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Impact of COVID-19: Focusing on Remittance Flows to Pakistan

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1. Context

Over the past decades, the economy of Pakistan has faced challenges owing to a chronic energy crisis, persistent inflation, food insecurity, the balance of payment crises with dwindling foreign exchange reserve, and higher foreign debt repayments. However, the remittances sent by millions of Pakistani migrants across the world provide a lifeline, such as supporting households and proving crucial in offsetting the pressure on the balance of payments crises. Remittances, the amount of money sent home by migrants, are one of the largest financial flows to Pakistan. The country accounts for a large and growing slice of the remittance market and ranks among the top ten recipients in developing countries. In 2020, the State Bank of Pakistan reported that official remittance of USD 23.13 billion showed a growth of 6.4 percent compared to the previous year (Table A2). However, the actual amount arguably could be roughly 40 percent above this amount, as much of the transfers take place through informal means such as hand carry, *hundi* and other informal sources.

The significance of these remittances inflows into the Pakistani economy can hardly be overstated. To put into perspective, the remittances volume



Labor
and Employment



Pakistan



2017



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contributed to about 8 percent in GDP,¹ accounted for more than half (55 percent) of the country's import receipts and covered almost the country's entire trade deficit during the (July 2019- June 2020) financial year.² Similarly, compared to other foreign financial flows, remittance flows surpassing export 22.51 billion,³ foreign direct investment (FDI) 2.56 billion,⁴ and official development assistance (ODA)⁵1.36 billion. Another beneficial characteristic of remittances to Pakistan pertains to their resilient and counter-cyclical nature and act as macroeconomic stabilizers compared to other flows such as FDI and ODA.⁶ Its exhibits that a drop in remittance flows is likely to intensify economic, and social pressures on governments, and the households already struggling to cope even in normal times. Therefore, these transfers are important from the perspective of macroeconomic stability and its ripple effect in improving the livelihood of the people.

2. Overview of international migration and remittances

The first major wave of economic migration from Pakistan started during the 1970's when thousands of Pakistani workers left for the Persian Gulf States to participate in the development of the newly-oil prosperous economies. By 2019, about 6.3 million Pakistani immigrants resided abroad, compared with about 5.0 million in 2010 and 3.3 million in 1990 (Table. A1). The Middle East region, in particular, Saudi Arabia and the United Arab Emirates, is the principal destination with more than half of the Pakistani migrant's, followed by half a million each in United States, United Kingdom and other countries such as Malaysia, Australia, etc. The Middle East hosts the largest Pakistani diaspora, partly due to geographical proximity and cultural closeness, but also attracted the large proportion with medium and low-skilled jobs.⁷ Likewise, migration to these countries

1. World Development Indicator, World Bank, 2020

2. State Bank of Pakistan, 2020

3. Ibid.

4. Board of Investment 2020, Pakistan

5. World Development Indicator, World Bank, 2020

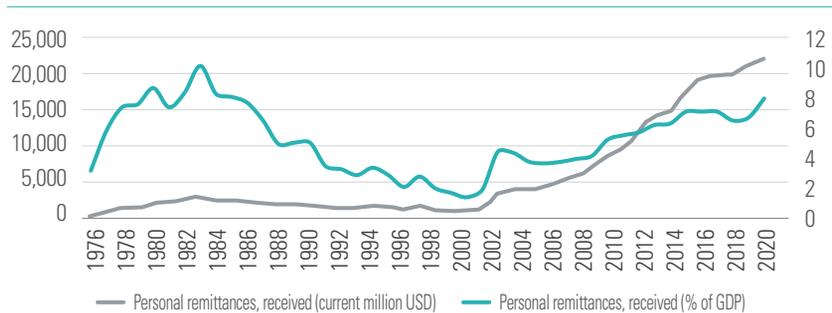
6. Ahmed, J., & Martinez-Zarzoso, I. 2016. "Blessing or Curse: The Stabilizing Role of Remittances Compared with other Financial Flows". *Journal of South Asian Development*, 11(1), 38-66.

