DETERMINANTS AND IMPACT ON THE TURKISH ECONOMY OF REMITTANCES

Provisional version

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Abstract

Remittances have traditionally been an important source of foreign currency for many emigration countries. In Turkey, from the beginning of the current decade, remittances amount on annual average some 3 billion USD and continue to finance a part of the trade balance's deficit in spite of several peaks and falls. The purpose of this paper is to carry out a case-study on Turkish migrants' remittances by analyzing the determinants and impact on the Turkish economy.

In this study, in addition to the micro and macroeconomic determinants traditionally emphasized in the remittance literature, we stress out the financial infrastructure offered to Turkish migrants and show that the Turkish commercial banks and the Central Bank of Turkey have been playing a crucial role for attracting remittances into the country. But the analysis of the best practices for channeling remittances towards development testifies that the impact of remittances on Turkish economy remained limited.

1. Introduction

The beginning of the Turkish labor movements dates from the bilateral agreement[1] concluded between the Federal Republic of Germany and Turkey on 30 October 1961 with the main objective of assisting the reconstruction of post-war Germany. At that time in Turkey, the economic situation was not in favor of the working population seeing the low levels of wages and per capita GNP (194.1 USD in 1961). Especially the Eastern part of the country was deprived of productive investment projects, which led to mass unemployment in some regions.

Destination countries has been multiplied in the course of time and other European countries such as France, Netherlands, Belgium but also Middle Eastern ones (e.g. Saudi Arabia, Kuwait) have seen their labor market partly characterized by Turkish migrants. Today, Germany is still by far the most important host country for Turkish migrants with some 2 million Turks, or just under two-thirds of the whole Turkish community abroad and is followed by France (see Annex 1).

The money that migrants send home, remittances, represent today an important source of external funding for many developing countries, including Turkey[2]. According to the World Bank data on remittances, with 1.9 billion USD in 2002, Turkey ranks at the 17th place among all developing countries[3] even if she was well ahead in the past (third country in 1980, second in 1995, and fourth in 2000).

In a context where remittance flows is likely to continue to increase in the medium- to long-term (e. g. Ratha, 2003), it became crucial to identify their determinant factors and impact on the receiving countries' economies in order to make the better uses for development.

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[1] The agreement established a cooperation between the two countries' national employment agencies, payment of all relocation costs of Turkish workers; and the possibility of intervention by Turkey, if it considered it necessary, to protect the rights and benefits of Turkish migrants.

[2] The total flow of remittances towards developing countries represented more than 100 billion USD in 2004.

[3] The leading country being Mexico (11 billion USD), followed by India (8,4 billion USD) and the Philippines (7,4 billion USD).

This paper proceeds as follows: The main micro and macroeconomic determinants of remittances, as analyzed by the existing remittance literature, are briefly presented in section 2. One of the important determinant factors of remittances appears to be the financial infrastructure provided to migrants. Therefore, section 3 puts the emphasis on the principal channels of remittances used by Turkish workers abroad. Section 4 provides statistics on the scale of remittances before the analysis of the impact of remittances on Turkish economy *via* some policy examples for development. Section 5 summaries and concludes.

2. Determinants of Workers' Remittances

Within a context where remittances represent a major source of income for many developing countries, it is important to identify the principal motivations of a worker's decision to remit money back to his home country. Traditionally, the existing literature on determinants of remittances has either a microeconomic or a macroeconomic approach.

2.1. Microeconomic Factors as Determinants of Remittances

Most of the studies as regards the determinant factors of workers remittances have a microeconomic perspective. Variables that are mainly analyzed consist in migrant worker's and his family's socioeconomic characteristics on one hand, and his personal motives on the other.

According to Russell (1986), time passed abroad, income level of the migrant's family, job situation of other members of the family, education level, work experience and marital status of the migrant are among the main socio-demographic determinants of remittances. Other factors such as the number of children, as well as their education level, and the economic situation of the migrant before migration are added later on by Ilahi and Jafarey (1999).

