Special Report 2009/01

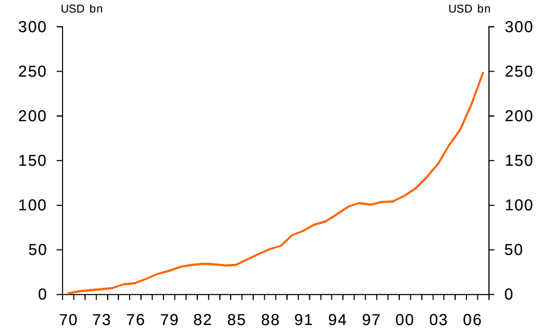
Remittances: A source running dry?

The effect of the current economic slowdown on remittances is still unknown.Common sense would suggest that all countries with a high reliance on remittances from workers abroad would now be in serious trouble. However, several scientific studies have shown that during previous crises, remittance flows were relatively unaffected. Then again, the current economic crisis is not just an ordinary one.
In this Special Report, we will identify the countries that are most reliant on remittances, using the World Bank study of November 2008. Then, the proposed reasons for the inertia of remittances flows will be discussed. Finally, we take a look at some recent developments and their implications for the overall vulnerability of countries to worker's remittances.

General observations

Worker's remittances are cross-country flows of capital sent home by migrants working in another country. Due to the increased globalization of the global economy paired with an increase in the worker mobility, these capital flows have grown rapidly over the past few decades (graph 1). By the end of 2007, total worker's remittances amounted to almost USD 250bn, or 4-5% of the world's GDP.
The US is the world's largest source of remittances, accounting for more than 18% of all remittances. Russia is second providing more than 7%, followed by Switzerland with 6.6%. Together, the countries of the European Union provide 34% of the total stream, the Middle East almost 12%.
These workers are employed in various sectors. In the US, most come from Latin America and are employed in the industrial sector and agriculture. In Western Europe, a lot of eastern Europeans work in construction, and in the Middle East, Asian workers have jobs in the services sector. This variation may have an impact on the vulnerability of their home countries to reduced remittances flows.

Graph 1: Total remittances



Source: World Bank

Vulnerable countries

A first method of looking at which countries may suffer from reduced remittances is to look at the overall flow to the country. India and China top that list with USD 30bn and USD 27bn respectively. Next on the list is Mexico with USD 23.9bn, followed by the Philippines with USD 18.7bn. The first industrialized country on the list is France in fifth place with USD 13.7bn.
However, this method alone is not sufficient to indentify the most vulnerable countries. Although two of the usual suspects (Mexico and the Philippines) are on the list, the contribution of remittances to the GDP of India, China and France is not likely to have a huge impact. Therefore, we introduce a second measure of vulnerability: the remittances-to-GDP ratio.
The Philippines (15th with 11.6% of GDP) still features relatively high on the list, but Mexico's

Table 1: Top-10 inflows in % of GDP

Rank	Country	% of GDP
1	Tajikistan	45.5%
2	Moldova	38.3%
3	Lesotho	28.7%
4	Honduras	24.5%
5	Lebanon	24.4%
6	Guyana	23.5%
7	Jordan	22.7%
8	Haiti	20.0%
9	Jamaica	19.4%
10	Kyrgyz Republic	19.0%

Source: World Bank, Rabobank

2.8% of GDP for a 61st position on the list is a lot less worrying. Topping the list is Tajikistan with remittances amounting to more than 45% of GDP. The top-10 is filled with countries from the smaller former Soviet-states, Central American and Caribbean countries and small Middle Eastern countries (table 1).
A combination of a large total amount of remittances and a high remittances to GDP ratio is therefore the best determinant of which countries are most vulnerable. Table 2 shows some of the larger economies that are vulnerable to the withdrawal of remittances flows.

Table 2: Selected countries

Country	*% of GDP*	*USD bn*
Philippines	11.6%	18.7
Morocco	9.0%	6.7
Bangladesh	8.9%	9.5
Vietnam	7.9%	5.5
Bulgaria	5.7%	2.2
Romania	5.6%	9.0
Pakistan	4.2%	7.0
Mexico	2.8%	23.9
Poland	2.6%	11.0
India	2.4%	30.0

Source: World Bank, Rabobank

Mexico and India are re-introduced on this list, as the remittances remain an important source of foreign exchange for these countries. One may observe that the ten countries that we have selected are spread across the globe. This means that the issue of vulnerabilities to remittances is a global one.

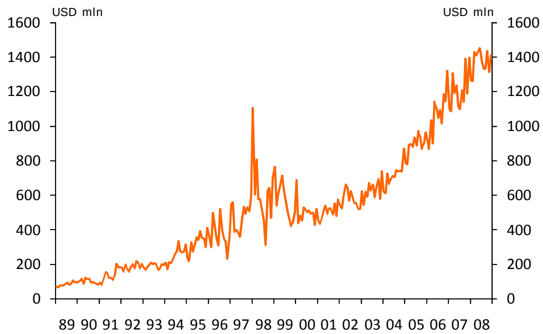
Is the flow vulnerable at all?

