

## Are Remittance Flows Another Casualty of COVID-19?

### The Macroeconomic Consequences of Remittances: The Impact of COVID-19

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Joint Vienna Institute

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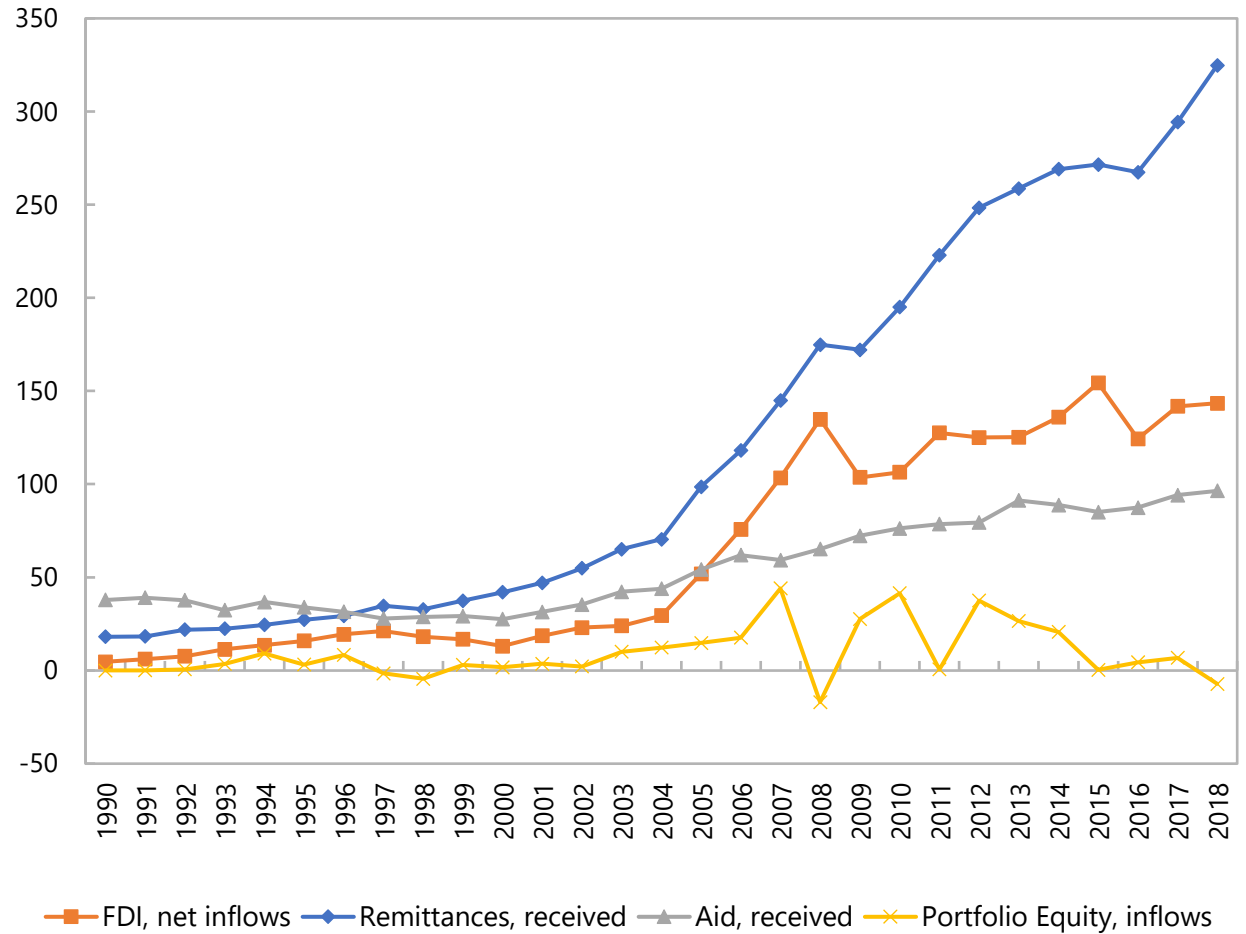