From data on North African migrants, Elbadawi and Rocha (1992) show that the amount of remittances decreases with the *ageing phenomenon* of workers abroad. On the other hand, Ameudo-Dorantes and Pozo (2003) find that elderly Mexican migrants in the United States earn more money and therefore remit more than the younger ones.

With respect to the *time since arrival* into the host country, one would expect a decrease of remittances in the time as a sign of integration. However, many studies find a positive correlation between the time passed since arrival and the amount of money transferred (e.g. Massey and Basem, 1992; Diaz Briquets and Perez Lopez, 1997; Brown, 1997; Balderas, 2003).

Another socioeconomic determinant factor of remittances seems to be the *education level of the migrant* and of his family (Buch *et al.*, 2002; Murrugarra, 2002; Ameudo-Dorantes and Pozo, 2003). According to these studies, the amount of remittances rises with the level of education. Nevertheless, the probability of remitting money back home may decrease with the increase of migrants' education level (Funkhouser, 1995). This might be a consequence of the fact that other remuneration possibilities for savings may be considered by the migrant as an alternative to the remittance choice to the home country. This is especially the case if one is sensitive to currency fluctuations (Serageldin *et al.*, 1981).

As far as the *gender component* is concerned, little work has been done but most of the studies point out a differentiation in remittance behavior between men and women (e.g. De la Cruz, 1995; Osaki, 1999; Tacoli, 1999; De la Brière, 2002). Women seem to remit more regularly, especially because of the traditional family configuration observed in some developing countries.

In parallel, various studies discuss the *individual motives* as determinants of remittances. For instance, Lucas and Stark (1985) and more recently, Rapoport and Docquier (2005), analyze the importance of a migrant's altruism, self-interest, insurance and loan payment motives in his/her remittance decision. That is to say, emigrants enjoy remitting home because they care about household consumption (altruism). Also, they expect to inherit from the household's fortune, invest in assets in his/her home area and expect the household to take care of them (self-interest or exchange). If the emigrant and the household share a contractual insurance agreement and the economic situation of the household deteriorates the emigrant will send more money home (insurance payment). Finally, if the migrant's initial human capital is financed by his/her family, remittances of the former would consist in loan payment.

It is noteworthy that the theoretical models developed Rapoport and Docquier (2005) predict for each of these motives the sensitivity to a various explanatory variables that were previously considered one by one in the remittance literature (*see supra*). A summary of their results are presented at the table 1. For instance, if one assumes that altruism decreases with time and familial distance, the size of remittances should be negatively related to these two variables in the altruistic case. Moreover, when remittances have a loan repayment component, they should be related to the amounts invested by the family in the migrant's education and/or moving costs: remittances are therefore expected to increase with the migrant's education and with geographic distance.

Table 1: Remittances' Sensitivity to a Various Explanatory Variables

Motives / Explanatory Variables	Altruism	Self-interest	Insurance	Loan payment
Migrant's income	>0	>0	nde	>0
Migrant's education	nde	<0	nde	>0
Time since arrival	≤ 0	nde	nde	nde
Distance from family	≤ 0	nde	nde	>0
Number of migrants/heirs	<0	nde	nde	nde
Recipient's assets (land, cattle etc.)	nde	nde	nde	nde

nde: no direct effect (after controlling for migrant's and/or recipients' income).

Source: Rapoport and Docquier (2005), pp. 39.

As regards the microeconomic determinants of Turkish workers' remittances, the important lack of data makes such estimations unavailable for the time being.

2.2. Macroeconomic Factors Affecting Remittances

Among the macroeconomic factors affecting remittances number of migrants and their income level, the economic situation of both of the origin and the host country, exchange rates, interest rate differences between the worker-sending and the receiving countries, the potential political risks at the origin country and the remittance infrastructure have already been underlined by Russell (1986).

Indeed, there is no doubt that the *economic situation of the host country* is an important determinant of remittances. Also, the *number of migrants and their income level* have a positive and significant impact on remittances (e.g. Swamy, 1981; Straubhaar, 1986; Elbadawi and Rocha, 1992; El-Sakka and McNabb, 1999). However, from data on Turkey Aydaş *et al.* (2004) find that the number of migrants loses its importance in time.

