

Remittances and the Current Crisis: Past, Present and Future of Migrants' Transfers

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Carlos Vargas-Silva
International Migration Institute
University of Oxford

Based on joint work with:

Asia

Shikha Jha and Guntur Sugiyarto

Asian Development Bank

Latin America

Isabel Ruiz

Sam Houston State University

MENA Region

George Naufal

American University of Sharjah

Motivation

- International migration dynamics have prompted the interest of policy makers for reasons such as its potential to impact the home country socioeconomic conditions.

Example: The migration of the most educated workers may end up leaving the home country without the skill labour needed in order to achieve economic growth.

- Another aspect of migration that has caught the attention of policymakers is the potential impact of remittances.
- The literature has pointed out that the monetary inflows that migrants remit home can be a source of financial capital in poor areas of the globe.

One of the consequences of the recent economic turmoil has been a slowdown in the flow of remittances

- From **1997 to 2007**, remittances flows to developing countries registered an average annual growth rate of **15 percent**.
- These flows increased from **US\$71 billion in 1997** to **US\$289 billion in 2007**.
- However, the growth rate was believed to be just **8 percent for 2008 (with preliminary data)** (compared to 23 percent for 2007), but the latest data suggest a growth rate of **17 percent in 2008**.
- Nonetheless, the slowdown in remittances has not being similar across regions of the world and the World Bank actually expects remittances to fall by about 6 percent in 2009.

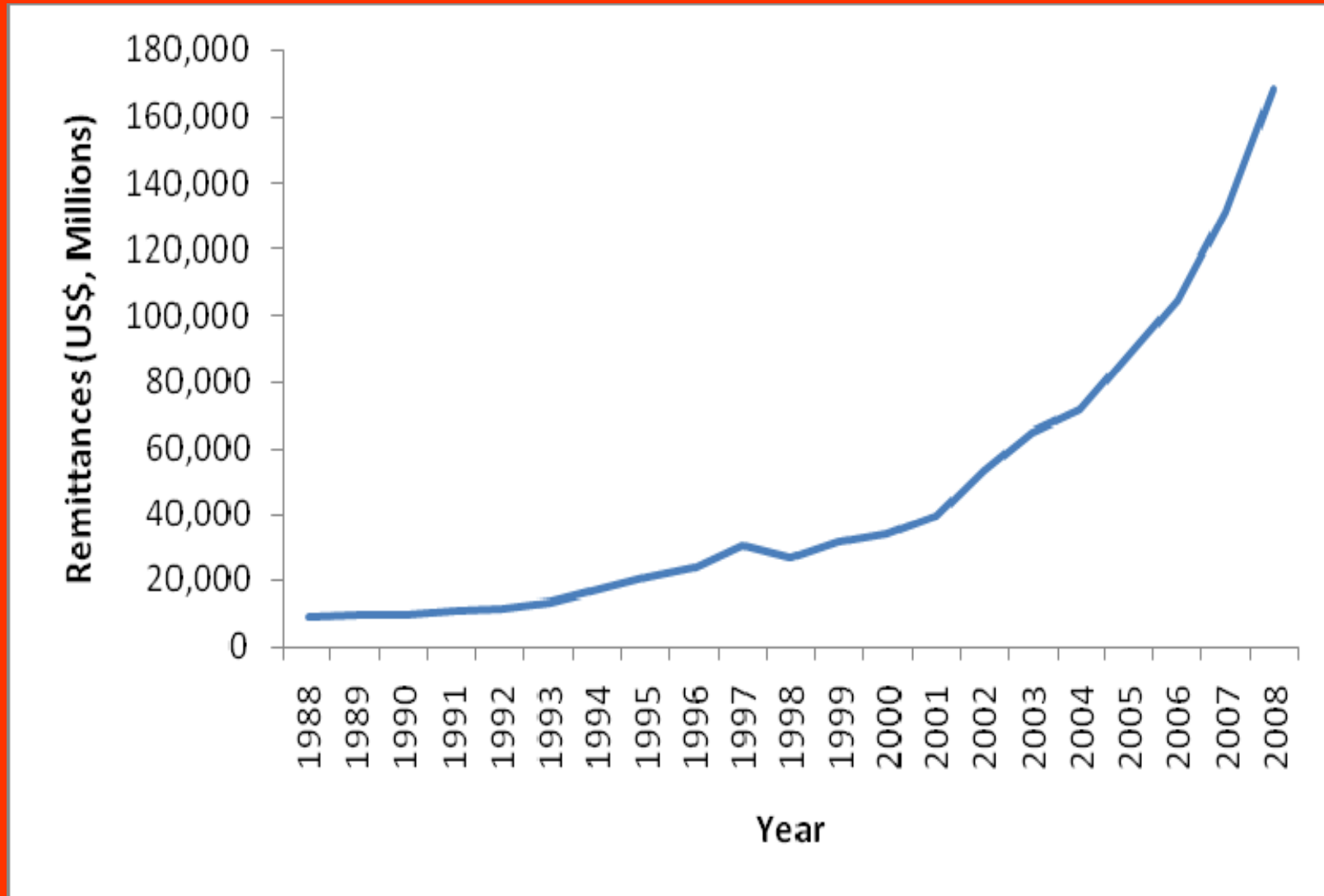
In this presentation...

- We document the recent downturn in workers' remittances. We answer questions like:
- *Are some regions more affected than others?*
- *What are the countries with the largest decreases in these transfers?*
- *What are some of the reasons for the decrease in remittances transfers?*
- *Should we expect remittances to comeback in the future?*
- Although we discuss remittance transfers worldwide, we focus on the cases of **Asia**, **Latin America** and the **MENA region**.

