Migration and Development Brief 9

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Revised Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 5 to 8 percent in 2009

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Revised forecasts for remittance flows to developing countries in the light of a downward revision to the World Bank's global economic outlook suggest a sharper decline of 5-8 percent in 2009 compared to our earlier projections. This decline in nominal dollar terms is small relative to the projected fall in private capital flows or official aid to developing countries. However, considering that remittances registered double-digit annual growth in the past few years, an outright fall in the level of remittance flows as projected now will cause hardships in many poor countries. South-South remittances from Russia, South Africa, Malaysia and India are especially vulnerable to the rolling economic crisis. Also the outlook remains uncertain for remittance flows from the GCC countries. Both low-income and middle-income countries are expected to see a similar decline – about 5 percent – in remittance inflows in 2009. The persistence of the migrant stock will contribute to the persistence (or resilience) of remittance flows in the face of the crisis. Sources of risk to this outlook include uncertainty about the depth and duration of the current crisis, unpredictable movements in exchange rates, and political reaction to weak job markets in destination countries which could lead to more tightening of immigration controls. Even with these risks, in many developing countries remittances will become even more important as a source of external financing as private flows dry up.

We have revised our forecasts for remittance flows in the light of a downward revision to the World Bank's global economic outlook. We now expect a sharper decline of 5-8 percent in 2009 (see figure 1 and table 1) compared to our earlier projections outlined in Migration and Development Brief 8.[2] This decline in nominal dollar terms is small relative to the projected fall in private capital flows or official aid to developing countries. However, considering that officially recorded remittances registered double-digit annual growth in the past few years to reach an estimated $305 billion in 2008[3], an outright fall in the level of remittance flows as projected now will cause hardships in many poor countries.

South-South remittances from Russia, South Africa, Malaysia and India are especially vulnerable to the rolling economic crisis. Also the outlook remains uncertain for remittance flows from the GCC countries. Both low-income and middle-income countries are expected to see a similar decline – about 5 percent – in remittance inflows in 2009. Although newspapers are reporting a large number of migrants returning home, new migration flows are still positive, implying that the stock of existing migrants continues to increase. The persistence of the migrant stock will contribute to the persistence (or resilience) of remittance flows in the face of the crisis. Box 1 outlines the reasons for expecting remittances to remain resilient during the crisis.

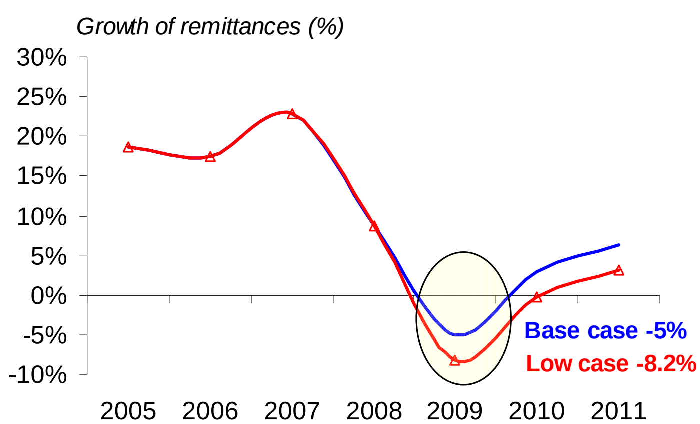
Table 1: Outlook for remittance flows to developing countries, 2009-10