With respect to the *home country's economy*, many authors have observed an increase in remittance inflows following a bad economic situation (e.g. El-Sakka and McNabb, 1999; De la Brière et al., 2002) which provides evidence on counter cyclical property of remittances. On the other hand, Higgins *et al.* (2002) and Aydaş *et al.* (2004) argue that remittance flows tend to increase following respectively the rise of the GDP per capita and the growth rate of the home country (pro-cyclical property).

The *inflation rate at the origin country* is another macroeconomic determinant of migrants' remittances. As high inflation affects the left-behind family's income level negatively, remittances may increase because of the altruism motive explained above. However, high inflation may be interpreted as a signal of instability as well and therefore generates a decrease in remittances (Glytsos, 1988; Elbadawi and Rocha, 1992; Aydaş *et al.*, 2004).

To which extend remittances are affected by the *origin country's currency policies and the interest rate differentials compared with the host country*, is another issue for the ongoing debates. While according to Swamy (1981), Straubhar (1986) and Chami *et al.* (2003) there is no relationship between remittances and these variables, other studies, especially as regards Turkey show the opposite. Indeed, Aydaş *et al.* (2004) argue that Turkish workers' remittances increased with interest rate differentials from 1979 to 1993. Using more recent data (1993-2003) on Turkey, Alper (2005) concludes that remittances are positively affected by the interest and currency rates on the long-term and negatively affected on the short term.

More generally, as underlined by the World Bank (2006), *government policies* clearly affect remittances flows. "In the remittance-receiving countries, these policies include tax exemptions for remittance income; improved access to banking services by recipients; incentives to attract investments by the diaspora; access to foreign exchange or lower duties on imports; support for the projects of migrant associations; and help for migrants in accessing financial systems. In the remittance-source countries, they include policies affecting access to banks, access to foreign exchange, support to migrant groups, types of immigration regimes, and cooperation with receiving countries" (p. 93).

This emphasizes the necessity of efforts, from both the origin and the host country sides in order to provide a better *financial infrastructure* for remittances[4]. Then it is worthy to analyze more closely the Turkish case with this respect as it may represent an interesting example for other developing countries.

3. Financial Infrastructure for Remittances to Turkey

Turkish banks represent the most important channel for the transfer of remittances[5]. They are estimated to account for more than half of all remittance transactions to Turkey. Besides, the Central Bank of the Republic of Turkey plays a very important and unique role worldwide, as it allows Turkish residents abroad to open a saving account.

3.1. Turkish Commercial Banks

Among the Turkish banks abroad, we can distinguish today three main transfer modalities:

The "on-line"/ "passing trade system": The main advantage of this modality is the easiness and rapidity since neither the sender nor the recipient needs to have an account at the respective bank. The cash remittance takes place simply on presentation of an identity document valid in the country of residence and an identity document valid in Turkey on reception. The money is transferred to Turkey on the same day for a very low cost[6] compared to other financial institutions (Köksal and Liebig, 2005).

Transfers from "collective accounts"[7]: Naturally, the branch network of the Turkish banks abroad does not cover all communities with resident migrant Turks. Thus, to allow an individual to transfer remittances to Turkey without having to pass directly to one of the branch offices, Turkish banks have installed a system *via* "collective accounts". The operating procedure for these

[4] Wahba (1991) stresses out this issue and concludes that the financial institutions play a crucial role as determinants of remittance flows.

[5] For a more detailed analysis on channels of remittances from Germany to Turkey, see Köksal and Liebig (2005).

[6] Fees are approximately as follow: 5.50 EUR for transfers under 5 000 EUR, 8 EUR for transfers between 5 000 EUR and 10 000 EUR, 1‰ of the amount sent (with a minimum of 13 EUR) for transfers above 10 000 EUR.