## Migrants Workers Across the Globe

- There are about 165 million migrant workers
- About 42% female and 58% men
- About 68% are in high-income countries
- Sending \$550 billion US dollars home, 2019

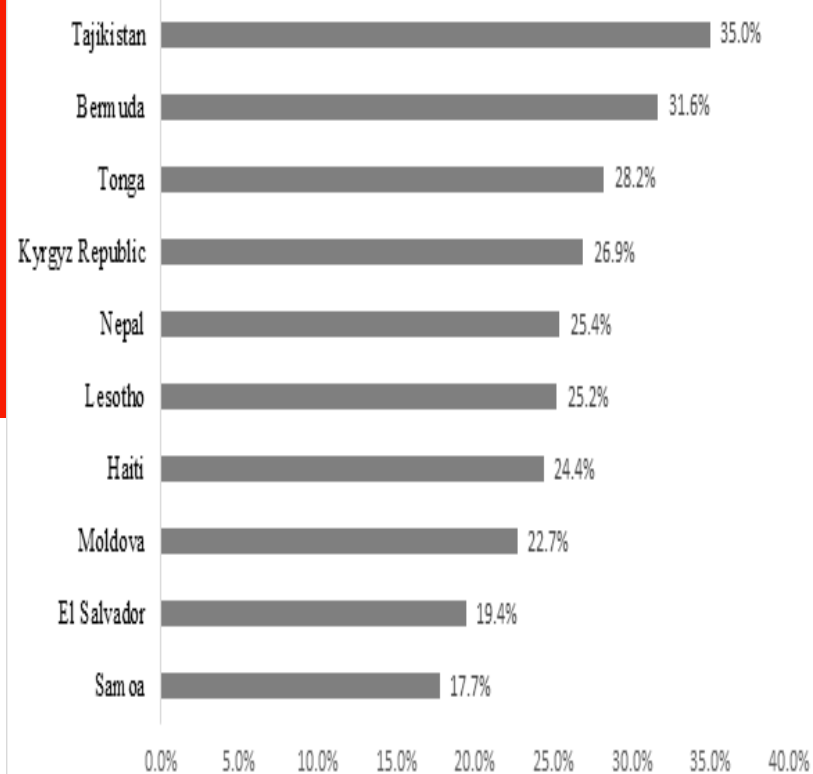
Remittances are the major flows into LICs and Fragile States

