

MEASURING THE ECONOMIC GAINS FROM GLOBAL MIGRATION - THE PHILIPPINE EXPERIENCE (First of a three-part series)



This three-part report is a follow up to the earlier LABSTAT Updates series entitled "THE PHILIPPINE OVERSEAS EMPLOYMENT: UNDERSTANDING ITS TREND AND STRUCTURAL CHANGE (see Vol. 10 Nos. 5-9). The report takes a closer look on the economic benefits of overseas employment in terms of their contributions to the nation as a whole and the sectors of the population that benefited from this phenomenon.

Overview

The annual inflow of foreign exchange remittances from overseas Filipino workers (OFWs) is hard to estimate with certainty as there exist alternative modes of delivery that do not pass through the formal channels such as couriers, door-to-door remittance delivery and the like. Moreover, foreign banks do not distinguish between money sent by OFW and relatives of Filipino permanent migrants which makes it even more difficult to reckon the amount of inflow attributed to OFWs.

Despite these limitations, the amount of money sent home annually by OFWs and Filipino

migrants has grown substantially over the last three decades. According to a World Bank Report (2005), the Philippines ranked fourth in terms of remittances behind China, India and Mexico.

Overall Trends

During the period 1975-2005, the yearly inflow of remittances grew by hundred-folds, increasing from just \$103 million to \$10.689 billion. This reflects an average geometric growth rate of 16.7 percent per annum. (*Table 1*)

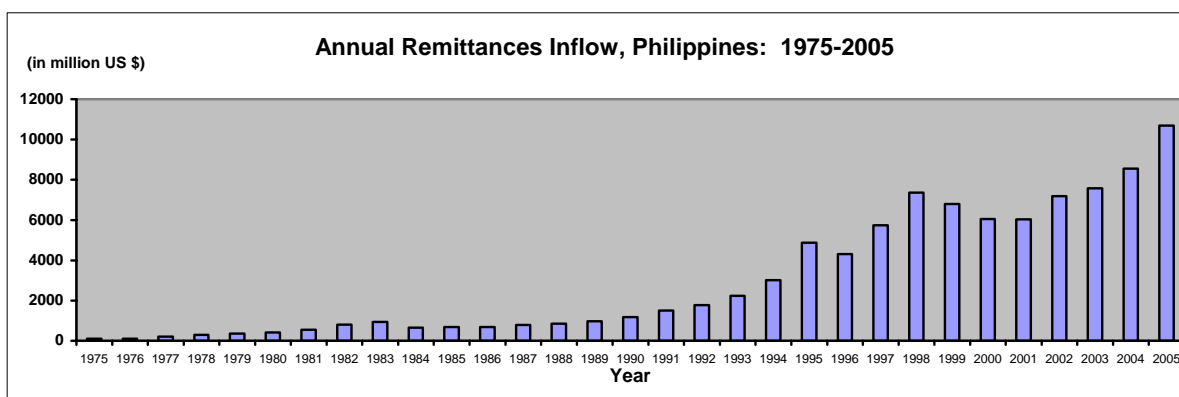


TABLE 1 - Remittances: 1975-2005
(In US\$ million except percent)

YEAR	Amount	Year-on-Year	
		Increment	Growth Rate (%)
1975	103		
1976	111	8	7.8
1977	213	102	91.9
1978	291	78	36.6
1979	365	74	25.4
1980	421	56	15.3
1981	545	124	29.5
1982	810	265	48.6
1983	944	134	16.5
1984	659	-285	-30.2
1985	687	28	4.3
1986	680	-7	-1.0
1987	792	112	16.4
1988	857	65	8.2
1989	973	116	13.6
1990	1,181	208	21.4
1991	1,500	319	27.0
1992	1,770	269	17.9
1993	2,230	460	26.0
1994	3,008	779	34.9
1995	4,878	1,869	62.1
1996	4,307	-571	-11.7
1997	5,742	1,435	33.3
1998	7,368	1,626	28.3
1999	6,795	-573	-7.8
2000	6,050	-744	-11.0
2001	6,031	-19	-0.3
2002	7,189	1,157	19.2
2003	7,578	389	5.4
2004	8,550	972	12.8
2005	10,689	2,139	25.0

Source: *Bangko Sentral ng Pilipinas*.

The growth of remittances over the course of 30 years has been highly erratic. The amounts increased annually at rates ranging from a drop of 30.2 percent in 1984 to a 91.9 percent increase in 1977. There were only six years when the inflow of remittances recorded a decline (i.e., 1984, 1986, 1996, 1999, 2000 and 2001). On the other hand, the biggest increment occurred in the years 1995 (\$1.869 billion), 1997 (\$1.435 billion), 1998 (\$1.626 billion), 2002 (\$1.157 billion) and 2005 (\$2.139 billion).

It is of interest to note that while it took exactly 15 years (1975 to 1990) for remittances to breach one billion dollars, it took only another 15 years (1991 to 2005) to breach ten billion dollars. This robust growth underscores the important role played by overseas employment in the growth of the nation's economy both as a source of wealth and income to its citizenry and as a reliable source of foreign exchange that supported a stable exchange rate for the Philippine peso.