7. Arif, G. M. 2009. Economic and social impacts of remittances on households: The case of Pakistani migrant's working in Saudi Arabia. Pakistan Institute of Development Economics.

is mostly temporary, and immigrants are generally young males⁸ coming from a rural, low-income family background.⁹ These migrants do not only have sufficient financial resources for distant migration but have limited skills and education to be absorbed in the labour market in the Western countries. On the other hand, migrants to Western countries are often highly educated, come from better-off households,¹⁰ who often bring their families and often settle down permanently in the host country. This type of emigrants predominantly migrate to the United States and the United Kingdom, Australia, and Canada.

Remittances to Pakistan first gained importance in the 1970s (Figure 1), when the oil-exporting economies of Persian Gulf began to import thousands of Pakistani workers to work in the rapidly growing construction work. Remittances increased sharply to reach 10 percent of Pakistan's GDP in 1982-83. The subsequent drop in oil prices and the resulting slowing down of construction projects started to a gradual decline in remittances. The second phase of remittances growth began in consequence of the terrorist attacks of September 11, when remittances to Pakistan more than doubled in the fiscal year 2001-02. The increase in remittances in this phase has been sharp and sustained from major Pakistani migrant communities around the world even unaffected by the financial crisis in 2008, and the recent COVID-19 health crises.

Figure 1.
Remittances flows to Pakistan (1976-2019)



Source: World Development Indicator, World Bank

8. Gazdar, H. 2003. A review of migration issues in Pakistan. Paper presented at the regional conference on migration, development and pro-poor policy choices in Asia. Dhaka
9. Azam, F. 1991. Labor Migration from Pakistan: Trends, Impacts and Implications. *Regional Development Dialogue* 12(3): 53-71.; Addleton, J.S. 1992. *Undermining the Centre: The Gulf Migration and Pakistan*. Oxford University Press
10. Gazdar, H. 2003

The growth in remittances is subject to several factors such as the global economic environment which could spur or hinder the growth of remittance flows, emigration rate, economic conditions of the recipient countries, and more importantly, the share of skilled diaspora, and the cost of sending money.¹¹

3. COVID-19 and remittances to Pakistan

The COVID-19 pandemic crises have shaken the world economy and it has costed the world's economy USD 3.8 trillion and left 147 million people unemployed.¹² However, the impact is going to be devastating for developing countries due to the reduction in remittances as the economic shock will be magnified by the loss in inflows. The crisis affects directly the flow of international migrants and the money they send home to help their families. The economic shock caused by the pandemic to the migrant-source economies can have spillover effect to those of the remittance-receiving economies. For instance, for a recipient country where remittances correspond to ten percent of the GDP, a 1 percent decrease in the source country's output gap (the difference between actual and potential growth) will tend to decrease the recipient country's output gap by nearly 1 percent (Barajas et al., 2012).¹³ Therefore, the loss in remittance flows will possibly even worse than during the financial crisis of 2008.

The prospect of remittances reduction by Pakistani diaspora further exacerbate the economic situation triggered by the subsequent global lockdowns that have reduced wages and taken jobs. COVID-19 is expected to have a severe impact on the remittances, particularly from the Gulf States (i.e. Saudi Arabia and UAE). It is because that migrant workers in these countries reside temporarily and have a higher probability of losing their employment due to their low skills and education level (See Figure 2).

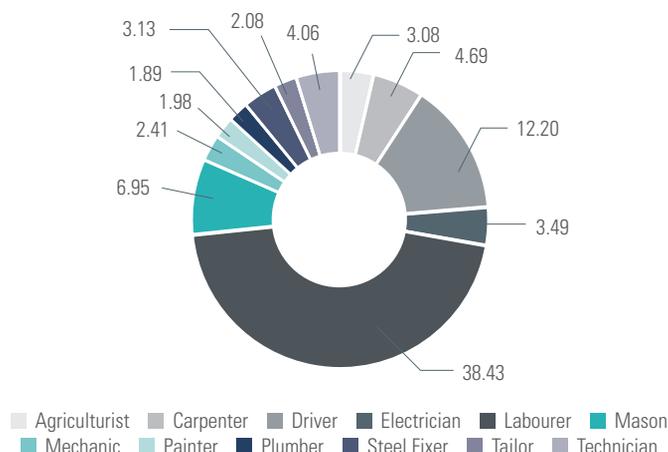
11. Ahmed, J., & Martínez-Zarzoso, I. 2016. Do transfer costs matter for foreign remittances? *Economics: The Open-Access, Open-Assessment E-Journal*, 10(2016-4), 1-36.