[7] This modality is mainly used for transfers from Germany.

accounts is that individuals deposit at their local bank the money that they wish to transfer by filling out a regular "inland" transaction form, where the number of the collective account at the Turkish bank is already shown by default as the "recipient". In any case, in addition to indicating the collective account, the sender has to specify the contact information of the recipient in Turkey in the line reserved for the "purpose of the transaction". The local bank then passes the money to the collective account (compounded of transfers made *via* all banks following the same process) of the Turkish bank in the country. The money is finally sent to Turkey by the respective Turkish bank, which directly deducts its fees (same as for the on-line system) from the amount transferred. The time required for this procedure varies from two to four days, according to the sending and the receiving cities.

As regards the potential costs to be borne by the recipient, if the withdrawal takes place in Turkish lira or if the withdrawal in a convertible currency is made more than 15 days following the remittance, most of the banks in Turkey do not take any commission. On the other hand, if the money is withdrawn in foreign currency in less than 15 days, about 0.5% of the amount remitted is withheld by the bank with a minimum commission of the equivalent of 10 EUR). While at first sight, Turkish banks appear not to overly profit from remittances; this withholding in the case of immediate disbursement seems to reflect the importance of foreign currency reserves to commercial banks in Turkey. Naturally, at times of high interest rates and consecutive devaluations of the Turkish lira, the opportunity cost of not immediately withdrawing or re-investing this sum was also substantial. In this case, a large part of the transaction cost was borne by the recipient, even though this may not have been perceived as a direct "out-of-pocket" cost.

Transfers from one account to another using the SWIFT process (Society for Worldwide Interbank Financial Telecommunication): This channel is used for transactions where the receiving bank in Turkey differs from the sending institution abroad. Because of the involvement of SWIFT as an additional intermediary in the remittance process, this modality is more time-consuming and costly. Consequently, this modality remains of relatively minor importance, given the overwhelming cost advantage of the first two modalities.

The reduction of remittance costs in order to increase formal transfers is a common recommendation resulting from the debates on this issue. With respect to Turkey, fees charged by the major Turkish banks appear to have been both fairly similar and quite stable in recent years, despite technological advances. No further reductions are envisaged. According to Köksal and Liebig

(2005), there are three principle reasons for this surprising stability. First, the market appears to have reached a certain competitive equilibrium. Second, along with savings in transaction costs due to further automation of the process, interest rates in Turkey have fallen and the need to attract foreign currency has diminished. This resulted in lower fees for the recipient and diminished the attractiveness of remittances for some of the smaller banks. In fact, these banks, which did not charge fees in the past, are now withdrawing from the market. *Last but not least*, given the relatively low current fee level, clients appear to be less concerned with the actual fee than with the reliability of production and the respective situation of the host and home country economies.

3.2. The Role of the Central Bank of Turkey

The case of Turkey as regards the policies attracting remittances is a quite interesting and a unique one because of the services offered by the Central Bank of Turkey. With respect to migrants' remittances and management of savings, there are two modalities offered to Turkish residents abroad[8]:

Foreign currency deposit accounts with credit letter: The credit letter is a bank document which allows payment of the sum stated therein to the individual account-holder. The payment is effected by the Central Bank, or one of its branches, or by a correspondent bank abroad. This practice dates from 1976 when Turkey was short of foreign currency and tried to attract foreign exchange into the accounts of the Central Bank. This objective lost its importance towards the end of the 1980s with the liberalization of capital movements.

Super Foreign Exchange (FX) accounts: This is a second type of deposit account offered by the Central Bank of Turkey and was introduced in 1994. It offers more attractive interest rates than the foreign currency deposit accounts with a credit letter.

The fees charged for transferring the deposited amounts to Super FX Accounts by banking institutions in Turkey and abroad are paid by the account holder and interest rates vary according to the term of the deposits. By the end of 2005 they were as follows:

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[8] To use these modalities, persons must be Turkish expatriates, aged over 18 years, resident abroad and in possession of a work or residence permit. Persons authorised to work abroad for a long term by the public agencies, and those employed at representative offices and bureaus of public and private sector organisations abroad, are also entitled to open these accounts.