		Base case forecast			Low case forecast		
	2008e	2009f	2010f	2011f	2009f	2010f	2011f
$ billion							
Developing countries	***305***	***290***	***299***	***317***	***280***	***280***	***289***
*(as share of GDP, %)**	*(1.9)*	*(1.8)*	*(1.7)*	*(1.6)*	*(1.8)*	*(1.6)*	*(1.4)*
East Asia and Pacific	*70*	*67*	*68*	*72*	*64*	*64*	*65*
Europe and Central Asia	*53*	*48*	*50*	*53*	*46*	*47*	*50*
Latin America and Caribbean	*63*	*60*	*62*	*65*	*58*	*58*	*59*
Middle-East and North Africa	*34*	*33*	*34*	*36*	*32*	*32*	*32*
South Asia	*66*	*63*	*65*	*70*	*61*	*62*	*64*
Sub-Saharan Africa	*20*	*19*	*20*	*21*	*18*	*18*	*19*
Low-income countries	*45*	*43*	*45*	*48*	*41*	*42*	*44*
Middle-income countries	*260*	*247*	*254*	*269*	*239*	*238*	*245*
Growth rate (%)							
Developing countries	***8.8%***	***-5.0%***	***2.9%***	***6.3%***	***-8.2%***	***-0.2%***	***3.2%***
East Asia and Pacific	6.6%	-4.2%	1.9%	5.6%	-7.5%	-1.3%	2.1%
Europe and Central Asia	5.4%	-10.1%	4.2%	7.5%	-12.7%	1.6%	5.1%
Latin America and Caribbean	0.2%	-4.4%	2.3%	5.6%	-7.7%	-1.0%	2.5%
Middle-East and North Africa	7.6%	-1.4%	2.9%	5.6%	-5.2%	-0.9%	2.1%
South Asia	26.7%	-4.2%	3.4%	6.8%	-7.3%	0.5%	4.2%
Sub-Saharan Africa	6.3%	-4.4%	3.5%	6.7%	-7.9%	0.0%	3.5%
Low-income countries	13.0%	-5.4%	4.4%	7.5%	-8.2%	1.6%	4.9%
Middle-income countries	8.1%	-4.9%	2.7%	6.0%	-8.1%	-0.5%	2.9%

e = estimate; f=forecast

Source: Same as table 1. See Migration and Development Brief 8 for the methodology for the estimates for 2008 and forecasts for 2009 and 2010. Base case scenario assumes that new migration flows to major destination countries would be zero; implying that the stock of existing migrants will remain unchanged. Low case scenario assumes that there is return of migrants equivalent to one year of inflows.

Figure 1: Remittance flows will slow sharply in 2009 in US dollar terms



Source: Same as table 1.

There are three sources of risks to the above outlook. First, if the crisis were deeper and if it lasts longer, the decline in remittance and migration flows would be larger. Unpredictable movements in the exchange rates pose a second source of risk to dollar-denominated forecasts. Our base case scenario assumes that during the course of 2009, these currencies will revert back to a level similar to the average in the previous year, with a modest depreciation of the U.S dollar by the end of the year. However, if the exchange rates of these remittance sources continue to remain weak (i.e. at their current levels) relative to the U.S dollar, it would result in an even greater decline in remittance flows to developing countries. Finally, the political reaction to weak job markets in destination countries could lead to more tightening of immigration controls. That said, it is almost certain that in many developing countries remittances will become even more important as a source of external financing as private flows dry up.

Regional patterns

A slowdown in remittance flows to Latin America and the Caribbean began early in 2008 and deepened in the third quarter. In contrast, remittance flows to South Asia surged in 2008. In 2009, South Asia is expected to experience a sharp slow down, in part due to the high base effect of 2008. All regions are expected to see a decline in remittance flows in 2009.

Remittance flows from the GCC countries are not correlated with the falling oil prices

There have been reports that migrants in Dubai (part of the U.A.E) are being affected by a slowdown in construction and financial services sectors. However, it is important to distinguish between the impact of the crisis on Dubai which is more dependent on trade and finance and real estate than other parts of the UAE and other Gulf Cooperation Council countries which depend primarily on oil revenues. In recent years remittance outflows from Saudi Arabia have been uncorrelated with oil prices. Many GCC countries are following a long-term strategy of infrastructure development for which they have funding from large reserves accumulated over the years. It is unlikely that they would slow down infrastructure investments and lay off migrant workers in large numbers.