12. <https://www.dailymail.co.uk/sciencetech/article-8506463/Covid-19-pandemic-cost-worlds-economy-3-8TRILLION.html>

13. Barajas, Mr Adolfo, Mr Ralph Chami, Mr Christian Ebeke, and Mr Sampawende J-A. Tapsoba. 2012. *Workers' Remittances: An Overlooked Channel of International Business Cycle Transmission?* No. 12-251. International Monetary Fund.

Figure 2.

Occupation distribution of overseas Pakistanis (1971 – July 2020)



Source: Bureau of Emigration and Overseas Employment, 2020

Pakistani workers, particularly those working in the Gulf region, are often employed in the construction and services sectors. According to the BEOE data (that almost entirely comprises placement of overseas Pakistanis in the GCC countries), 38.4 percent of Pakistani workers abroad work as labourer's, 12.2 percent as drivers, 6.95 percent as masons, 4.69 percent as carpenter and 4.06 percent work as a technician, 3.49 percent as electrician, and 3.13 as a steel fixer. Likewise, in United Kingdom the BAME community has been affected disproportionality both health-wise as well as by the job losses due to pandemic crises.¹⁴ This means the British Pakistani community has been affected too as being more prone to the pandemic, hence a low level of remittances are expected from Britain in coming months as currently people are relying on short-term relief provided by the British government to the public. Pakistani people are often employed in the jobs which were most impacted by the pandemic such as transport (taxi services) and small restaurant businesses (take-away foods). Generally, these professions are some of those that could be seriously affected by a prolonged lockdown, and over a thousand migrants are expected to return home, particularly from GCC countries when travel restrictions are eased. Meanwhile, newly recruited emigrants and those who were on vacation at home face the bleak

¹⁴ <https://firstaidforlife.org.uk/covid19-bame-communities>

prospect of losing their jobs. If the crises are prolonged, this would not only impact remittances flows but would put pressure on the labour market already brimming with unemployed youth. Therefore, the estimated drop in remittances together with the fall in other inflows could have an adverse impact on Pakistan's external finances.

For instance, the PIDE has estimated a drop of over 9 percent to 14 percent in remittances flows from favourable to worst-case scenario in the fiscal year 2020.¹⁵ However, the World Bank and ADB predictions are more worrisome as remittances are expected to fall by 23 percent from

According to Dilip Ratha, the World Bank's lead economist for migration and remittances,

“If we are expecting a fall of 20 percent, it's going to be a huge shock, it's going to cause a lot of hardship for countries in terms of macroeconomic management and balance of payments difficulties. But more important is the human story.... The number of people who are going to be impacted --- both for the migrants in host countries and families back home it's going to be huge.”

their 2019 level.¹⁶ Similarly, the ADB estimates Pakistan might be among the worst-affected country in Asia, with remittances expected to fall by 26.8 percent in the worst-case scenario.¹⁷