Table 2: Interest Rates of Foreign Currency Deposit Accounts With Credit Letter

Type of foreign currency	One-year deposit	Two-year deposit
EURO	2.50%	2.75% (annual)
USD	2.25%	2.75% (annual)
GBP	4.00%	4.00% (annual)
CHF	0.75%	0.75% (annual)

Table 3: Interest Rates of Super FX Accounts

Type of foreign currency	One-year deposit	Two-year deposit	Three-year deposit
EURO	3.00%	3.50% (annual)	4.00% (annual)
USD	3.00%	3.75% (annual)	4.50% (annual)

A comparison of the interest rates offered on a one-year term by the Central Bank with those of the commercial banks shows that only deposits in Super FX accounts in EUR are attractive to migrants as they are slightly above the market rate. If the Central Bank's recent revisions of the rates for deposits in Euro continue to decrease within the next months[9], it is indeed more likely to observe the opposite scheme, in which migrants would have no reason to make such deposits at the Central Bank. In fact, returns on Super FX deposits in USD are already below from the commercial banks' for one year deposits.

In addition, market interest rates are even significantly higher than those offered by the Central Bank on Foreign Currency Deposit Accounts with Credit Letter, making this type of account rather unattractive. This can doubtlessly be explained by the fact that funds deposited in these accounts are accessible abroad as well as in Turkey, while in the case of Super FX accounts, direct withdrawals can only be made in Turkey.

[9] By the end of June 2005, interest rates for Euro deposits have been lowered by 0.50 points.

Due to the attractiveness of Super FX accounts, particularly for two and three-year deposits, the Central Bank remains a major player in the transmission of migrants' savings towards Turkey, but is not necessarily viewed as a competitor by other Turkish banks engaged in the remittances business. The Central Bank of Turkey has a rather long-term focus (*i.e.* savings-targeted, with a possibility of deposits above one year with very attractive rates), in contrast to the short-term approach (*i.e.* transaction-targeted) adopted by commercial banks.

4. Scale and Impact of Remittances on Turkish Economy

In this section, the magnitude of remittances to Turkey will be presented in a historical perspective, before the analysis of the main government initiatives in order to channel remittances towards economic and social development.

4.1. Scale of Remittances

With respect to the scale of remittances to Turkey, the annual statistics of the Central Bank of Turkey displays remittance flows through official channels. The flow of remittances and their relevant share in other economic magnitudes such as GNP, exports and imports for the period 1961-2004 is presented in Annex 2.

In Turkey, since the mid-1960s, these transfers have been an important source of foreign currency. Initially, if the weak amounts of remittances are due to the low numbers of migrants and their settlement expenditures, from 1964 to 1967, Turkish migrants have remitted their income almost entirely until the economic crisis in Germany.

The dramatic increases between 1970 and 1974 can be explained by the consecutive devaluations of the Turkish Lira during that period. Later on, bad economic conditions in all European countries ended in a decrease in remittances by 25% from 1975 to 1976 and despite numerous currency adjustments (in 1977, 1978, 1979) the government did not succeed in an increase because of the black market's premium in Turkey.

There are several reasons behind the recovery observed in 1979-1982. Among them it is possible to mention the multiplication of the migrants' destination countries, particularly towards East, the liberalization of capital movements, and the beginning of openings of the Turkish commercial banks' representative offices abroad (e.g. Türkiye İş Bankası and TC Ziraat Bankası).

In 1983, with the German government's "Voluntary Repatriation Encouragement Act", migrants have been offered financial incentives for final returns to Turkey and remitted less money between 1984-1987.

With the integration of the second and third-generation migrants in the host countries, the remittance/export revenues ratio in the 1990s continued to decline, but still averaged close to 17 %.

Remittances to Turkey have declined in the last three to four years. This decline is continuing partly due to the economic downturn in host countries such as Germany.

4.2. Impact of remittances on the Turkish economy: some policy examples to promote the development

The impact of remittances can be studied in terms of the monetary and financial markets, investment, the labor market, and the social aspects of development.

Remittances traditionally financed part of Turkey's current account deficit, essentially due to public deficits and the adverse foreign trade balance. They increased Turkey's volume of international liquidities and helped to enhance its import capacities. But remittances have also had an inflationary effect and have influenced the exchange rate of the Turkish lira, which has suffered numerous devaluations. In this respect, while active policies of attracting foreign currency held by immigrants or encouraging them to transfer their savings (especially by paying high rates of interest on savings accounts in convertible currencies) can increase the volume of remittances, they may also translate into high financial costs and inflationary tensions.