Contribution to the National Economy

Share to GNP

The contribution of remittances to the economy is captured in the Philippine National Income Accounts under the data item "*inflow of compensation*". This item provides details on the amount of dollar and peso inflows, growth rate and share to Gross Domestic Product (GDP) and Gross National Product (GNP). The data series is available from 1985 to 2005.

Prior to 1996, the share of OFW remittances to GNP has been modest (at less than 5%) and almost stagnant. In 1996, the figure edged up to 5.1 percent and then grew steadily until it reached 9.7 percent in 2002. By 2003 and onwards, the figure reached more than ten percent of GNP. (*Table 2*)

**TABLE 2 - Share of Remittances
to Gross National Product,
Philippines: 1985-2005**
(In percent)

YEAR	Share to GNP
1985	3.3
1986	3.4
1987	3.6
1988	3.4
1989	3.4
1990	3.9
1991	4.6
1992	4.8
1993	4.7
1994	4.1
1995	4.7
1996	5.1
1997	5.3
1998	6.6
1999	7.1
2000	7.9
2001	9.3
2002	9.7
2003	10.1
2004	10.3
2005	10.6

Source: National Statistical Coordination Board,
National Income Accounts.

Source of Foreign Exchange

As a major source of foreign exchange, the inflow of remittances is often compared with the amount of foreign direct investments that entered the country each year and the earnings from merchandise exports.

According to the data compiled by the *Bangko Sentral ng Pilipinas* (BSP), the country was able to attract a total of ₱ 306.7 billion "Non-Residents" investments between 1999 and 2004. (Table 3) Over the same period, the total inflow of remittances in peso terms amounted to ₱ 2,400.7 billion. This indicates that the country's foreign exchange earnings from remittances is nearly eight times higher than foreign direct investments.

**TABLE 3 – Remittances and Foreign
Direct Investments, Philippines:
1999-2004**
(In million pesos)

YEAR	Remittances	Foreign Direct Investments
1999	222,793	30,102
2000	281,672	89,266
2001	365,332	50,042
2002	402,791	92,230
2003	450,048	18,795
2004	493,138	26,289
TOTAL	2,400,741	306,724

Source: National Statistical Coordination Board,
National Income Accounts.
Bangko Sentral ng Pilipinas.

Also of importance is the ratio of remittances to the country's top five merchandise exports. For the same period under review, earnings from these export products totaled ₱7,446.8 billion or three times higher than the amount generated from remittances. (Table 4) This also shows that remittances are roughly one-third of the earnings from the top five export products.

**TABLE 4 – Remittances and Earnings
from Top Five Exports, Philippines:
1999-2004**
(In million pesos)

YEAR	Remittances	Receipts from Top Five Exports
1999	222,793	977,518
2000	281,672	1,113,287
2001	365,332	987,233
2002	402,791	1,105,189
2003	450,048	1,120,069
2004	493,138	1,269,296
TOTAL	2,400,741	7,446,815

Source: National Statistical Coordination Board,
National Income Accounts.

Remittances and GNP Growth Rate

The importance of remittances is better appreciated by looking at their specific contribution to GNP growth rates. Table 5 presents statistics that compares actual GNP growth rates (*column 3*) with GNP growth

rates that were derived by excluding remittances (*column 4*). Their difference (*column 5*) at any point in time indicates the degree by which remittances contributed to the nation's overall economic performance.

TABLE 5 – GNP and GDP Growth Rates and OFW Remittances: 1997-2005
(Constant 1985 Prices)

Year	GDP Growth Rate (%)	GNP GROWTH RATE (%)		
		GNP With Remittances	GNP Less Remittances	Difference
<i>(col. 1)</i>	<i>(col. 2)</i>	<i>(col. 3)</i>	<i>(col. 4)</i>	<i>(col. 5)</i>
1998	-0.6	0.4	-1.1	1.5
1999	3.4	3.7	3.0	0.7
2000	6.0	6.9	6.0	0.9
2001	1.8	2.4	0.4	2.0
2002	3.3	3.1	2.8	0.4
2003	6.1	7.0	6.2	0.8
2004	6.2	6.7	6.4	0.3
2005	5.0	5.6	5.4	0.3
Average				0.9

Note: Data not available for years prior to 1997 due to the absence of remittance data at constant prices.
Source: National Statistical Coordination Board, National Income Accounts.

On the average, remittances contributed about one percentage point (0.9%) to annual GNP growth rates between 1998 and 2005. (*column 5*)

It is of interest to note that the gains from overseas employment mattered most during years when gross domestic product (GDP) were at their lowest.

This is most evident in 1998, when GDP contracted by 0.6 percent due to the economic fallout from the Asian financial crisis. This shortfall, however, was offset by the inflow of remittances such that GNP growth rate managed to stay positive at 0.4 percent. Without remittances, GNP growth rate would have been a negative 1.1 percent. This situation occurred again in 2001

when GDP growth rate declined sharply to 1.8 percent from 6.0 percent recorded a year earlier. Again on the strength of remittances inflow, GNP grew by 2.4 percent instead of just 0.4 percent if remittances were excluded from the computations.

Conversely, their contribution to the economy was less obvious in years of high GDP growth rates such as in 2004 (6.2%) and 2005 (5.0%). As noted in column 5, the contribution of remittances to GNP growth rate fell to its lowest level (0.3%) during the two-year period.

This observation supports the view that remittances keep the economy afloat in times of economic crisis.

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