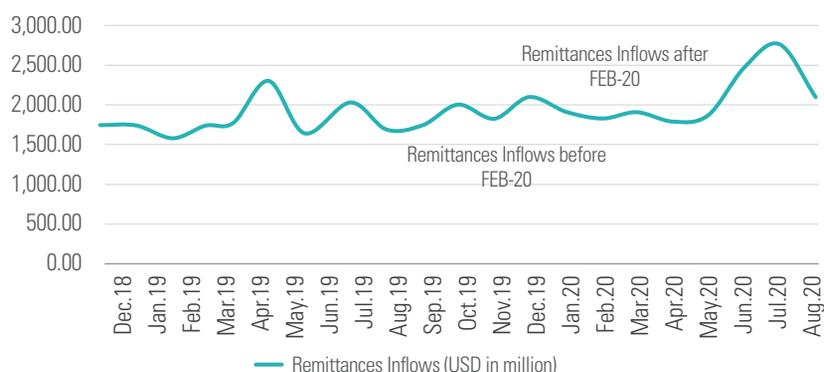
However, contrary to the predictions, the country received a sizeable amount of remittances in 2020, with an increase of roughly 6.4 percent compared to the previous year. Similarly, the inflows of remittances registered a rise of 15.58 percent since the pandemic period (March-August) compared to the same prior period. Likewise, for the same period, the breakdown of the remittances flow from different major sources exhibit a 40.96 percent growth in receipts from Saudi Arabia, followed by UAE 15.03 percent, UK 2.31 percent, and other GCC countries 13.29 percent. However, remittances drop by 21.63 percent from the US compared to the corresponding period in 2019.

15. “Covid-19 and Remittances,” PIDE COVID-19 BULLETIN No. 20, Pakistan Institute of Development Economics, <https://www.pide.org.pk/pdf/PIE-COVID-Bulletin-20.pdf>

16. COVID-19 Crisis: Through a Migration Lens, Migration and Development Brief 32, April 2020, World

17. COVID-19 Impact on International Migration, Remittances, and Recipient Households in Developing Asia, No. 148, August 2020, Asian Development Bank

Figure 3.
Pre- and Post-Remittances flows



Source: State Bank of Pakistan

Monthly data depicts a clear picture of the remittances dynamic after the COVID-19 pandemic crises compared to the corresponding month of the previous year (Figure 3). Overall, remittances during the first eight months of 2020 remain above 2019 levels except for May, where remittances declined by roughly 19 percent. Therefore, despite the bleak experience during the pandemic, for many overseas workers abroad, the effect on remittances has proven resilient.

Table 1.
Month to month comparison of remittances to Pakistan from major corridor before and during COVID-19 Outbreak (2019-2020)

(in percent)

	Saudi Arabia	United Arab Emirates	United Kingdom	United States	Total
Jan19-Jan20	31.61	32.55	-31.73	-43.69	9.86
Feb19-Feb20	38.67	39.28	-31.18	-40.78	15.96
Mar19-Mar20	37.17	35.14	-35.89	-44.77	9.87
Apr19-Apr20	28.12	24.35	-33.08	-41.19	0.84
May19-May20	9.64	-13.3	-38.4	-50.11	-18.97
June19-June20	123.97	45.03	30.11	-34.14	51.14
July19-July20	42.32	9.69	81.72	81.74	36.48
Aug19-Aug20	27.96	1.09	67.18	51.11	24.42

Source: State Bank of Pakistan

To have a closer look, we have compared the flow from major corridors. Remittances flows for February rose by about 15.96 percent from February 2019. Likewise, despite increasing economic challenges, remittance inflows for March, and April remained robust, grew by 9.87 percent, and 0.84 respectively from the same months of 2019. However, in May 2020 to the corresponding month of 2019, remittances were reduced by 18.97 percent, mainly due to fewer remittances received from the major corridor except for UAE. Also, remittances from the Western corridor fall considerably January-May compared to the same months in 2019. In June historic growth of 51.14 percent has been recorded compared to corresponding months, partly driven by the significant increase from Saudi Arabia and UAE. Remittance flow data from Western countries shows a decline during the first six months of 2020 – as well as signs of a rebound in July and August. These high levels continued, with remittances in July and August exceeding for the same months 2019 in total as well as from major remittances corridors.

The recovery in remittances flows could be driven greatly to financially supporting families back home during a pandemic situation. Nonetheless, if the senders are dipping into their meager savings to support families in the origin countries, this may not be sustainable over time and could jeopardize remittances flows further, in particular if the recession becomes prolonged in sending countries.

Remittance flow data from Bangladesh in South Asian regions also suggests an increase during the first six months of 2020. For example, Bangladesh, which is among the world's top origins of overseas migrants, received 11.64 percent more from January to June, compared with the same period in 2019.¹⁸

Various factors may have supported the growth of the remittance despite the COVID-19 pandemic.