In order to channel remittances towards investment and employment, Turkey has undertaken two main development projects in the late 60's: "village development co-operatives" and "workers' joint stock companies".

The **"village development co-operatives"** were launched in 1962 and aimed to promote development in rural areas. According to the functioning procedure, the pre-engagement for a migrant worker to participate and finance the development projects in his/her hometown by savings realized abroad, provided him/her a priority place while leaving the country. Between 1965 and 1973, there were about 1 400 cooperatives registered (Yüksel, 1982), but as the main purpose of migrants was to avoid long waiting lists before departure rather then a real development concern, the initiative did not enjoy the expected success.

Later on, many studies (e.g. Yüksel, 1982, Abadan-Unat, 2002) argued that the failure can be attributed to several reasons and not only to workers' unwilling attitude. Then, factors such as the lack of dynamism from the political and administrative institutions, insufficiency of resources, and shortages in managerial abilities of migrants are also considered.

"Workers' joint stock companies" are a more developed form of the cooperatives as they seek the promotion of industrialization on a country basis. They also aimed to channel international migrants' savings towards investment in Turkey and to create new job opportunities in less-developed regions.

In order to be qualified as such a joint stock company two conditions had to be satisfied:

- To be founded by individuals working aboard or by those who have returned to Turkey definitively;
- To be financed by migrants at 50% of the initial capital.

In addition, in case of the new investments, migrants must own the majority of the capital and be active in the management. As regards the investments in an existing organization, migrants must own at least 30% of the capital and also be active in the management.

The first examples of these workers' company holdings date from the mid 1960s. More than 100 of such companies were active in 1975 but many of them faced up important financial problems.

In order to help them to deal with these issues, the Turkish government created the State Bank for Industry and Migrant Investment (DESİYAB)[10] in 1976. The bank, which no longer has the same role today, originally identified

[10] DESİYAB (Devlet Sanayii ve İşçi Yatırım Bankası A.Ş., i.e. *State Bank for Industry and Migrant Investment*) ceased to exist, following a merger with the Turkish Tourism Bank. It is now the Turkish Development Bank, which does not have the same purpose as the former State Bank for Industry and Migrant Investment.

appropriate areas for local investment, prepared feasibility studies, evaluated projects, assisted in the procedures involved in setting up enterprises. DESİYAB has also offered additional financing in the form of credit or participation in existing firms or start-up, and recruited senior management while at the same time helping to train the members of these enterprises.

At the same period, a bilateral agreement concluded between the Republic of Turkey and the Federal Republic of Germany aimed to "encourage the professional integration in the Turkish economy of immigrants working in Germany". In this respect, German government partly financed a special fund reserved for workers' who re-migrate back to Turkey and accept to contribute the investment efforts initiated in the country.

The financial incentives offered by the Turkish State Planning Organisation to migrants who agreed to invest in "priority development towns"[11] should also be mentioned. These measures consisted in financial supports of investment projects started by migrants within these priority areas. However, contributions were very limited and thus did not incite a large amount of investment.

These failures are again attributed to problems both of financing and management (e.g. Güven, 1977; Yüksel, 1982; Tatar *et al.*, 1989; Ersun *et al.*, 1997). Even if these initiatives are often qualified as exemplary for promoting development *via* remittances (Martin, 1991), the practice showed that there has been a mismatch between the financial resources and workers' entrepreneurial abilities. In addition, the lack of good governance made the climate inappropriate for the expected success.