**Inflows in Low Income (LIC) and Lower Middle Income (LMC) countries**  
(in billions of current US\$)

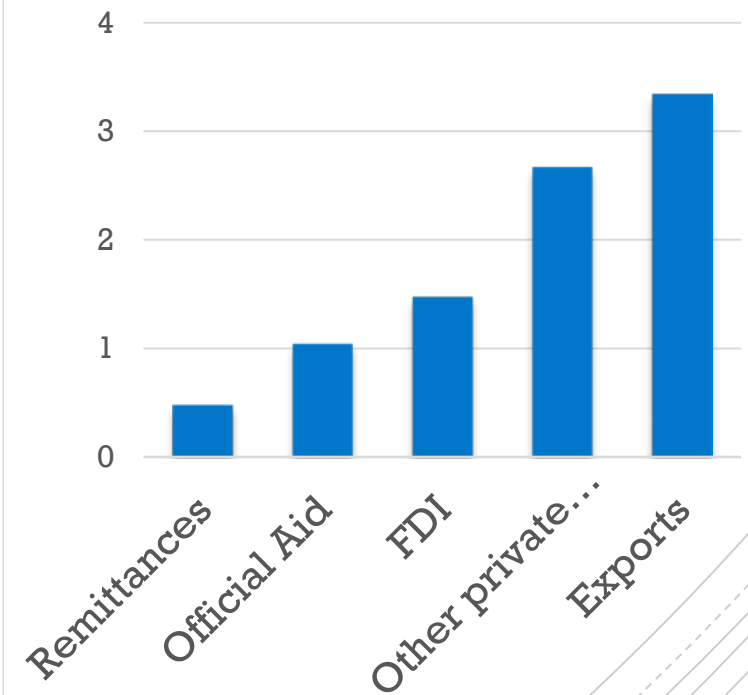


They are  
Reliable and  
Stable

### The 10 Largest Recipients of Remittances (in % of GDP), 2004–2018



### Volatility of inflows into Developing Countries 1980-2018



Households  