The Big Picture

	2003	2004	2005	2006	2007	2008
World	204,529	237,523	275,179	317,313	384,789	443,514
<i>growth rate</i>	<i>22.11</i>	<i>16.13</i>	<i>15.85</i>	<i>15.31</i>	<i>21.26</i>	<i>15.26</i>
All developing countries	140,420	164,370	198,932	235,403	289,376	337,761
<i>growth rate</i>	<i>24.70</i>	<i>17.06</i>	<i>21.03</i>	<i>18.33</i>	<i>22.93</i>	<i>16.72</i>
Low-income countries	11,472	13,214	16,097	19,940	24,600	31,567
<i>growth rate</i>	<i>10.2</i>	<i>15.2</i>	<i>21.8</i>	<i>23.9</i>	<i>23.4</i>	<i>28.3</i>
Middle-income	128,947	151,157	182,835	215,463	264,775	306,193
<i>growth rate</i>	<i>26.2</i>	<i>17.2</i>	<i>21.0</i>	<i>17.8</i>	<i>22.9</i>	<i>15.6</i>
LDCs (UN-classification)	9,657	10,879	12,042	14,258	17,527	22,759
<i>growth rate</i>	<i>14.6</i>	<i>12.7</i>	<i>10.7</i>	<i>18.4</i>	<i>22.9</i>	<i>29.9</i>

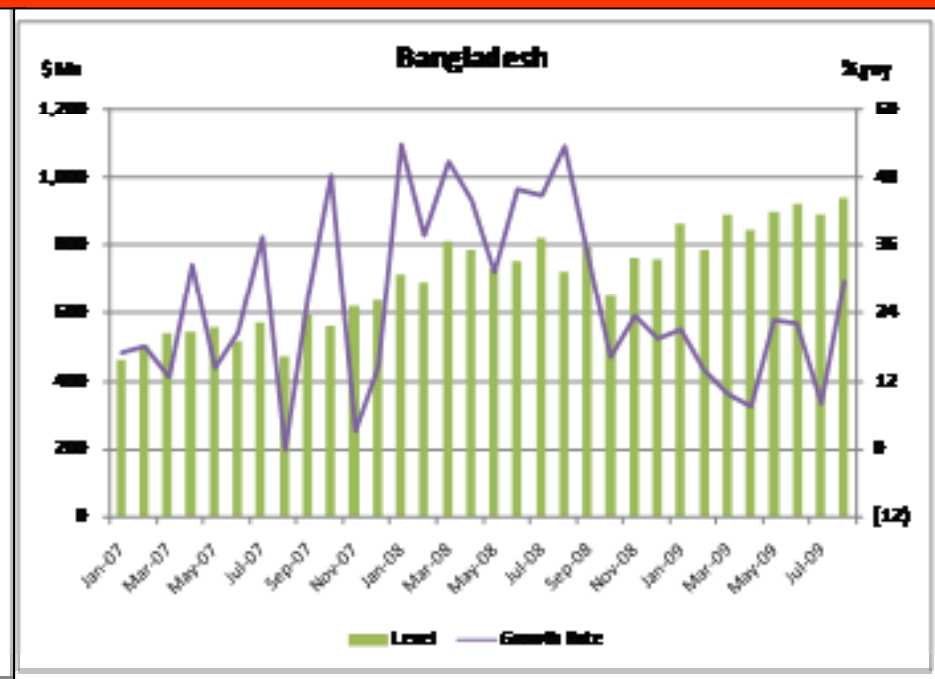
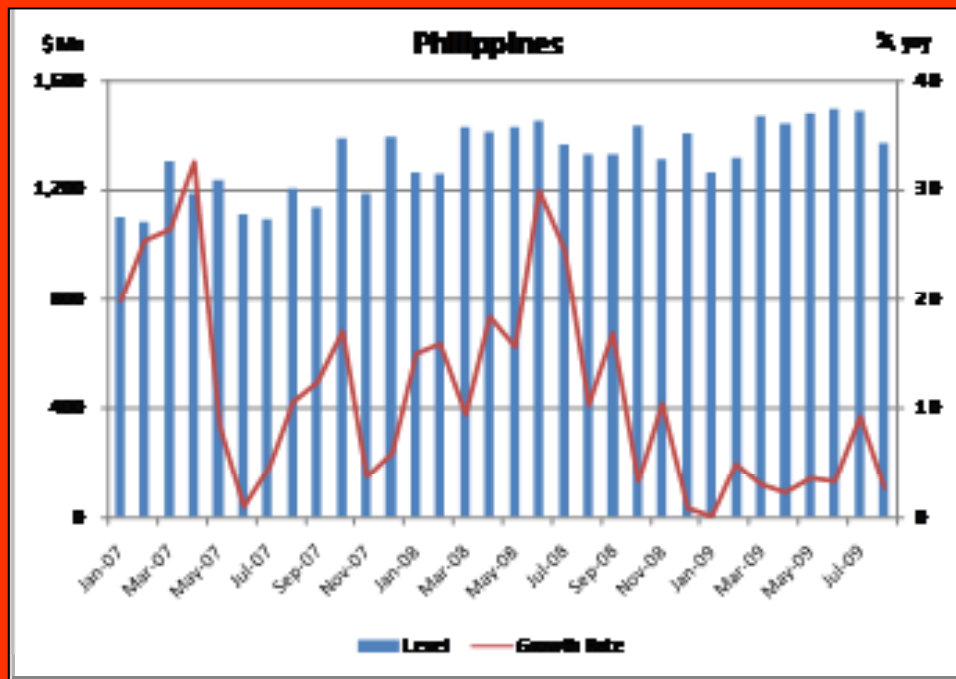
ASIA



