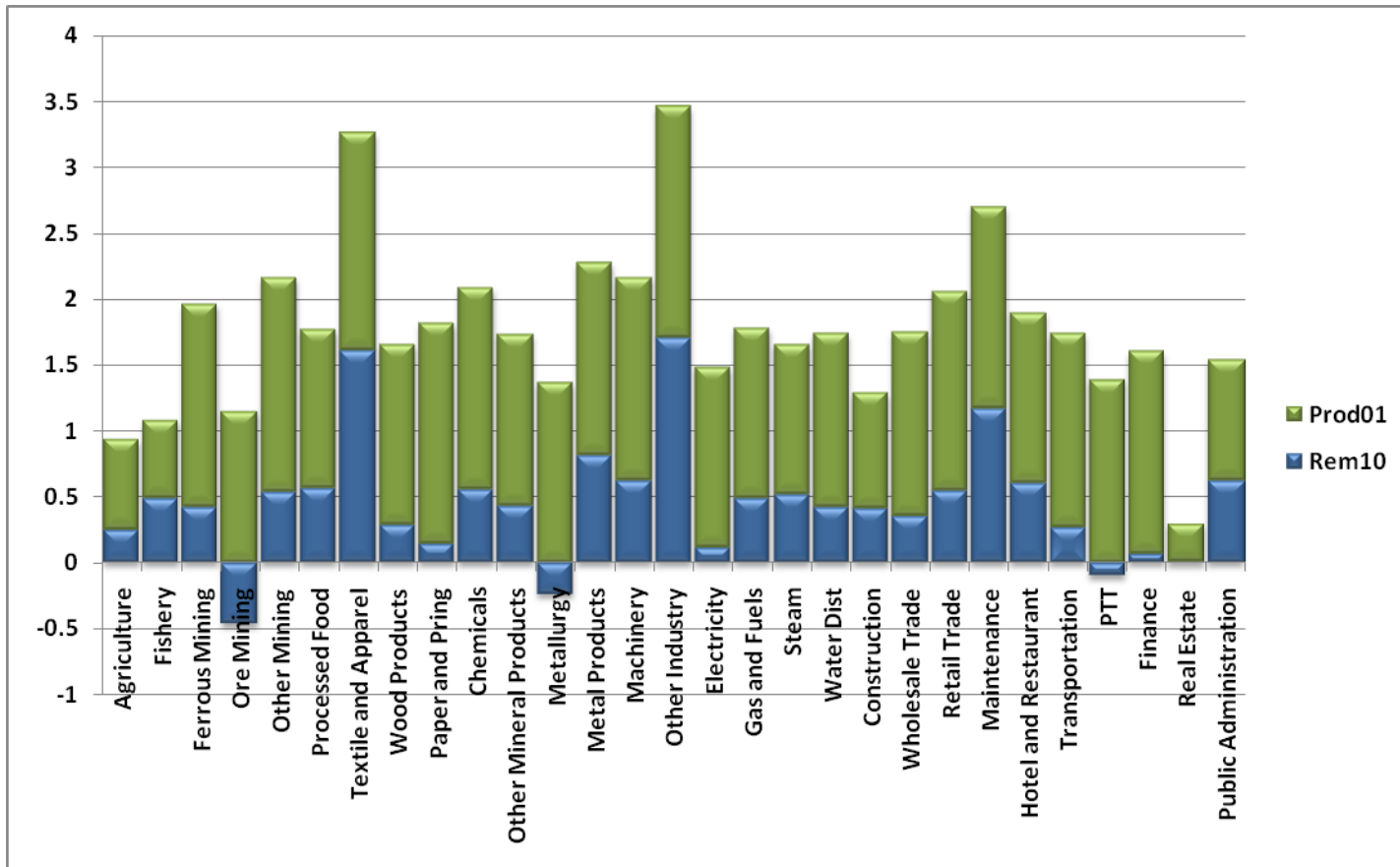
1. A 10% increase in baseline remittance flows.
2. Scenario 1 combined with a 1% increase in total factor productivity.

