

Hermann Remsperger: Remittances

Welcome speech by Professor Dr Hermann Remsperger, Member of the Executive Board of the Deutsche Bundesbank, at the G8 outreach meeting on "Remittances", Berlin, 29 November 2007.

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I.

It is my pleasure to welcome you to this dinner on the occasion of the G8 Outreach Meeting on "Remittances". I would also like to welcome you on behalf of Karin Kortmann, Parliamentary Secretary of the Federal Ministry for Economic Cooperation and Development.

As far as I know, this is the first time that the Federal Ministry for Economic Cooperation and Development and the Bundesbank jointly host such a dinner. I could well imagine that there will be further opportunities to do so in the future.

As a central bank, we take a keen interest in financial sector issues, because monetary stability and financial stability go hand in hand. Therefore, we are closely following the World Bank's financial market activities, including its strategies for strengthening the financial systems in developing and emerging market economies.

In this context, let me mention a conference we organised jointly with the Federal Ministry of Finance in Frankfurt in May this year. This conference provided input for the G8 action plan for the development of local bond markets in emerging market and developing countries.

And I am happy to say that we will continue to play an active role in this area. In close cooperation with the Finance Ministry, the Bundesbank is organizing a workshop at the end of January which will primarily deal with the broadening of the database on local currency bond markets in the light of financial stability.

Furthermore, the Bundesbank has also built up direct ties with the Ministry for Economic Cooperation and Development. This gives us a useful insight into the activities of the World Bank and the Regional Development Banks. Equally, we are happy to share our technical expertise on financial market issues with your ministry, Ms Kortmann, as background information for the German position at these institutions.

II.

Ladies and gentlemen, we are here today in the Museum for Communication. I think this location was well chosen. Communication and remittances have some things in common – both involve a sender and a receiver. If the process of relating the sender to the receiver is well designed, it should be beneficial to both.

In the context of remittances and seen from the perspective of an individual receiver, remittances can be a substantial part of household income. At the same time, remittances can have a major positive impact on the development of a receiving country as a whole.

At the macroeconomic level, remittances have positive effects on the balance of payments. For the receiving country, remittances are non-debt creating inflows, comparable to foreign direct investment.

The exhibition in this museum vividly illustrates the origins, the development and the future prospects of the information society. Again, there are some parallels with our conference.

First, we are looking at the origins of remittances within the context of international migration. Then, we are also examining the development of the flow of remittances against the

backdrop of technological progress and changes in migration patterns. Finally, we are discussing measures to improve the framework for remittances.

More specifically, we will look into issues such as

- lowering the cost of remitting,
- bringing both senders and receivers into the financial system,
- increasing the benefits migrants can gain from the financial system,
- counteracting adverse macroeconomic impacts, and
- improving the collection of remittance data.

III.

The Bundesbank has prepared a paper for the conference which provides an overview of the German remittance market. This paper shows that Germany is one of the most important sending countries for remittances and is number four worldwide. Last year, Germany received Euro 5.2 billion from the rest of the world and remitted Euro 9.5 billion.

Roughly one-third of remittances sent from Germany go to countries of the European Union. Turkey and Serbia receive the bulk of those remittances which go outside the European Union. Almost all payments from Germany to EU countries are executed by banks, which highlights the fact that a well-functioning market infrastructure and cost-effective payment systems are in place.

There is evidence and growing awareness among banks of the commercial potential of the remittances business. In Germany, competition in the financial sector ensures quite reasonable prices for remittance services, at least as far as sending costs are concerned.

In the case of Turkey, the most important receiver country of German migrant payments, remittances are processed mainly by Turkish banks in Germany or by financial service providers with a close link to Turkish banks. In some other countries, money transfer providers outside the banking sector play an important role. The decision to involve a remittance provider other than a bank depends on the degree of development of the banking system in the recipient country. And, here, the degree of confidence is key.

IV.

Efforts to channel remittances through banks and other licensed or registered financial service providers are to be welcomed for several reasons. One important point is that the balance of payments can more accurately reflect economic transactions of migrants who are working abroad and transferring money home.

Therefore, we are ready to support initiatives to ensure that everybody has the possibility of transferring money home in an easily accessible, secure and efficient way.

For example, the Bundesbank took part in the task force on remittances set up by the Committee on Payment and Settlement Systems and the World Bank. This task force agreed on "General principles for international remittance services", which focus on payment system aspects.

Furthermore, we take part in international efforts to improve the data on remittances. My colleague Jens Walter pointed out this morning that the remittance market has to cope with various statistical problems. Owing to the multitude of channels used for remittances, it remains difficult to capture the whole picture of personal cross-border remittances.

The channels vary with respect to the country concerned and the individual remitter involved. In this regard, different demographic structures and financial systems of the residing and

receiving countries, convenience and cost of the remitting method are important. Owing to the – usually – small amounts remitted per transaction and the multitude of channels, the compilation of exact and complete statistics remains a difficult task.

I am convinced that our conference will contribute to a better understanding of the economic role of remittances. Remittance flows are an important and stable source of funds for many countries. They are a substantial part of financial inflows for countries with a large migrant labour force.

Although not all money transfers are captured in official statistics, formal remittances nevertheless constitute the second largest source of external funding for developing countries, exceeded only by foreign direct investments. They are ahead of both capital market flows and official development assistance.

For some developing countries, remittances account for an even higher share than FDI. Current trends suggest that remittance flows will continue to increase in the next few years.

Ladies and Gentlemen, I firmly believe that this conference will help to make remittances easier, cheaper and more secure. Even if Germany offers the best possible conditions for sending remittances, improvements might still be needed in some receiving countries. The important role remittances can play on a micro and macroeconomic level are worth every effort undertaken to achieve that end.