PIDE

COVID-19 BLOG

No. 11

CORONAVIRUS PANDEMIC AND RISKS TO REMITTANCE INFLOWS

The on-going global economic slow-down due to the Covid-19 outbreak has raised concerns of substantial fall in remittance flows to the developing countries. Pakistan is one of the world's top ten recipients of international remittances according to the World Bank. In 2019, the country received US $21.8 billion in terms of remittances from the over six million Pakistanis living abroad, principally in the countries of Gulf Cooperation Council (GCC), North America and Europe (Figure 1). In addition to these remittances sent through formal channels, an estimated 40 percent amount is transferred every year through hand-carry, *hawala* and other informal means.

Thanks to a record number of Pakistani workers (about 625,203) who went abroad in 2019 (according to BEOE), remittances to the country were expected to increase further in the coming months. In fact, remittances in the month of February rose by 16 percent year-on-year to US $1.82 billion. The upswing was wide-ranging, with a substantial increase reported for remittances from all the major sources: Saudi Arabia (14 percent), UAE (15 percent), other GCC countries (17 percent), EU countries (18 percent) and US (38 percent).

Figure 1: Regional Distribution of Remittances in 2019

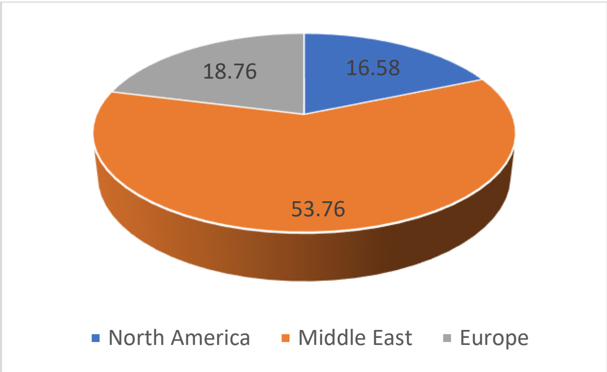
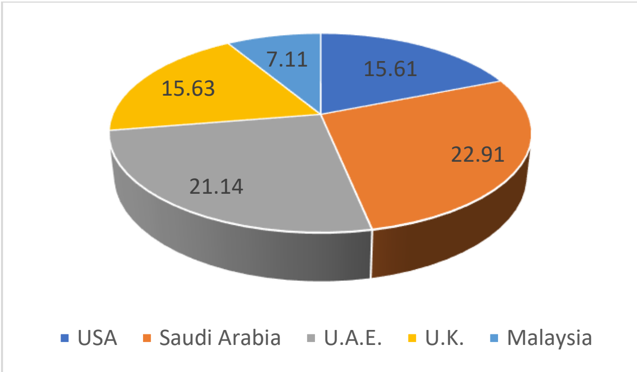


