Are Remittance Flows Another Casualty of COVID-19?

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

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.
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.
They are Reliable and Stable

<table>
<thead>
<tr>
<th>The 10 Largest Recipients of Remittances (in % of GDP), 2004–2018</th>
<th>Volatility of inflows into Developing Countries 1980-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tajikistan  [33.0%]</td>
<td>Remittances</td>
</tr>
<tr>
<td>Bermuda          [31.6%]</td>
<td>Official Aid</td>
</tr>
<tr>
<td>Tonga            [29.2%]</td>
<td>FDI</td>
</tr>
<tr>
<td>Kyrgyz Republic  [26.9%]</td>
<td>Other private inflows</td>
</tr>
<tr>
<td>Nepal            [25.4%]</td>
<td>Exports</td>
</tr>
<tr>
<td>Lesotho          [23.2%]</td>
<td></td>
</tr>
<tr>
<td>Haiti            [24.4%]</td>
<td></td>
</tr>
<tr>
<td>Moldova          [22.7%]</td>
<td></td>
</tr>
<tr>
<td>El Salvador       [19.4%]</td>
<td></td>
</tr>
<tr>
<td>Senegal          [17.7%]</td>
<td></td>
</tr>
</tbody>
</table>
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

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

IMF Staff Calculations

Migration and Development Brief 32-World Bank
The Impact in Asia—ADB Forecast, August 2020

Forecast Declines in Remittance Receipts, Worst Case Scenario

<table>
<thead>
<tr>
<th>Region</th>
<th>Global</th>
<th>Asia-Pacific</th>
<th>South Asia</th>
<th>SE Asia</th>
<th>Cen. Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$109 b</td>
<td>$54.3 b</td>
<td>$28.6 b</td>
<td>$11.7 b</td>
<td>$3.4 b</td>
</tr>
</tbody>
</table>

Sources of the Decline in Remittances to Asia-Pacific

<table>
<thead>
<tr>
<th>Region</th>
<th>Middle East</th>
<th>USA</th>
<th>UK &amp; EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$22.0 b</td>
<td>$20.5 b</td>
<td>$3.4 b</td>
</tr>
</tbody>
</table>
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
Rise in social pressures

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
Boomerang: from low income and fragile countries to high income ones

Spillover beyond borders of recipient countries

New and more intense refugee problem

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