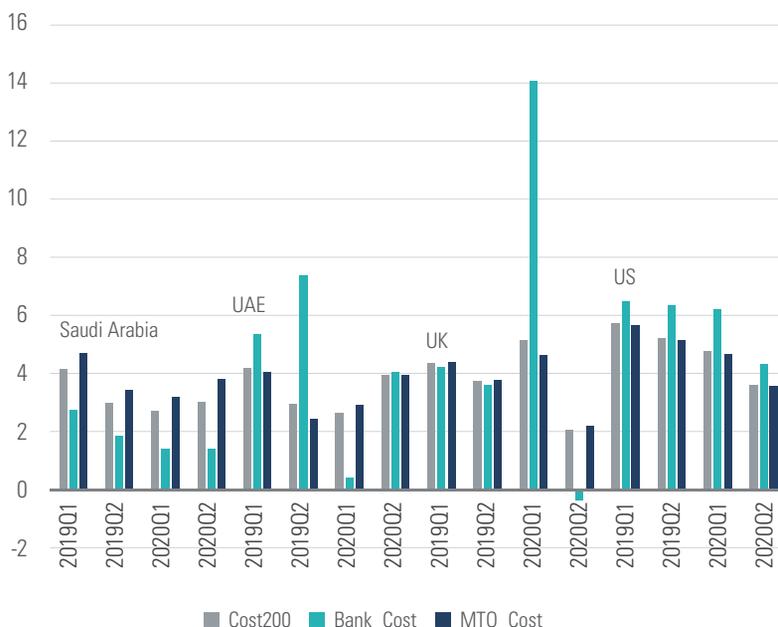
- 1- The effect of recent policy change of sending free remittances under the Pakistan Remittances Initiative (PRI) scheme. They reduce the threshold level from USD 200 to USD 100 to incentivize small and frequent remitters from the Middle East in particular. Also, a decrease in remittances cost doesn't necessarily increase the volume of remittances. Still, the number of transaction increases that previously

¹⁸. <https://www.bb.org.bd/econdata/wageremittance.php>

sent by hand or via the informal channel, *e.g. Hundi*. As depicted in Figure 4, the Pre-COVID remittances costs are not overly different from Post-COVID prices due to timely government efforts in reducing the cost of transfer, except a rise in the cost of sending money from UK in the first quarter of 2020 compared to 2019Q1. More importantly, awareness campaigns were launched regarding the adoption of digital channels, asking the banks to have targeted marketing campaigns about the available digital channels, to promote formal sources for sending remittances.

- 2- After easing of lockdown by many of the source countries in June, overseas Pakistanis were able to transfer accumulated funds. The reason why people were still able to send money during the pandemic period is because COVID-19 fell on holiday season, which meant that people could not travel from Middle East for their annual holidays. Similarly, people from Western countries (UK, Spain, Germany, and Italy) couldn't travel either. Usually people from Western countries travel with their kids and families for holidays to Pakistan or to any other country for leisure (which they could not do so) so this was another saving (short term rise in remittances).
- 3- Remittances flow to Pakistan are more diversified, unlike a significant amount of remittances to Tajikistan coming from Russia, Mexico from the United States, and Turkey from Germany for example.
- 4- Further, due to COVID-19, more remittances were sent by the overseas Pakistanis to support extended families due to the rise of economic difficulties back home. As the pandemic has created a global emergency during the lockdown period which has increased a sense of responsibility for the migrant communities to send money to their loved ones to support them during difficult times, and this increased sentiment could be funded from their emergency personal savings.

Figure 4.
Remittances Cost from Major Source Countries (Before and After COVID-19)



Source: World Bank, Remittances Prices Worldwide (2020)

4. Policy Responses

A number of policy measures can be taken to make sure that the remittance channel is not substantially affected during the current environment of global economic uncertainty. These include:

- 1- Declare remittances an essential financial service. Thus, to resume operations amidst the pandemic, allowing migrants to send funds following the health safety protocols.
- 2- To keep remittances in motion during lockdowns and limited mobility, the government needs to further strengthen the digital capacity, thereby to facilitate more and more digitalization of remittance transfer for both senders and receivers. This will help to create less

disruptions and minimize the damage in any future global pandemics or natural disasters. It is pertinent to mention that those with limited digital access are often the ones who depend the most on these flows. These people either send this through Hundi or carry back when they travel. To counter this, the government requires to invest in capacity building such as financial literacy and digital skills.