As regards the impact on the social aspects of development, it is probably easier to emphasize that remittances have an unquestionable impact on improving the living standards of migrants and their family. According to the results of a recent study on international migrants' remittances and welfare status of the left-behind families in Turkey (Koç and Onan, 2004), migrant savings are generally used for satisfying basic consumption needs. Remittances are mainly used to improve the standard of living by the households receiving

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[11] Initially these were exclusively the towns of East and South-East Anatolia, namely : Adıyaman, Ağrı, Bingöl, Bitlis, Diyarbakır, Gümüşhane, Hakkari, Kars, Mardin, Muş, Siirt, Tunceli, Van. Subsequently, Amasya, Artvin, Çankırı, Çorum, Elazığ, Erzincan, Erzurum, Kastamonu, Malatya, Kahramanmaraş, Sivas, Sinop, Tokat, Şanlıurfa and Yozgat were defined as "priority development towns".

remittances. By considering the variation by regions, authors show that the daily expenses of remittance-receivers in less-developed regions depend largely on remittances. Moreover, remittances seem to have a positive impact on household welfare and thus, contribute to reduce poverty and inequality.

For the time being, there is no available data on the impact of remittances on levels of education and healthcare in Turkey.

5. Summary and conclusions

Turkey is one of the well known emigration countries with its more than 3.5 million residents living abroad and remittances have traditionally been a very important source of foreign currency for the country. From the beginning of the current decade, they amount on annual average some 3 billion USD and continue to finance a part of the trade balance's deficit in spite of several peaks and falls.

Two main set of variables seem to explain the determinants of remittances: i) the dynamics of family ties, which are related to factors such as the social status, well-being and risk-sharing by migrants and their relatives, ii) the macroeconomic stability, which implies factors such as inflation, growth, interest rate differentials and exchange rate.

Furthermore, the financial infrastructure for migrants' remittances is more and more questioned today as a determinant factor of these flows. In this respect, Turkish banks are the most important channel for the transmission of remittances. Along with the Central Bank of Turkey, they are the main actors for collecting and placing these funds. Originally, the aim of the large-scale establishment of Turkish banks in the field of migrant remittances was not solely to profit from the migrants' money through transaction fees. In fact, the main focus was a macro-economic one, especially *via* facilitating the entry of foreign currency into Turkey through low transfer costs that are still very competitive compared to other financial institutions. In time, fees charged by the major Turkish banks appear to have been both fairly similar and quite stable despite technological advances and no further reductions are envisaged.

Another particularity of the Turkish example is the role played by the Central Bank of Turkey, where only migrants and Turkish citizens residing abroad may open bank accounts. For medium and long-term savings accounts from which direct withdrawals are only possible within Turkey, the Central

Bank offers higher interest rates than the Turkish commercial banks. Through these provisions, the Central Bank has apparently tried to channel remittances into savings and investment in Turkey.

As regards the impact of remittances on Turkish economy, first and the foremost remittances traditionally financed part of Turkey's current account deficit, essentially due to public deficits and the adverse foreign trade balance but also have had an inflationary effect and have influenced the exchange rate of the Turkish lira.

Various active policies and practices were in operation in the 1970s and 1980s in order to channel remittances to specific economic activities and to promote the development. The two main examples of such initiatives are the "village development co-operatives" and the "workers' joint stock companies". Even if these initiatives are often qualified as exemplary for promoting development *via* remittances they have not been successful because of the mismatch between the financial resources and workers' entrepreneurial abilities. In addition, the lack of good governance made the climate inappropriate for the expected success.

It is probably easier to emphasize that remittances have an unquestionable impact on improving the living standards of migrants and their family in Turkey but for the time being, the lack of sound data does not allow identifying other links between remittances and the social aspects of development.

Annex 1: Distribution of Turkish Residents Abroad

Country	Number of Resident Turkish Citizens Abroad
I. Western Europe	
Germany	2 053 600
France	311 356
Netherlands	299 909
Austria	134 229
Switzerland	79 476
United Kingdom	79 000
Belgium	70 701
Sweden	38 844
Denmark	35 232
Italy	10 000
Norway	10 000
Finland	3 325
Spain	1 000
Liechtenstein	809
Luxemburg	210
Subtotal	**3 127 691**
II. Mid-East-Asia and Northern Africa	
Saudi-Arabia	100 000
Israel	10 000
Libya	2 650
Kuwait	3 000
Jordan	1 130
Qatar	400
Subtotal	**117 180**
III. Central Asia	
Kazakhstan	7 000
Azerbaijan	5 000
Turkmenistan	5 000
Uzbekistan	3 700
Kyrgyzstan	2 050
Tajikistan	300
Subtotal	**23 050**
IV. Central and Eastern Europe	
Russia	30 000
Georgia	1 200
Ukraine	800
Moldova	200
Belarus	70
Subtotal	**32 270**
V. Other	
United States	130 000
Australia	52 620
Canada	35 000
Japan	1 729
South Africa	500
Subtotal	**219 849**
TOTAL	**3 520 040**