Size vs. Importance

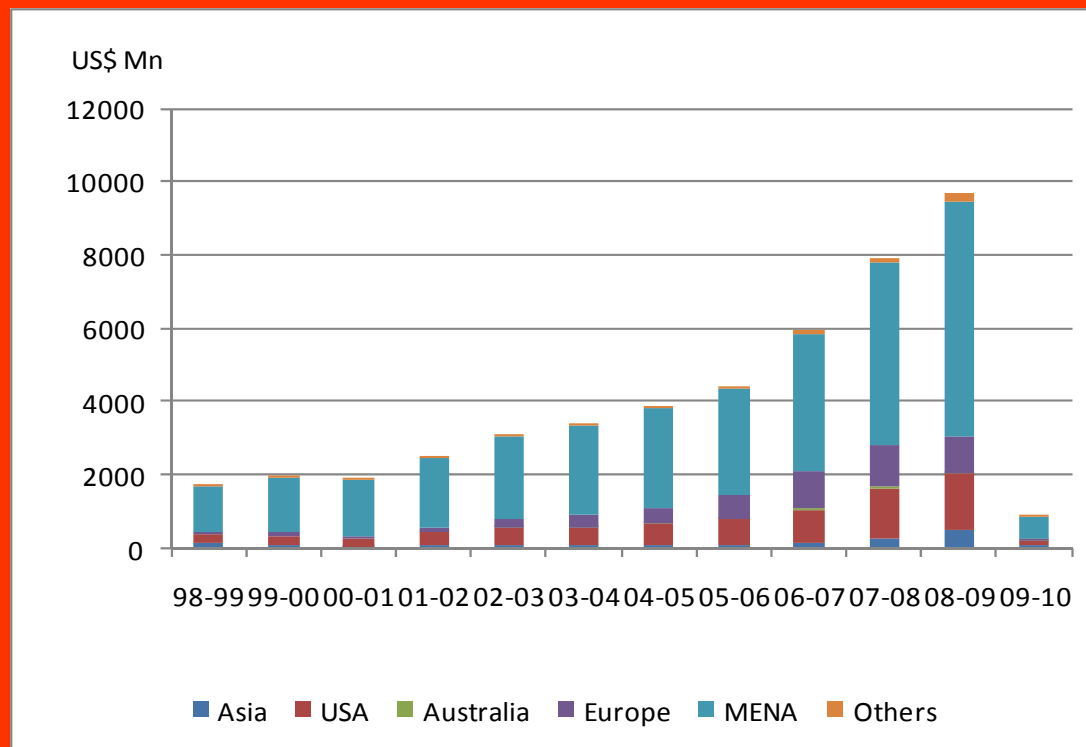
- While for some countries in Asia remittances are huge (e.g. India and China), in relative terms remittances are not that important.
- The Philippines combines both characteristics, remittances are large and represent a significant share of GDP (about 12 % GDP).
- Another country for which remittances are very relevant in terms of the size of the economy is Bangladesh (about 10 % GDP).