Both the IMF and the World Bank have released scientific papers that discuss the value of remittances flows to emerging markets. The general opinion is that these remittances may suffer in case of a crisis, but that they are a more reliable source of foreign exchange than export revenues.The IMF offers some hypotheses that might explain why remittances flows seem ‘decoupled’ from the business cycle. Migrant workers may smooth their remittances flows in order to generate a reliable income for the family in the home country. Also, there seems some evidence in literature that suggests migrant workers have a lower unemployment rate. This because they would value having a job over the actual wage received.
These are all rather intangible reasons. However, as this study used data from the period 1990 through 2007, it would suggest there is some truth to the statement that remittances are more resilient than export income. The crisis at hand, however, is in our opinion of a different kind. We would expect more lay-offs during this crisis than in any period over the past two decades. This is likely to affect migrant workers as well. Furthermore, although talk of protectionism seems to have been quashed, the next topic on the political agenda is likely to be the protection of the local workforce. In the US and Europe, especially, anti-migration barriers may be raised.
The Middle East is less likely to heighten the barriers to migrant workers, as these people do the jobs that locals frown upon. Data from the Philippines since 1970 would suggest that this is indeed the case. The Philippines’ remittances are mainly derived from overseas workers in the Middle East (80-90%). Despite some serious economic crises in the Middle East, remittances flows to the Philippines did not deviate from a steadily increasing trend (graph 2). The boom in remittances in late 1997 may be explained by Phillipinos sending more money home to counter the devastating effects of the Asia crisis.
An issue with any statement on the historical remittances data is the fact that data collection for many countries is fairly recent, and that many of the cross-country transaction are not carried out via the official market.

Recent data

A first ominous sign for countries relying on remittances was seen in data coming from Mexico. 2008 was the first year on record that Mexico’s remittances flow actually shrank, dropping 3.6%. Statements from Guatemala and Honduras, two other countries depending

Graph 2: The Philippines, monthly remittances



Source: World Bank, Rabobank

Table 3: Conclusions – Selected countries

Country	*Risk to remittances*	*Risk to general country risk*
Philippines	medium	high
Morocco	medium	medium
Bangladesh	medium	high
Vietnam	medium	medium
Bulgaria	high	low
Romania	high	medium
Pakistan	medium	medium
Mexico	high	medium
Poland	high	low
India	low	low

Source: World Bank, Rabobank

on remittances flows from the US confirm that picture. In January, Guatemalan remittance inflows dropped 7.7% yoy, and the remittances for Honduras 4.4% yoy. According to a World Bank economist, global remittances are likely to fall 0.9% in 2009.
Other data showes that 25% of all migrant workers in Russia have left, leaving serious doubts on the consistency of the remittances flowing to former Soviet states.
However, there have also been reports of positive numbers. Pakistan topped that chart by stating that in the first half of 2008, remittances had increased 18.7% compared to the same period in the previous year. Both Bangladesh and the Philippines have produced more recent data supporting the notion that remittances flows are far more resilient than other sources of foreign income.

Conclusion

What conclusion may be drawn from the data and the theoretical papers before us? The answer will be slightly disappointing: it depends.
First of all, it depends on the depth of the global economic crisis. Even remittances flows to countries such as Bangladesh and the Philippines will be affected by this deep economic crisis. Second, what will be the effect of the crisis on migration? Some of these effects are known, such as tighter migration laws in the US causing people to migrate back to Mexico and Central America. However, the effects of a prolonged crisis in source countries on migrantion is unknown.
Third, and most important to the individual country, it depends on what kind of workers have turned expatriate and the type of work they are required to do overseas.
In that sense, the South Asian workers in the services sector in the Middle East may be relatively safe compared to Mexican workers in the US industrial sector. Also, Chinese migrant workers, who are on average higher educated, have a distinct advantage over unskilled African workers in neighbouring countries.
Turning back to the selected countries in table 2, we have made an assessment of the impact of reduced remittances on the overall country risk of the country (table 3). Eastern European countries will suffer from the lack of construction work in Western Europe. However, the impact on the countries will only vary from low to medium, as remittances do not constitute a major part of GDP. Mexico's workforce abroad is likely to be hit hard, and the effects on the overall economy will be medium, given the role of remittances in the economy. Asian workers are generally employed in the inelastic services sector in the Middle East, or have a very high added value (India). These are more resistant in the near future. However, as all remittances will be reduced, countries such as Bangladesh and the Philippines will be hit hard.

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