Figure 2: Country-wise Share of Remittances in 2019



Source: State Bank of Pakistan, 2020

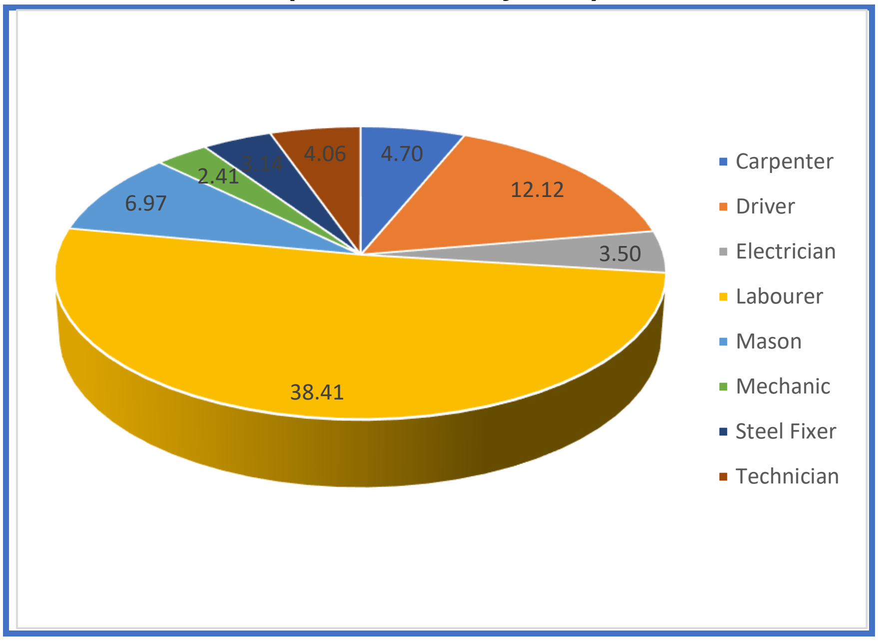
The overseas Pakistani community has become more geographically diversified during the past decade, thereby making the remittance flows more resilient. Remittances from Pakistanis based in the GCC countries, which used to constitute more than two-third of remittances to Pakistan, are now down to about 54 percent of the annual flows with Saudia Arabia (23 percent) and United Arab Emirates (21 percent) being the principal remitters (Figure 2). Parallel to this shift is the increase in remittances from Malaysia, Australia and other countries of the Asia - Pacific region while those from North America and Europe have kept pace. This diversification has reduced Pakistan's excessive reliance on oil-exporting economies and has helped keep the economy stable.

The significance of these inflows for the Pakistani economy can hardly be over-stated. During the first half (July - December) of the current financial year 2019-20, remittances accounted for about half (49.15 percent) of the country's import receipts and covered almost the country's entire trade deficit. Another beneficial characteristic of remittances to Pakistan pertains to their generally counter-cyclical nature. When the Pakistani economy reels from high prices of imported oil, rising remittances keep the damage in check to a certain extent.

The Coronavirus pandemic has put this stabilizing role of remittances in danger. The world economy has come to a halt. Airplanes are standing idle; businesses have been closed; investments have been put on hold; new hiring's have been stopped. The specter of a global recession looms. In addition to losses resulting from the Covid-19 crisis, the oil-price war between Saudi Arabia and Russia has seen oil prices plummeting to below US $30 per barrel. This has seriously dented the finances of the GCC countries. The combination of these twin shocks may eventually show up in the volume of remittance inflows to Pakistan. If the global economic slow-down prolongs, Pakistani overseas workers will begin losing jobs.

Pakistani workers, particularly those working in the GCC countries, are often employed in construction and services sectors. According to the BEOE data (that almost entirely comprises placement of overseas Pakistanis in the GCC countries), 38 percent of Pakistani workers abroad work as laborer's, 12 percent as taxi drivers, 7 percent as masons, 5 percent as carpenter and 4 percent work as technician (Figure 3).

Figure 3: Occupation distribution of overseas Pakistanis (1971 – February 2020)



Source: *Bureau of Emigration* and Overseas Employment

These professions are some of those that could be seriously affected from a prolonged lock-down. Even a shortfall of a couple of billion dollars of remittances may tip the delicate balance in external payments the country has recently achieved.

However, the fact that hand-carry is not a possibility due to travel restrictions and people are preferring using electronic transfers over currency notes may prove a mitigating factor. This transition to electronic or mobile transfer may be facilitated by the State Bank, and commercial banks can streamline and promote their electronic remittance products. This beneficial measure will however not tackle the financial difficulties that workers may face as a result of loss in income.

In the coming weeks and months, overseas Pakistani workers will need all the help they can get from the authorities to limit their losses. The government may have to discuss with authorities of the GCC and other countries the rights of workers whose visa or job permits expire due to travel restrictions and the payment of pending pays and dues of those who lose their jobs. Efforts on these lines will be necessary to ensure the well-being of the burgeoning overseas Pakistani community which has become one of Pakistan's key assets.

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