ASIA: Philippines, Bangladesh

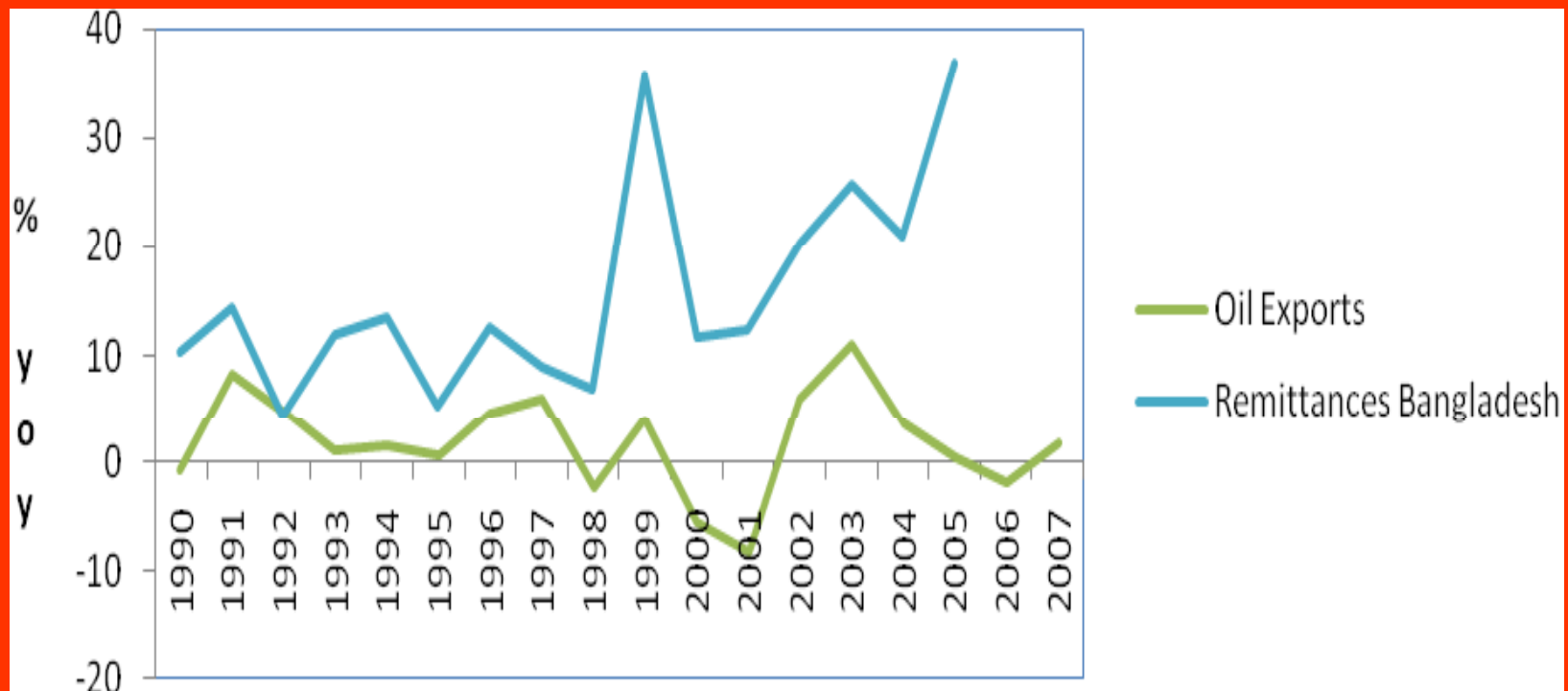


ASIA/MENA Region Connection

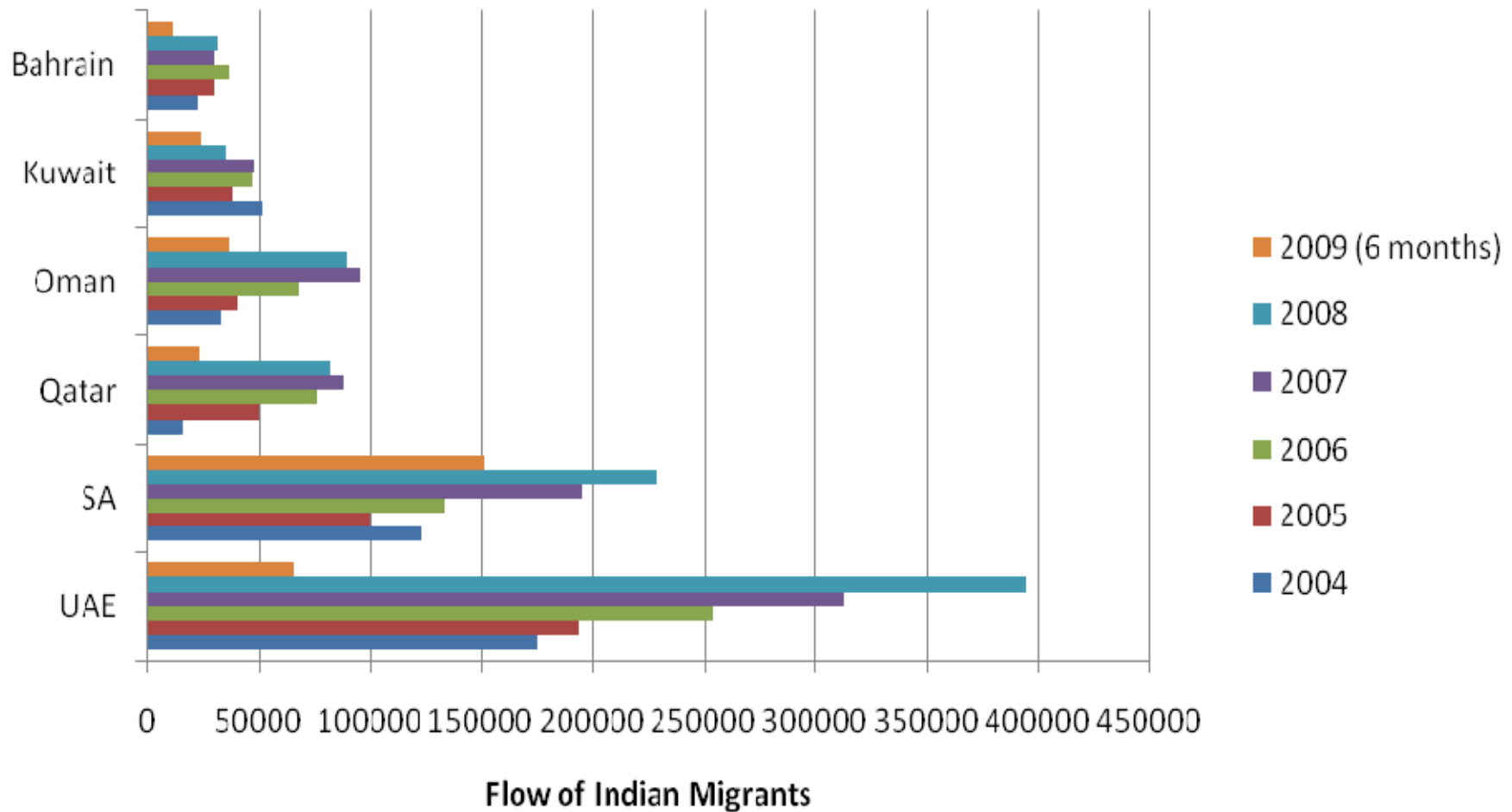
Source of Remittances to Bangladesh



ASIA/MENA Region Connection



Indian Migrants to the GCC



For Asia...

- Rather than an epidemic of remittance decreases for countries in the region we are faced with a slowdown of remittances for the region that should last a few years.
- This, of course, assumes that the crisis will not turn unexpectedly worse and last longer than expected.
- But barring that possible, but unlikely scenario, we should observe a relatively quick recovery of these flows.
- Finally, the importance of the MENA region (especially the GCC countries) for remittances to Asia is very clear.