- 3- The government can discuss with authorities of the Gulf States, 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.
- 4- Another necessary intervention is a program to improve the skills level of waiting and potential migrant workers to help them transition to viable and desirable jobs in different countries. In this respect, the National Vocational & Technical Training Commission (NAVTTTC) Pakistan should play a pertinent role to meet skill demand of the workforce both at home and destination countries.
- 5- To ensure the welfare of returning migrants, the government must make considerations for them in different social safety net programs.

5. Conclusion

Remittances to Pakistan have played an important role in the stability of the economy. The flows of remittances helped cushion the economy against a severe current account deficit. They have not only neutralized the balance of payment problems but have also helped to improve the external debt situation. Remittances also helped to reduce poverty among migrants' families. Therefore, the reduction in remittances can have significant ripple effects on economies and vulnerable communities, resulting in a decrease in productive investment, consumer spending, and access to education and health services.

During the ongoing COVID-19 pandemic, a large part of the global economy had to be partially or entirely closed down as a part of the

preventive lockdown. This led to slowing down of economic activity in many developed economy and loss of millions of job. Concerns were expressed that international migrants may be among the worst hit, which in turn might amplify the economic effects of the pandemic on the developing countries dependent on international remittances. This pattern was observed in a number of major remittance receiving countries. However, contrary to the expected reduction in remittances, flows to Pakistan have increased during the pandemic compared to the previous year. This owes to a number of factors including policy measures taken to reduce the cost of remitting, promotion of digital transfer platforms, enhancing ease of regulation, and source country diversification. It provides relief to the already under pressure economy in sustaining the foreign exchange. Further efforts towards encouraging digital payments, controlling informal inflows and focusing on the improvement of the skill set of labour force can help sustain this beneficial trend.

Appendix

Table A1.

Migrant stocks in major destination in thousand (1990-2019)

Year	Saudi Arabia	United Arab Emirates	United Kingdom	United States	Total
1990	556.715	158.71	228.321	91.889	3343.328
1995	570.555	225.75	267.177	159.793	3345.394
2000	586.225	305.782	310.526	229.151	3401.303
2005	724.16	383.831	380.338	261.537	3902.648
2010	938.913	836.31	460.473	302.798	4992.279
2015	1187.817	913.855	532.77	376.432	5910.36
2017	1343.737	950.145	529.324	370.353	5978.635
2019	1447.071	981.536	605.016	406.509	6303.286

Source: United Nation Department for Economics and Social affairs UN-DESA, 2020

Table A2.**Percent Change in remittances flows from Source Countries**

	FY2019	FY2020	% Change
Total	21739.4	23132.31	6.41
USA	3309.08	1742.83	-47.33
U.K.	3412.31	2569.02	-24.71
Saudi Arabia	5003.01	6613.45	32.19
U.A.E.	4617.27	5611.79	21.54
Bahrain	340.18	417.14	22.62
Kuwait	725.77	738.61	1.77
Qatar	385.94	760.2	96.97
Oman	667.17	994.25	49.02
Germany	123.53	392.18	217.48
France	61.4	240.36	291.47
Netherland	6.83	65.73	862.37
Spain	150.94	329.68	118.42
Italy	111.15	361.26	225.02
Greece	49.62	145.09	192.40
Sweden	16.95	44.87	164.72
Denmark	15.81	45.31	186.59
Ireland	51.15	75.43	47.47
Belgium	21.65	78.58	262.96
Malaysia	1551.74	226.5	-85.40
Norway	43.47	69.67	60.27
Switzerland	31.07	31.13	0.19
Australia	246.04	339.81	38.11
Canada	213.03	313.42	47.12
Japan	22.96	66.42	189.29
Others Countries	561.33	859.58	53.13

Source: State Bank of Pakistan, 2020