use them to



**Increase & buffer consumption**



**Spend on health & education**



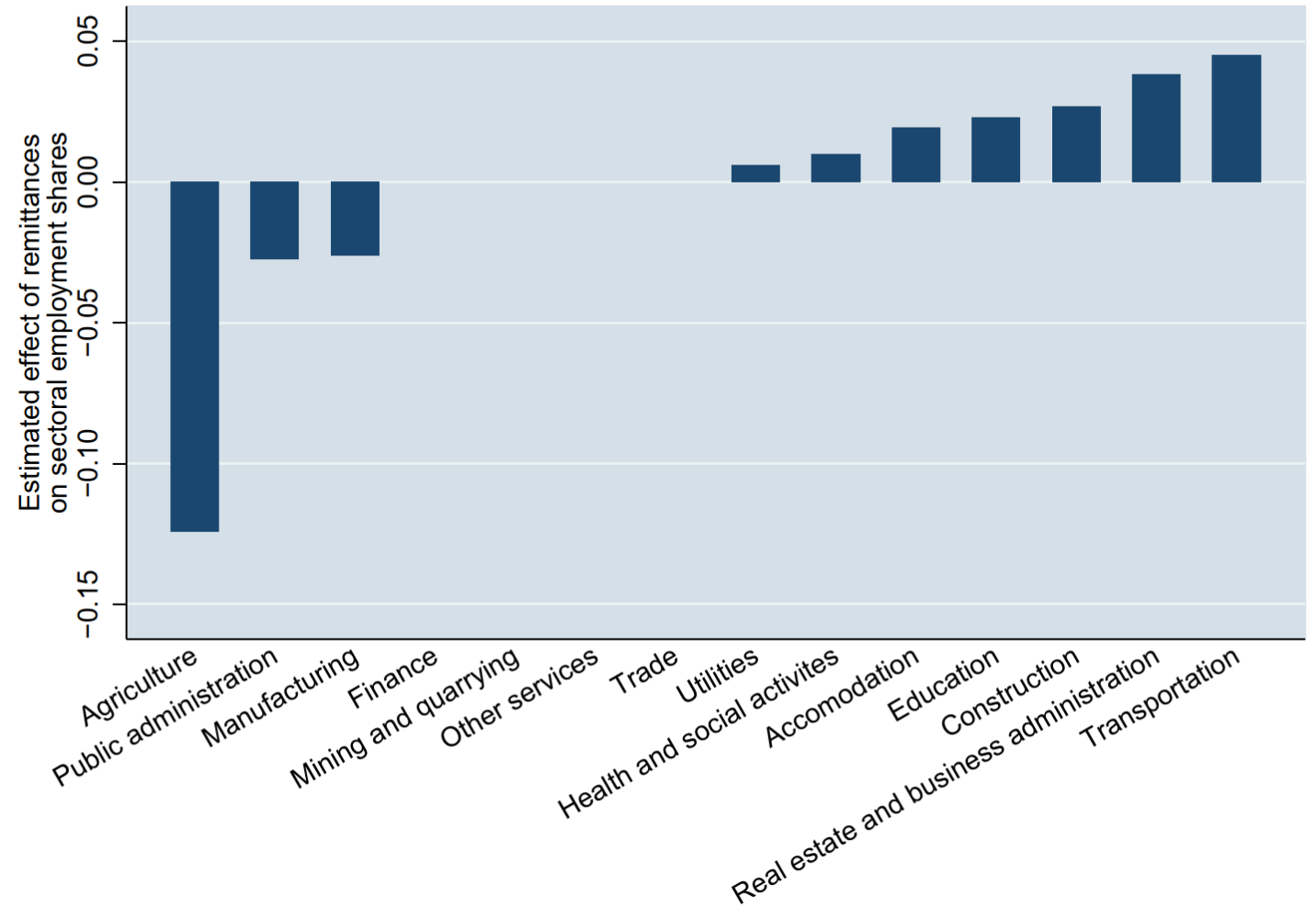
**Alleviate credit constraint**



**Increase self employment &  
Informality**

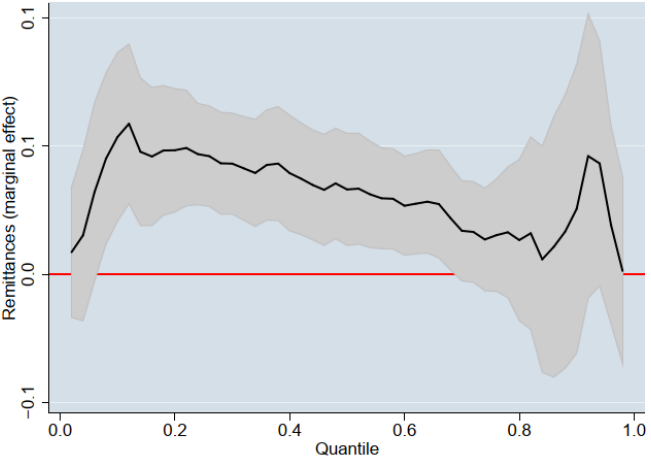
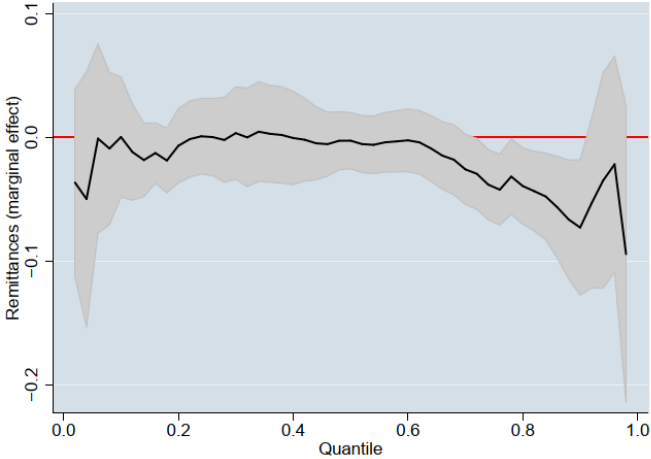
# Our Research: Impact on Employment