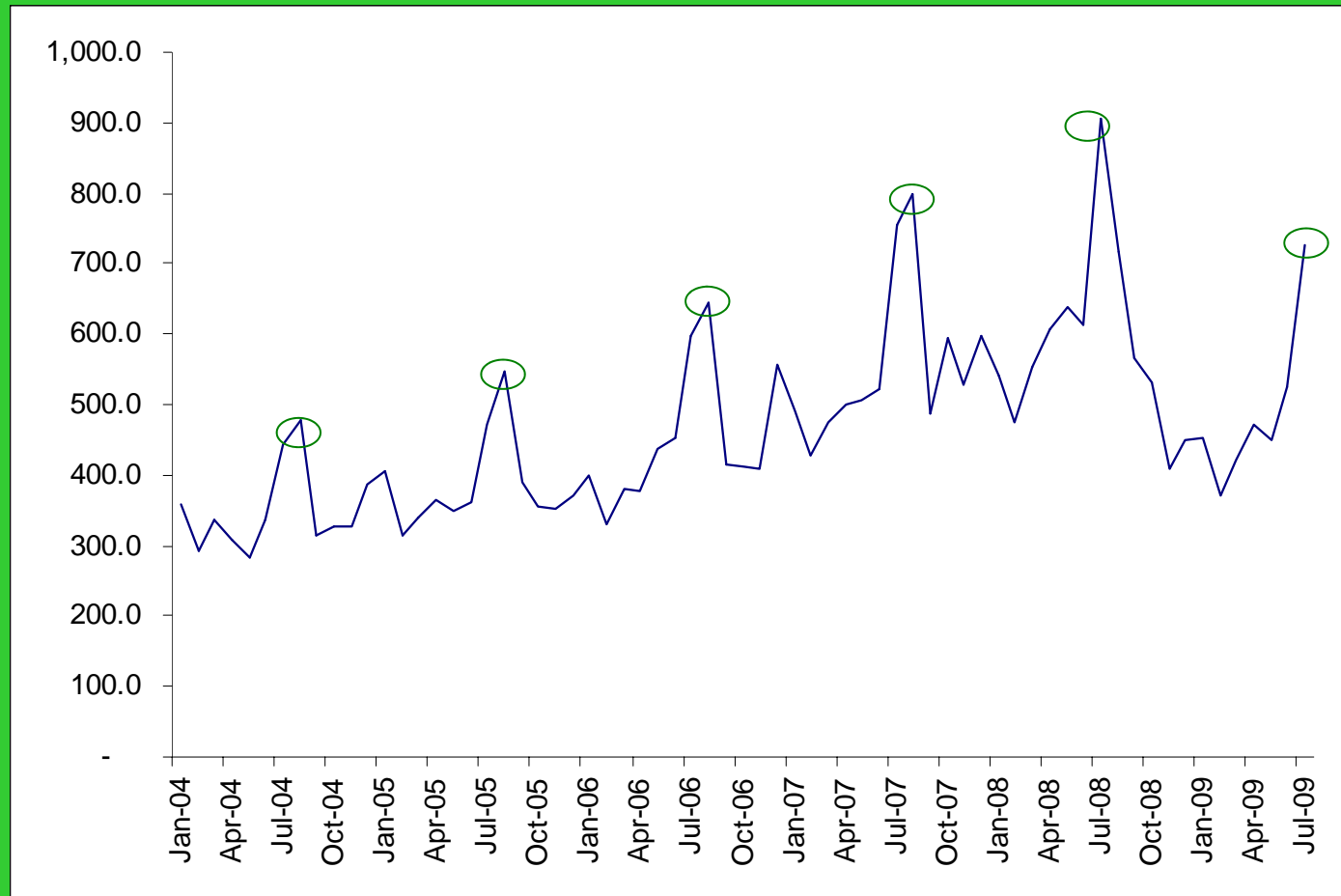
MENA Region

- In this regard the MENA area is an interesting region of the world given that it hosts some of the top remittance receiving countries of the globe and some of the top remittance sending countries.
- The Kingdom of Saudi Arabia ranks second in the world in terms of actual volume of remittances sent with over US\$16 billion in remittance outflows.
- Morocco rank in the top remittance receiving nations in terms of volume receiving almost US\$7 billion in migrants' transfers.

Inflows

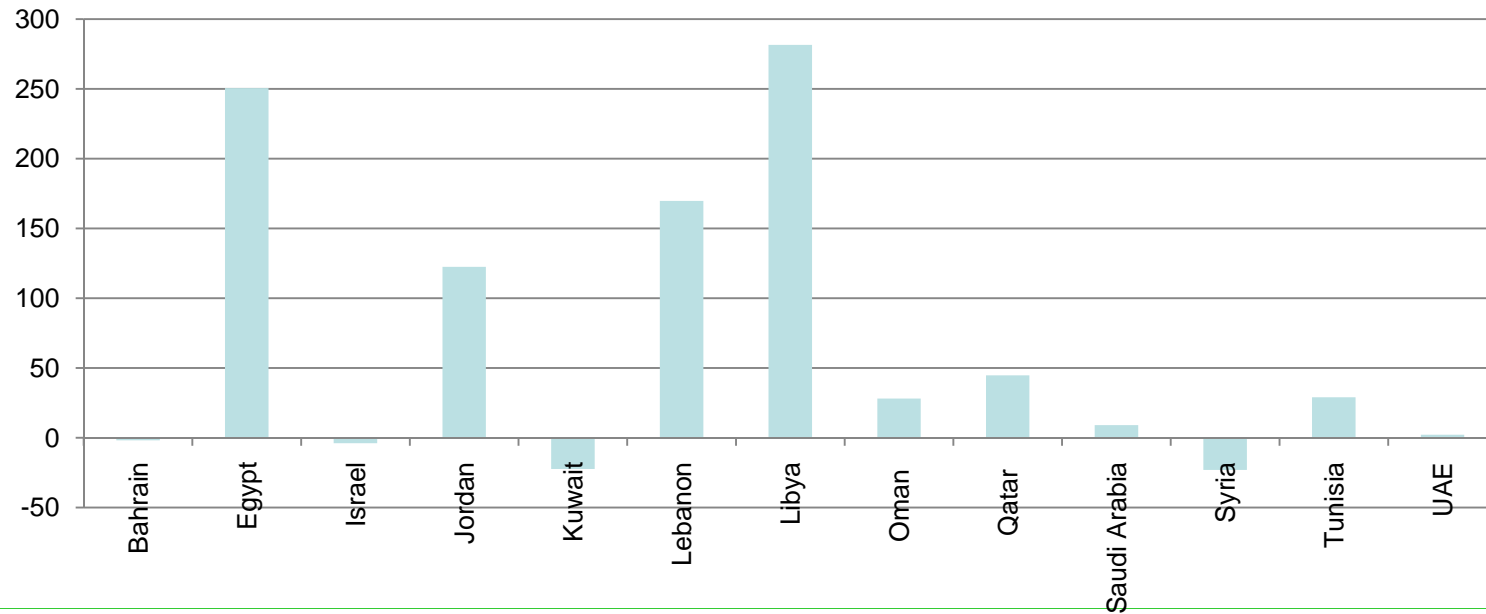
	Egypt		Jordan	
Period	Volume	Growth Rate	Volume	Growth Rate
2008 - 1 st Quarter	2,064.8	-	830.9	8.51
2008 – 2 nd Quarter	2,393.2	24.28	985.6	13.88
2008 – 3 rd Quarter	1,950.7	-1.21	1,035.6	13.49
2008 – 4 th Quarter	2,285.3	7.46	944.0	6.02
2009 – 1 st Quarter	1,738.0	-15.83	823.2	-0.93
2009 – 2 nd Quarter	1,831.7	-23.46	917.7	-6.89

Monthly Flows: Morocco.