The results would be larger in an inter-temporal comparison, but the qualitative effects do not change.

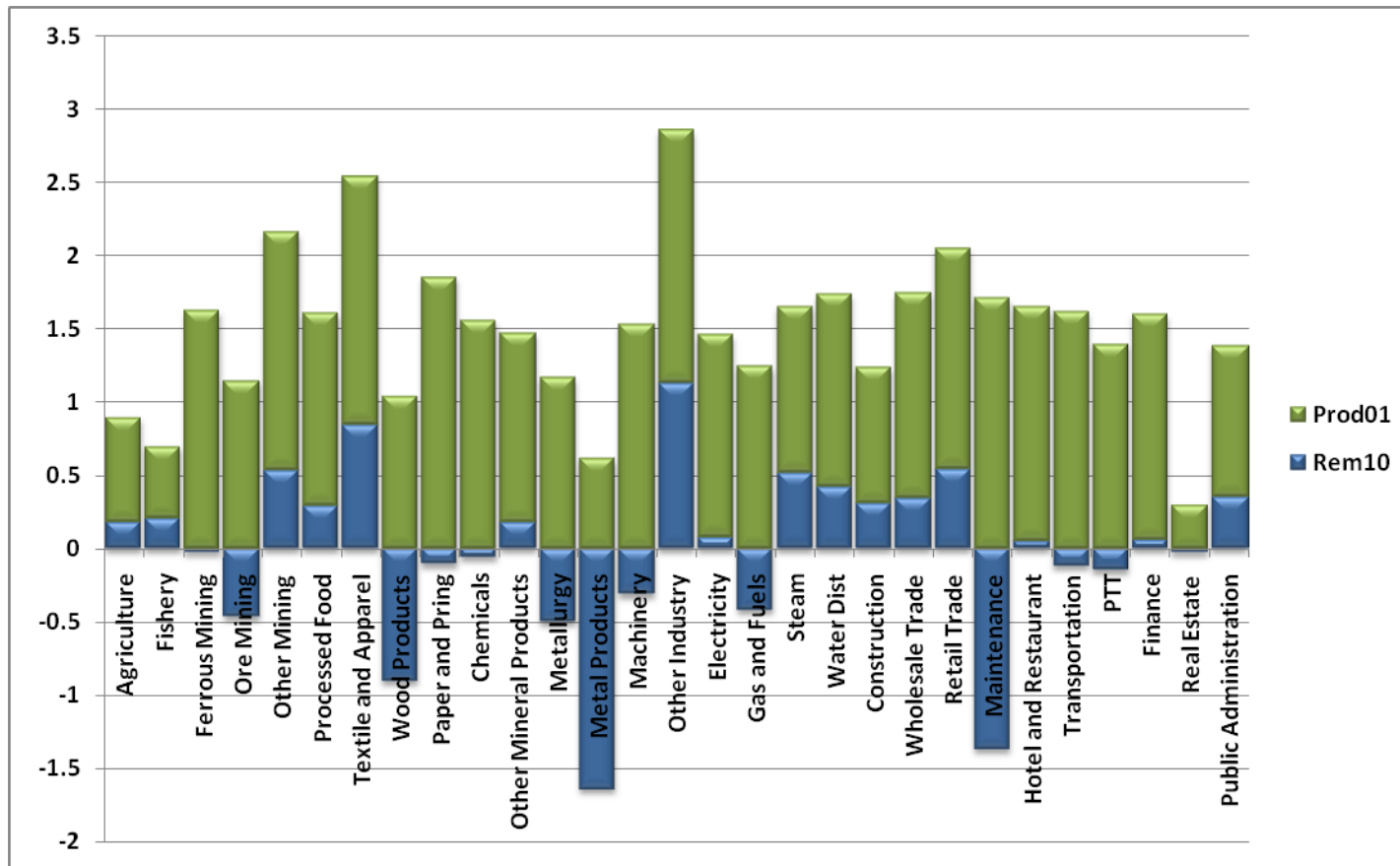
# Macro Results

	Rem10	Prod01	Total
Remittances	10.00		10.00
HH Income	1.40	1.06	2.46
CPI	.18	-.06	.11
REX	.10	-.11	-.01
Real GDP	-.01	1.16	1.15
Consumption	1.38	1.25	2.62
Investment	.54	.54	1.09
Exports	-.62	1.45	.83
Imports	.98	1.17	2.15
Unskilled Emp	.33	.33	.66
Skilled Emp	.17	.51	.68
Unskilled Real Wage	.13	.26	.39
Skilled Real Wage	-.04	.44	.40