Source: Ministry of Labor and Social Protection of the Republic of Turkey.
http://www.calisma.gov.tr/yih/yurtdisi_isci.htm

Annex 2: Remittances and Their Relative Importance with respect to GNP, Exports and Imports to Turkey, in million USD

Year	Remittance inflow	Exports	Remittances as % of Exports	Imports	Remittances as % of Imports	Remittances as % of GNP
1964	8,1	411	1,97	-537	-1,51	0,1
1965	69,8	464	15,04	-572	-12,20	0,6
1966	115,3	490	23,53	-718	-16,06	0,8
1967	93	523	17,78	-685	-13,58	0,6
1968	107,3	496	21,63	-764	-14,04	0,6
1969	140,6	537	26,18	-801	-17,55	0,7
1970	273	588	46,43	-948	-28,80	1,5
1971	471,4	677	69,63	-1 171	-40,26	2,7
1972	740	885	83,62	-1 563	-47,34	3,3
1973	1 183	1 317	89,83	-2 086	-56,71	4,1
1974	1 425	1 532	93,02	-3 777	-37,73	3,6
1975	1 312	1 401	93,65	-4 738	-27,69	2,7
1976	982	1 960	50,10	-5 129	-19,15	1,8
1977	930	1 753	53,05	-5 797	-16,04	1,5
1978	983	2 288	42,96	-4 599	-21,37	1,4
1979	1 694	2 261	74,92	-5 069	-33,42	2,2
1980	2 071	2 910	71,17	-7 909	-26,19	3,0
1981	2 490	4 703	52,94	-8 933	-27,87	3,4
1982	2 140	5 746	37,24	-8 843	-24,20	3,2
1983	1 513	5 728	26,41	-9 235	-16,38	2,4
1984	1 807	7 134	25,33	-10 757	-16,80	3,0
1985	1 714	7 959	21,54	-11 344	-15,11	2,5
1986	1 634	7 457	21,91	-11 105	-14,71	2,1
1987	1 021	10 190	10,02	-14 158	-7,21	1,2
1988	1 776	11 662	15,23	-14 335	-12,39	2,0
1989	3 040	11 625	26,15	-15 792	-19,25	2,8
1990	3 246	12 960	25,05	-22 302	-14,55	2,1
1991	2 819	13 598	20,73	-21 038	-13,40	1,9
1992	3 008	14 715	20,44	-22 872	-13,15	1,9
1993	2 919	15 345	19,02	-29 428	-9,92	1,6
1994	2 627	18 106	14,51	-23 270	-11,29	2,0
1995	3 327	21 636	15,38	-35 709	-9,32	1,9
1996	3 542	23 225	15,25	-43 627	-8,12	1,9
1997	4 197	26 261	15,98	-48 559	-8,64	2,2
1998	5 356	26 973	19,86	-45 922	-11,66	2,6
1999	4 529	26 588	17,03	-40 671	-11,14	2,4
2000	4 560	27 485	16,59	-54 503	-8,37	2,3
2001	2 786	31 334	8,89	-41 399	-6,73	1,9
2002	1 936	36 059	5,37	-51 554	-3,76	1,1
2003*	729	47 253	1,54	-69 340	-1,05	0,3
2004	804	63 121	1,27	-97 540	-0, 01	0,1

Note: * Change in method of accounting for remittances. From 2003 on, spending by migrants during their visits as tourists to Turkey are entered under the heading "tourism" in the balance of payments. The total sum is likely to exceed 2 395 million USD in 2003.

Sources: Central Bank of Turkey (balances of payments) and Turkish Statistical Institute (national accounts).

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