The revised forecasts for remittances from the GCC countries show a smaller decline (of 3 percent) than projected earlier. These forecasts are more in line with the real GDP growth projections than nominal dollar-denominated GDP growth, which in turn is a function of oil prices and currency exchange rates.

Remittances from Russia and other destination countries will be affected by exchange rate movements

In recent months, the US dollar has strengthened significantly against the currencies of many major destination countries (table 2). These movements in exchange rates have produced three kinds of effects on remittances: (a) The value of remittances from these countries has declined in US dollar terms purely because of valuation effects. This is especially true of remittances from Russia to countries such as Tajikistan, since the ruble has depreciated by over 35 percent since August 2008. A similar decline in outward remittances in dollar terms is also expected from India to Nepal, South Africa to SADC countries, and Malaysia to Indonesia.

Table 2: Exchange rates relative to US dollar

	March 2009 (local currency/US$)	Year-on-year change (%)
Euro	0.78	-17%
UK pound sterling	0.71	-29%
Canadian dollar	1.28	-22%
Australian dollar	1.53	-29%
New Zealand dollar	1.94	-35%
Russian ruble	35.1	-30%
Indian rupee	51.4	-23%
South African rand	10.2	-25%
Malaysian ringitt	3.7	-13%

Source: World Bank Development Prospects Group

Box 1: Resilience of remittance flows relative to other types of flows during the current crisis

Despite the prospect of a sharper decline in remittance inflows than anticipated earlier, these flows will remain more resilient compared to many other types of resource flows such as private debt and equity flows and foreign direct investment, which are expected to decline or, in the case of portfolio flows, perhaps become negative in 2009 as foreign investors pull out of emerging markets. There are several reasons for the resilience of remittances in the face of economic downturns in host countries:

(a) Remittances are sent by the cumulated flows of migrants over the years, not only by the new migrants of the last year or two. This makes remittances persistent over time. If new migration stops, then over a period of a decade or so, remittances may stop growing. But they will continue to increase as long as migration flows continue.

(b) Remittances are a small part of migrants' incomes, and migrants continue to send remittances when hit by income shocks.

(c) Because of a rise in rise in anti-immigration sentiments and tighter border controls, especially in the U.S and also in Europe, the duration of migration appears to have increased. Those staying back are likely to continue to send remittances.

(d) If migrants do indeed return, they are likely to take back accumulated savings. This may have been the case in India during the Gulf war of 1990-91 which forced a large number of Indian workers in the Gulf to return home (Ratha 2003, p 163). Also the "safe haven" factor or "home-bias" can cause remittances for investment purposes to return home during an economic down turn in the host country.

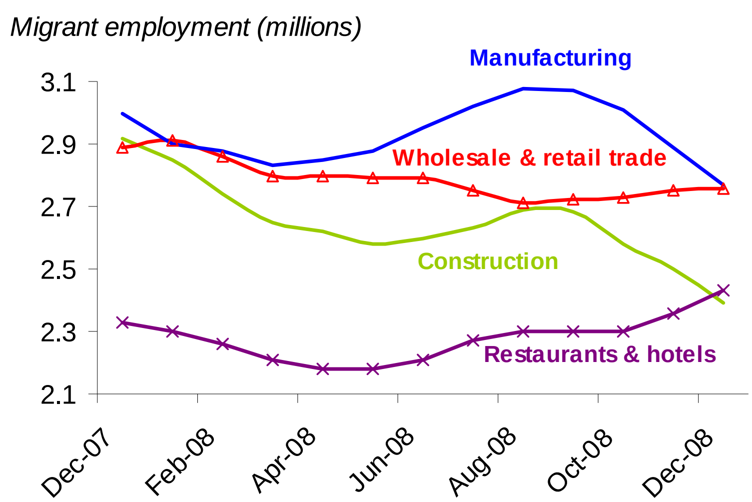
(e) Several high-income OECD remittance source countries are likely to undertake large fiscal stimulus packages in response to the financial crisis. This increase in public expenditure, if directed to public infrastructure projects, will increase demand for both native and migrant workers. Taylor (2000) found that public income transfer schemes in the United States resulted in increased remittances to Mexico – other things being equal, immigrant households that received Social Security or unemployment insurance were more likely to remit than other immigrant households. Also documented migrants are likely to send more remittances to their families, to make up for a fall in remittances by undocumented migrants.