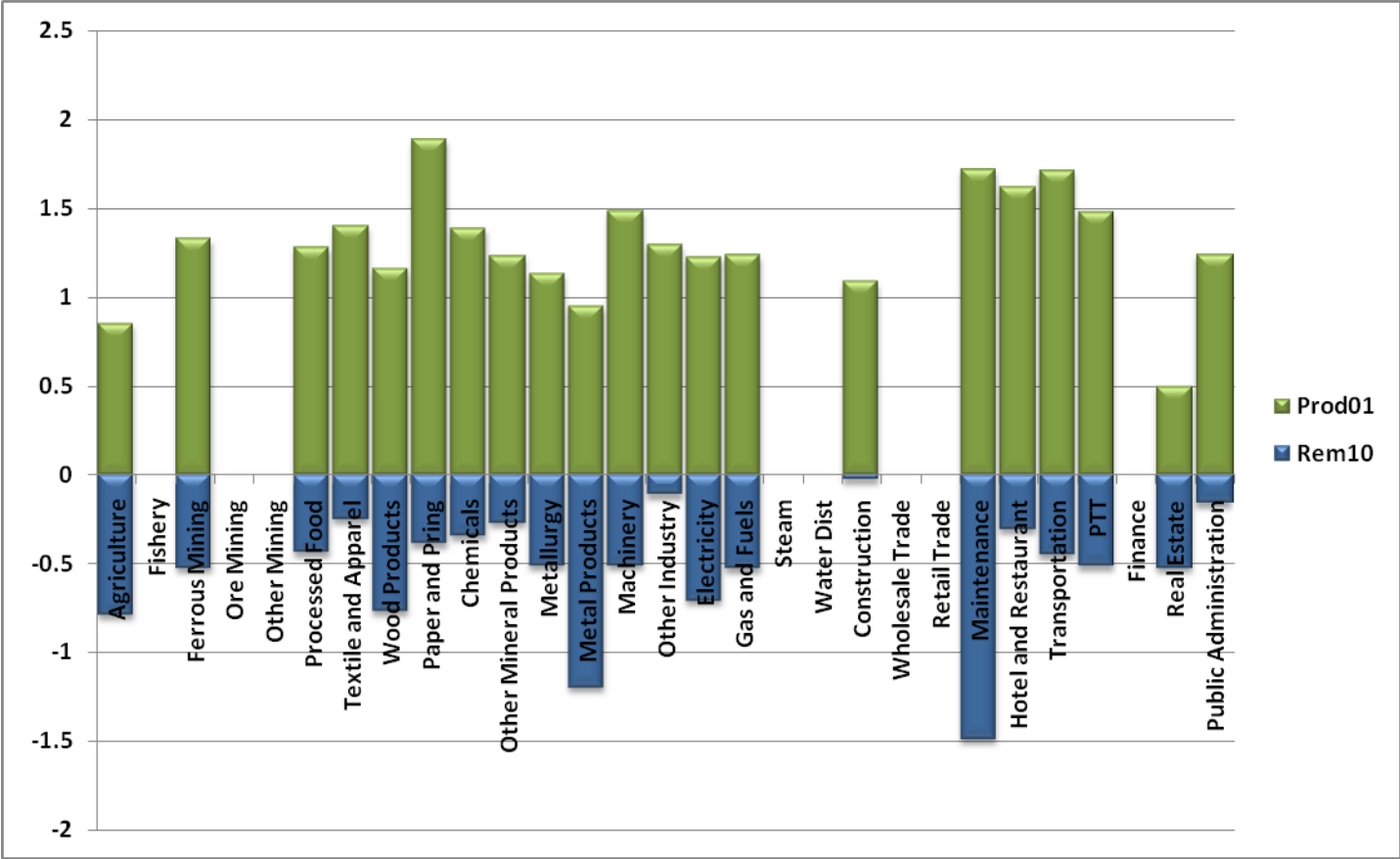
# Meso Results - Absorption



# Meso Results - Output

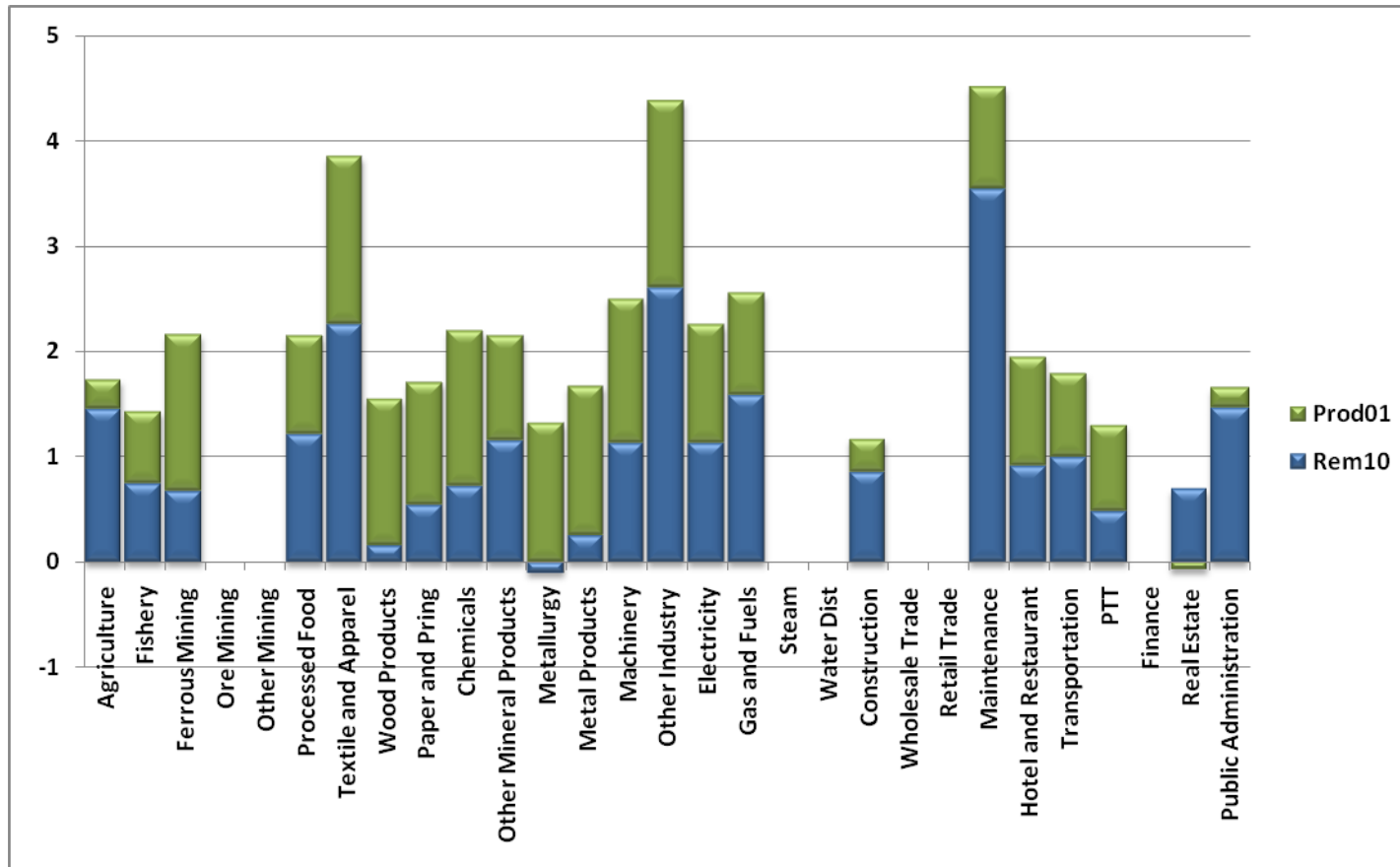


# Meso Results - Exports

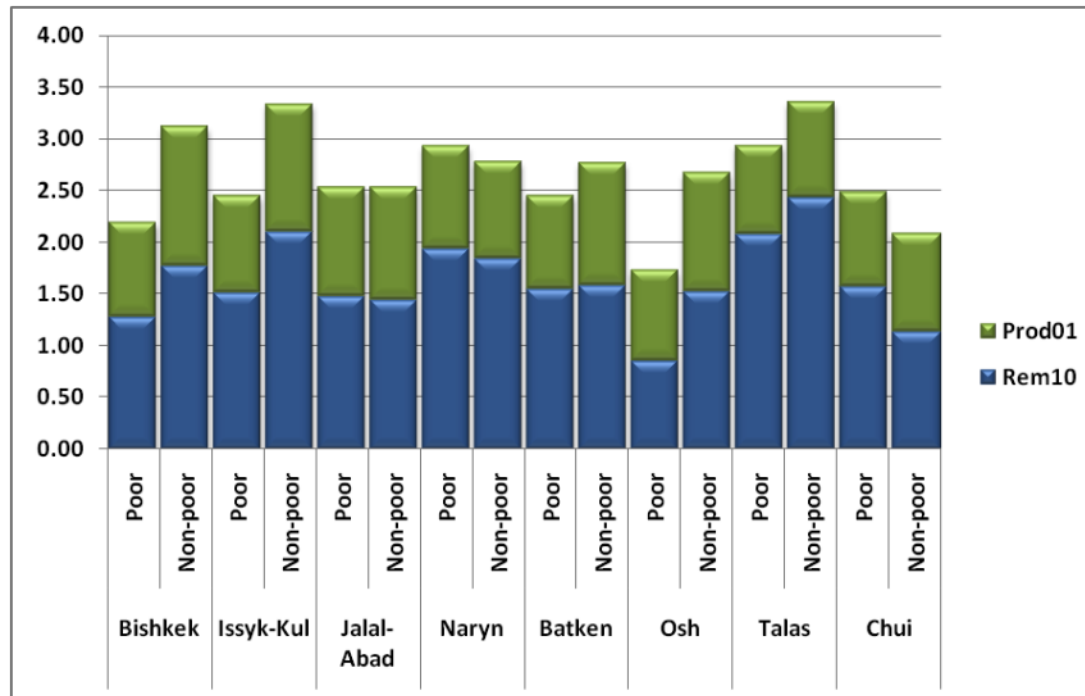




# Meso Results - Imports



# Meso Results - Households



# Conclusions

- The ultimate impact of remittances depends on detailed structural characteristics
  - Recipient profiles
  - Induced demand and saving patterns
  - Domestic sector, resource profiles
  - Labor opportunity cost
- Clearly, it will be difficult to generalize country experiences
- Because of its investment in micro data, this project has an opportunity to significantly strengthen the basis of evidence for more effective policy

# Extensions

- Dynamics
  - Adjustment scenarios
    - “stress testing” against regional cycles
    - Alternative global growth and commodity trends
  - Sustainability and policy complementarity
- More countries
  - Elucidate linkages
  - Improve generality and policy coherence
- Second-order poverty impacts
  - How remittance driven demand employs the poor (construction, food production, basic services)
- Sub-national analysis
  - GIS
  - Transboundary enclaves