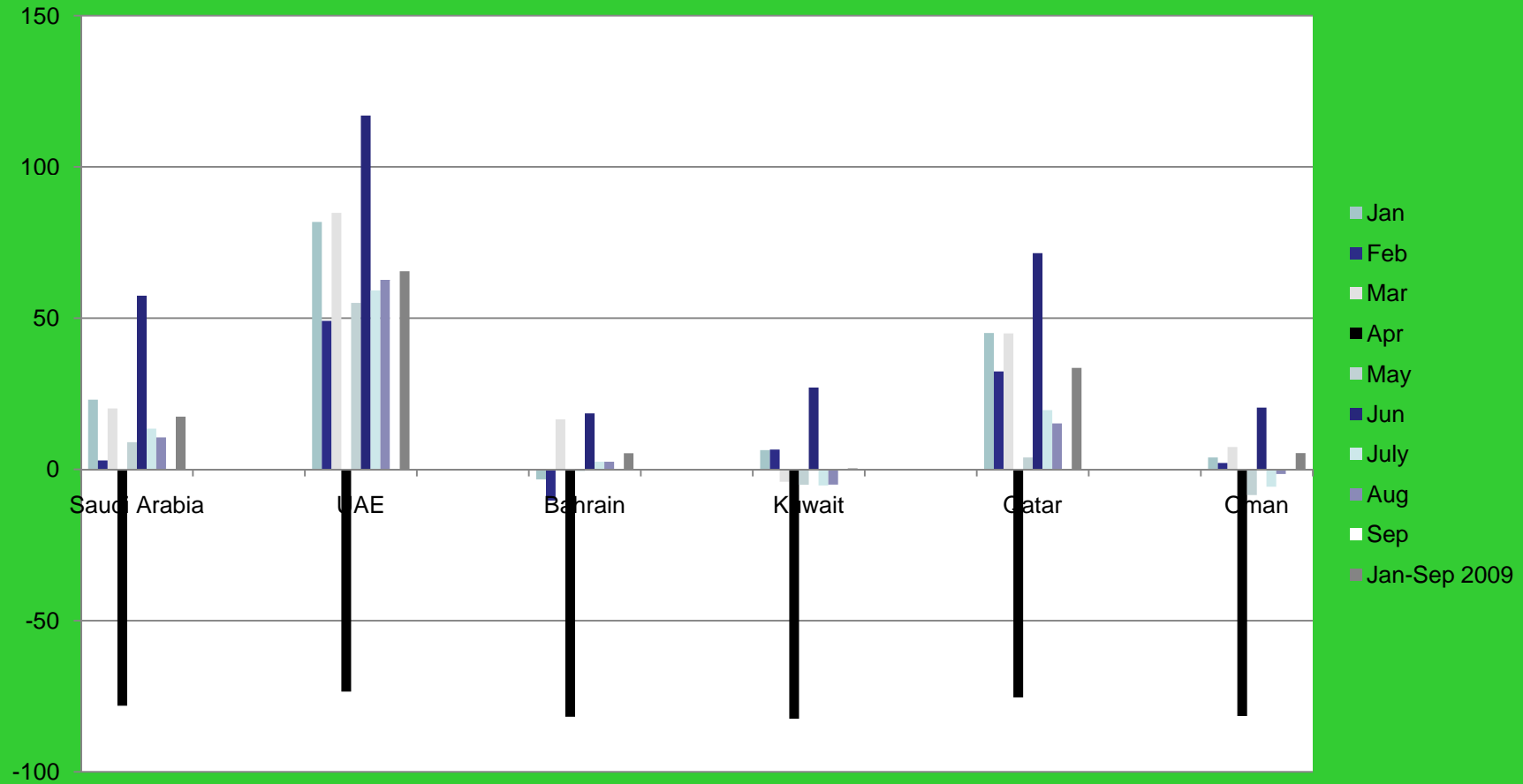


Outflows

Remittances (growth rates) from MENA to the Philippines (Jan - Aug 2009)



Outflows



For MENA

- While there is a slowdown in remittances outflows and migration inflows the reduction is not dramatic.
- Inflows are greatly affected. Some countries such as Egypt, Jordan and Morocco have reported large decreases in remittance flows.