Figure 2: Sectoral employment impact of remittances

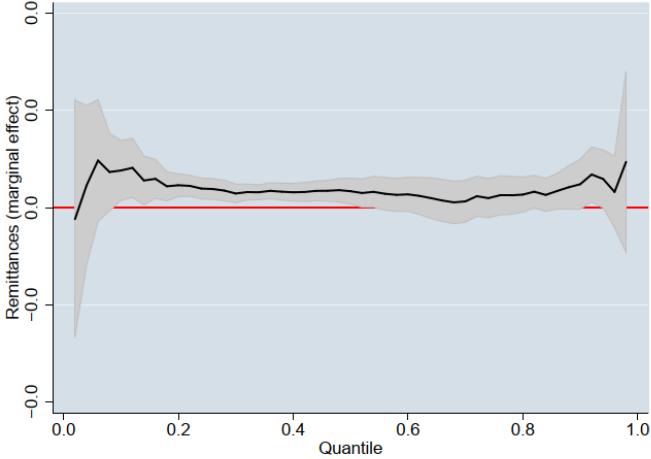


Impact on  
Employment  
Across Countries

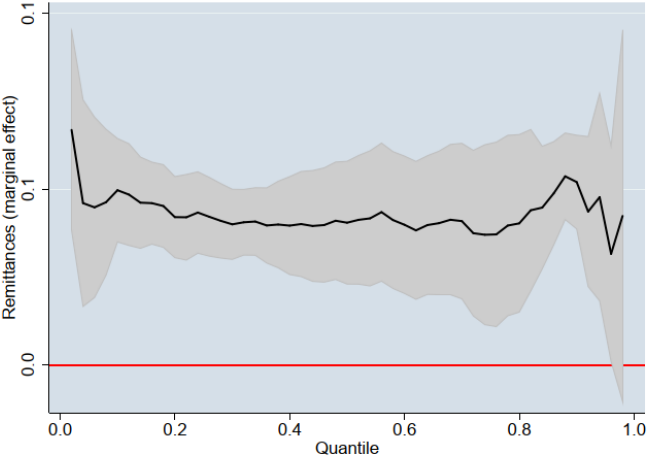
Figure 3: Sectoral employment - Quantile regressions  
Panel A. Manufacturing  
Panel B. Construction



Panel C. Financial services



Panel D. Transportation



Governments  
use them, too



**Consumption-tax  
Revenue: Fiscal Space**



**Spending on Public  
Goods**



**Debt Service**

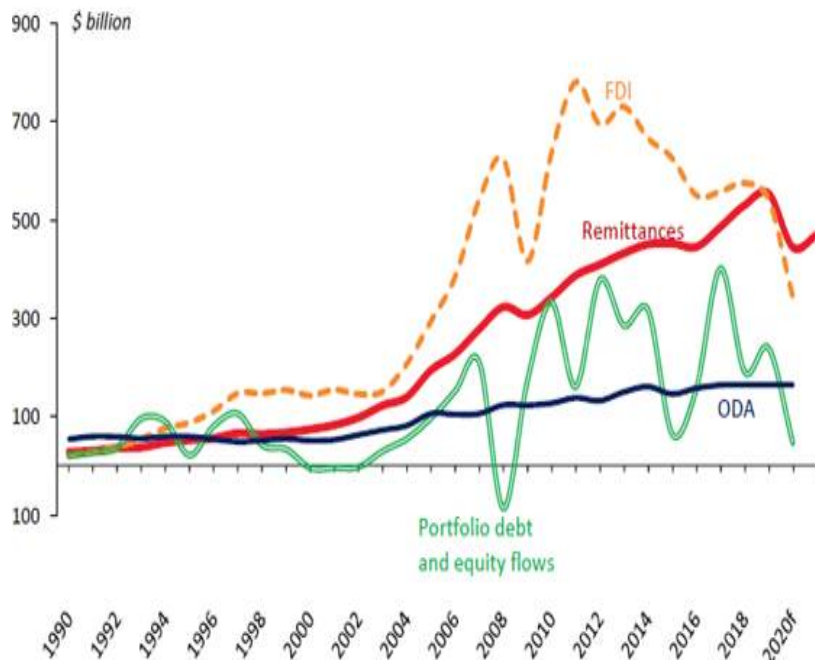


**Countercyclical  
Measures**



Are Remittances safe from COVID-19?

## Remittance Flows to LMICs Expected to Decline in 2020



Migration and Development Brief 32-World Bank

## Projected Decline in Remittance Outflows

	Share of Remittance Outflow	GDP Growth in 2020	Remittance Outflow in 2020
USA	14%	-8%	-15%
Euro Area	19%	-10.2%	-19%
GCC	18%	-7.1%	-13%
Russia	5%	-6.6%	-24%
Weighted Average			<b>-17%</b>

IMF Staff Calculations

The Impact in  
Asia—ADB  
Forecast, August  
2020

**Forecast Declines in Remittance Receipts, Worst Case Scenario**

Global	Asia-Pacific	South Asia	SE Asia	Gen. Asia
\$109 b	\$54.3 b	\$28.6 b	\$11.7 b	\$3.4 b

**Sources of the Decline in Remittances to Asia-Pacific**

Region	Middle East	USA	UK & EU
Amount	\$22.0 b	\$20.5 b	\$3.4 b

## Remittance Flows Can Still Defy Expectations

**Pakistan** reported a large **increase** in remittance inflows in July 2020: \$2.7 billion total, a 12% increase over June 2020 and a **36.5% increase y.o.y.**