This kind of decline need not mean any significant loss of purchasing power of remittances for the beneficiaries; but the falling dollar volume can cause difficulties for governments to meet external payment obligations. (b) A stronger dollar would imply that migrants in the US (and other countries with dollar-linked currencies, e.g., GCC countries) can send smaller remittances and still be able purchase the same basket of goods and services for their beneficiaries in their home countries. (c) However, a strong dollar also means that goods and services and assets back home are significantly cheaper in dollar terms, which may encourage migrants to send more remittances for investment purposes. This latter effect – a surge in remittances as the local currency depreciates against the US dollar – was evident in the US-Mexico corridor in October 2008, and is believed to be going on currently in South and South-East Asia, and to an extent in Moldova and Tajikistan.

Rising immigration controls pose a major risk to remittance flows in 2009

Faced with weakening job markets, many destination countries are tightening immigration controls. The United Kingdom has introduced a points-based system that favors high-skilled migrants over unskilled migrants. It has most recently raised the minimum educational and financial qualifications even for the high-skilled.[4] Australia would reduce the intake of skilled migrants by 14 percent, from 115,000 to 133,500.[5] In the United States, a provision of the stimulus package makes it more difficult for beneficiary firms to hire high-skilled foreign workers.[6] Spain has introduced a "voluntary return" program for migrants.[7] Italy plans to introduce tougher requirements for residency permits, requiring doctors to report undocumented patients, and authorizing citizens' patrols to pick up illegal immigrants.[8] Developing host countries are also taking measures to reduce their intake of legal migrants. Malaysia cancelled work visas for 55,000 Bangladeshi workers in early March and is attempting to restrict the entry of new and returning workers.[9] Russia announced in December that it would reduce work permits by half in 2009, from 4 million to 2 million.[10]

Figure 2: Migrants in the United States move to other sectors when some decline



Source: U.S Current Population Survey

While tightening immigration controls may be politically attractive in the short-run, it is also likely to prolong the adjustment to the crisis by reducing the labor market flexibility that businesses need for cost cutting and survival. Migrants are typically cheaper and more flexible than native workers.

Despite anecdotal reports of migrants returning home, new migration flows are still positive, implying that the stock of existing migrants continues to increase. Migrants may prefer to stay on in the host country even after losing employment and look for jobs in other sectors as the situation in the home country may be even worse. In the United States, while the number of migrants employed in manufacturing and construction has declined in recent months as the crisis has deepened, employment in wholesale and retail trade has held up, and the number of those employed in restaurants and hotels has increased (figure 2).

End notes

[1] Migration and Remittances Team, Development Prospects Group, World Bank. We would like to thank K. M. Vijayalakshmi for assistance with updating remittances data for 2007 and 2008 and Ani Silwal for excellent research assistance.
[2] http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MD_Brief8.pdf
[3] http://peoplemove.worldbank.org/en/content/remittance-flows-to-developing-countries
[4] http://www.timesonline.co.uk/tol/news/politics/article5784420.ece
[5] http://uk.reuters.com/article/lifestyleMolt/idUKTRE52F1HM20090316
[6] http://online.wsj.com/article/SB123531113396541861.html
[7] http://uk.biz.yahoo.com/25012009/323/immigrants-first-feel-squeeze-spain-s-boom-turns-bust.html
[8] http://www.spiegel.de/international/europe/0,1518,614065,00.html
[9] http://www.thedailystar.net/newDesign/news-details.php?nid=79766
[10] http://www.newsweek.com/id/184777

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