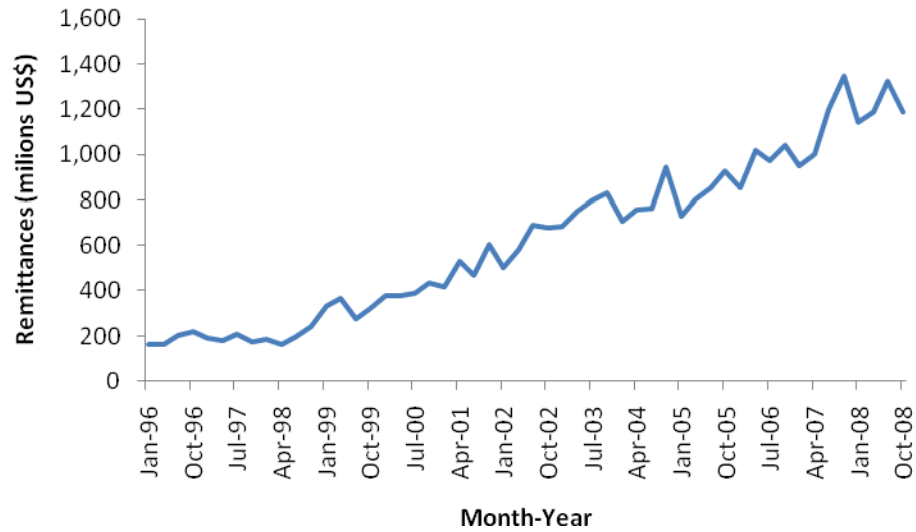


Latin America

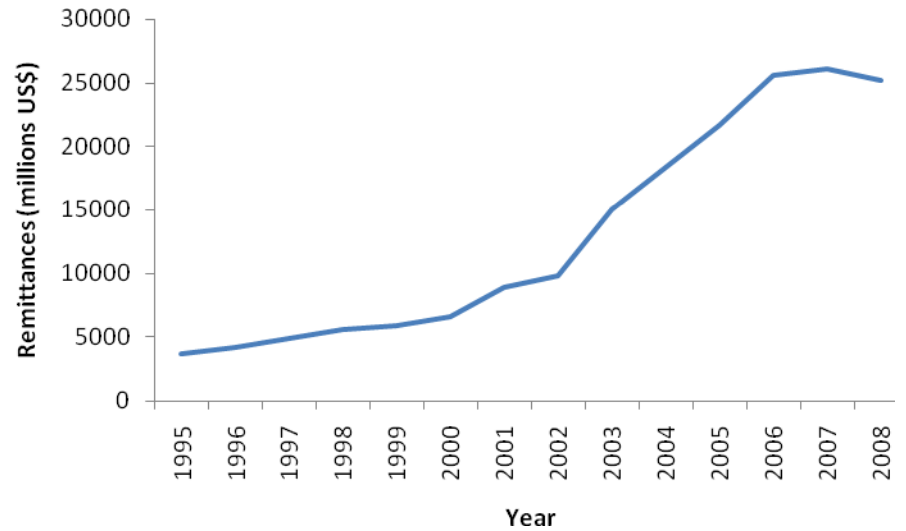
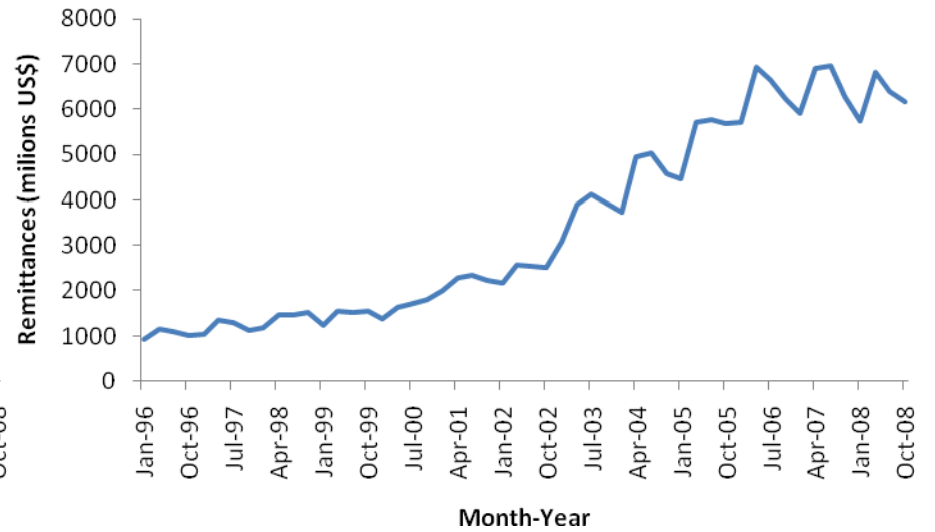
- The unemployment rate for Hispanics in the US rose to 11.4% in March 2009, 4.4 percentage points higher than in 2008 and 6.8 points higher than its lowest point of 4.6% in October 2006.
- There is evidence of a slowdown in the rate of growth of the US foreign-born population since 2007.
- The slowdown in remittances is more noticeable than in most other regions of the world.
- This specially the case for some of the main remittance receivers such as Colombia and Mexico.