- Remittances moving online
- Hajj, flights cancelled
- Change in Regulation: minimum transfer lowered from \$200 to \$100

**Mexico** reported a **7% y.o.y. increase** in remittance inflows in July 2020

- US stimulus spending reaches migrants
- Migrants highly mobile and able to move to where the jobs are

# Households impact



**Drop in consumption**



**Reduced spending on  
public health, education**



**Need to borrow**



**Seek employment,  
underemployment**

# Fiscal Implications



**Drop in consumption-tax  
revenue**



**Increased spending on  
public health**



**Increased debt service**



**Borrow to adopt  
countercyclical measures**

# Financial and Private Sectors Implications

Drop in cheap  
bank deposits

Impair ability  
to lend

Raise cost of  
funding for  
borrowers

Negative  
impact on  
bank capital

## Monetary Policy Implications

Many recipient  
countries have  
fixed exchange  
rate regimes

Devaluation  
pressures

Unable to  
export their way  
out of this crisis!

# Labor Market Pressures

Self-employed lose cheap funding

Lose jobs, females suffer more

Join already high unemployment, under-employment

Severe pressure on social safety nets



## Return Migrants

Losing jobs means losing residency

High infection rate due to housing conditions

More pressure on local health system

Add to already high unemployment

*Rise in un- and under-employment and Increase in informality and working poverty*

*All this possibly leads to economic contraction in recipient countries*

*Rise in social pressures*




## Boomerang:

*from low income and fragile countries to high income ones*

A collage of travel-related items including a map, a passport, a visa, and a rubber stamp. The background is a map of Africa and the Middle East. In the foreground, there is a blue passport with 'PASS' written on it, a white visa with 'SINGAPORE IMMIGRATION' and '24 MAR 2016' printed on it, and a wooden rubber stamp. The text 'Spillover beyond borders of recipient countries' is overlaid on the top right of the collage.

**Spillover beyond borders of recipient countries**

A collage of travel-related items including a map, a passport, a visa, and a rubber stamp. The background is a map of Africa and the Middle East. In the foreground, there is a blue passport with 'PASS' written on it, a white visa with 'SINGAPORE IMMIGRATION' and '24 MAR 2016' printed on it, and a wooden rubber stamp. The text 'New and more intense refugee problem' is overlaid on the middle of the collage.

**New and more intense refugee problem**

A collage of travel-related items including a map, a passport, a visa, and a rubber stamp. The background is a map of Africa and the Middle East. In the foreground, there is a blue passport with 'PASS' written on it, a white visa with 'SINGAPORE IMMIGRATION' and '24 MAR 2016' printed on it, and a wooden rubber stamp. The text 'Rich countries now less open, less capable and less likely to accept refugees' is overlaid on the bottom of the collage.

**Rich countries now less open, less capable and less likely to accept refugees**



## What Must Host Countries Do?

- Protect citizens and migrant workers alike (paycheck, employment protection)
- Extend social protection
- Improve accommodations
- Help reduce high cost of remitting
- Digitization and Fintech solutions

## Fintech and Remittances

Limited access to in-person remittances increased online usage and business development efforts in fintech

For many, the move online will be permanent—safety and convenience

Realization that fintechs must partner with licensed banks and other financial service providers

Emergence of Banking as a Service and Remittances as a Service

## Current Trends in Fintech Remittances

Single-corridor fintechs giving way to multiple-corridor platforms

Platforms enable local institutions access to both sender and receiver

Digital wallet services working with platforms

Decline in use of correspondent banking for transfers

Example:  
Singapore

Ministry of Manpower partners with Aptiv8 to provide support app for migrant workers

Aptiv8 collaborates with Nium (RaaS platform) to add remittances feature to support app

Aptiv8 and Nium leverage biometric data on workers collected by Singapore gov't for AML/CFT compliance

Result: digital multi-destination remittances capability, designed for regulatory compliance



## What can IFIs do?

- **Technical and financial assistance**
- **SDG 10: Reduce cost of remitting**
- **Shore up fiscal and balance of payment needs**



*We Are All In This  
Together*