Colombia



Mexico

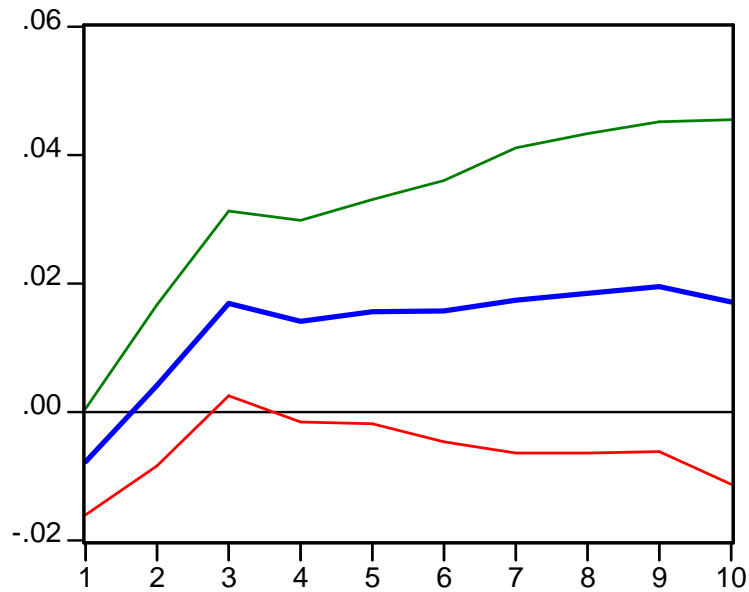


The Main Culprits

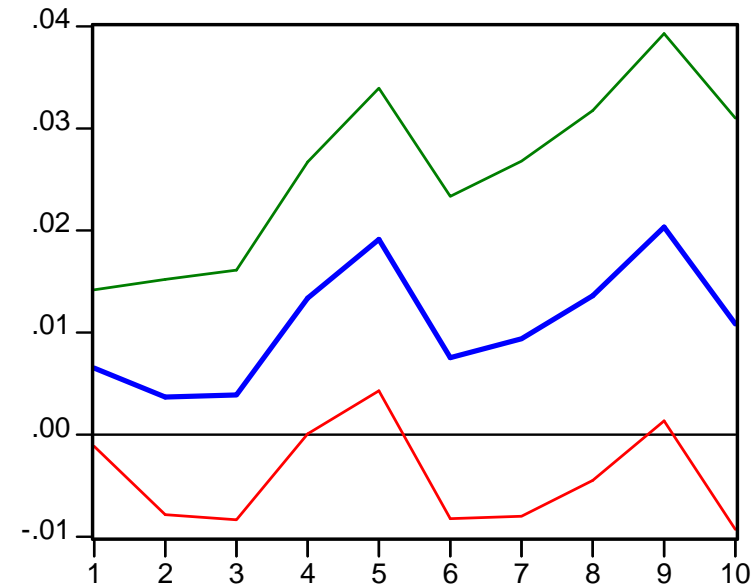
State	Remittances 2004 ^a		Remittances 2006 ^a		Foreclosures ^b		Construction Activity ^c	
	Level	Rank	Level	Rank	Level	Rank	Level	Rank
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
California	9,610	1	13,191	1	34	2	-41.58	12
New York	3,562	2	3,714	3	2	37	-5.71	50
Texas	3,180	3	5,222	2	5	25	-25.53	44
Florida	2,450	4	3,083	4	30	4	-40.59	14
Illinois	1,528	5	2,853	5	12	9	-48.70	2
New Jersey	1,371	6	1,869	6	6	22	-26.44	43
Georgia	947	7	1,736	7	13	6	-54.17	1
North Carolina	833	8	1,221	9	3	34	-34.27	28
Arizona	606	9	1,378	8	31	3	-48.58	3
Virginia	586	10	1,110	10	11	10	-26.85	42
Colorado	544	11	646	12	13	6	-37.26	20
Massachusetts	527	12	579	14	7	17	-37.87	19
Maryland	500	13	921	11	10	12	-29.91	36
Nevada	447	14	618	13	70	1	-45.13	8
Indiana	386	15	190	32	9	15	-31.48	33
Washington	353	16	504	16	5	25	-36.82	22
Oregon	218	17	383	18	10	12	-43.94	9
Michigan	192	18	337	20	15	5	-43.16	10
Pennsylvania	180	19	517	15	4	32	-32.81	30

Response of Remittances to Mexico to Shocks to US Housing Variables

Shocks to US Housing Starts



Shocks to US Houses Sold





For Latin America...

- One reason for this downturn in remittances to this region is the deterioration of the United States housing market.
- Downward fluctuations in the US construction sector may have a negative impact in the migrant's budget which, in turn, forces the migrant to decrease the amount transferred abroad.
- The Pew Hispanic Center estimates that of the 2.9 million Hispanics employed in the US construction industry, 2.2 million are foreign born, representing about 19 percent of the industry's labour force.
- Moreover, it is estimated that Hispanics lost about 250,000 jobs in the construction sector during 2007.

Other reasons...

- There has also been a significant improvement in data about remittances during the last decade. Therefore, some of the increase in remittances during the 1990s may have been artificially generated by the improvements in the collection of the data.
- For example, in 2002 Mexico's Central Bank mandated that all banks and wire-transfer companies must register and report monthly remittance flows.
- Furthermore, the portion of remittances that are transferred through formal channels has increased, making it easier to track flow amounts.
- Other alternative explanations for the slowdown in remittances are tougher migration controls and the crackdown on undocumented workers in the United States.
- It is also likely that given the scarcity of jobs in the US, many potential undocumented migrants may have decided not to cross the border.

Looking Into the Future

- Remittances have already being called a “**new development mantra**”, “**mana from heaven**” and even “**a present day miracle**”.
- In the three cases discussed above, Asia, Latin America and Morocco we could discern that the current crisis has slowdown/decrease inward remittances.
- Several governments in developing countries were expecting this slowdown, while for others there was an element of surprise involved in the drop in migrants’ transfers.
- These migrant transfers have been repeatedly categorized as countercyclical transfers that come to the rescue in the face of a domestic crisis.

Looking Into the Future

- However, this response of remittances is more likely to occur after local fluctuations in output and in cases in which most of the destination economies remained relatively stable.
- In a situation like the current financial crisis where the global economy is weak migrants pockets are also suffering the downturn and therefore it would be difficult for many migrants to compensate households for the poor economic conditions back home.

Globally

- There is no evidence of factors that will push these flows further down once the global economy stabilizes.
- Therefore, remittances flows should be back in the growth path in a few years.
- We are unlikely, however, to see the same growth rates of the past, given that an important share of that growth was due to better recording of remittances and an increase use of wire transfers on the part of migrants.

Thank You!

More details:

Vargas-Silva, C. and Ruiz, I. "Another Consequence of the Economic Crisis: A Decrease in Migrants' Remittances." Special Issue on the Global Financial Crisis in Applied Financial Economics, Forthcoming January 2010.

Vargas-Silva, C.; Jha, S. and G. Sugiyarto "The Global Crisis and the Impact on Remittances to Developing Asia," Asian Development Bank, Working Paper, Forthcoming.

Vargas-Silva, C. and Naufal, G. "Remittances in the MENA Region: A Two Way Street in Which the Place Where You Sleep Matters" (work in progress, send me an email for the latest version).