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The puzzling increase in remittances

This sustained rise points to more profound causes of a change that appears to be lasting

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Like many developing countries, Pakistan heavily relies on international remittances to sustain its economy. The money sent by overseas Pakistanis even exceeds the country's export receipts. Any shock to remittance inflows can therefore have a significant impact on the country's macroeconomic stability. During the first half of 2020, when the first Covid-19 wave had nearly brought the global economy to a halt, we expressed worry that the slowdown may affect Pakistan's remittance inflows in an article titled "Will Covid affect our remittance inflows?" We were not alone in making this pessimistic prognostic. PIDE estimated a fall in remittances ranging from 9% (favourable scenario) to 14% (worst-case scenario) during FY2020. The World Bank predicted remittances would fall by 23% from last year's level. The ADB estimated a fall of 26% in the worst case, considering Pakistan to be among the most-affected countries.

There were several reasons for this negative assessment:

Over half of Pakistan's remittances come from six GCC states. The economies of these states were hit by preventive lockdowns as well as the crash of oil prices and global oil demand. Thousands of migrant workers went out of work. Pakistani migrants working in the retail, hospitality and transport sectors in Western countries likewise faced economic hardship. This led to concerns about them being able to continue supporting their families back home.

These worries gained credence when remittances first stagnated in April (0.8% higher than those in April 2019), and then began falling below the level seen in the preceding year (19% below 2019). When remittances increased by 51% in June, with a substantial increase in transfers from Saudi Arabia and the UAE, they were thought to be savings the laid-off workers were sending home. However, remittance inflows continued to confound analysts' expectations. The sums have exceeded $2 billion for each of the past four months. Remittances have helped Pakistan to even post monthly current account surpluses in this global economic slowdown. In spite of Covid-19 and its economic fallout, Pakistan's remittances grew by 17.69% from March to September compared to 2019. This trend has been wide-ranging with growth observed in remittances from most major destinations: 39.05% increase in receipts from Saudi Arabia; 14.58% from the UAE; 13.45% from other GCC countries, and 8.35% from the UK.

This sustained rise points to more profound causes of a change that appears to be lasting. One possible cause could be the greater use of digital money transferring mechanism by overseas Pakistanis. The government, with the SBP, has over the past year made efforts to make digital payments convenient and less costly. The minimum amount to avail the inexpensive bank transfer facility under the Pakistan Remittance Initiative was lowered to $200. Banks were also given incentives to provide better remittance services. In addition, anti-money laundering regulations are making the use of informal means such as Hundi riskier. The combined effect of these policy changes may be reflected in greater officially-recorded remittances even if the total foreign exchange received in the country might not have increased.

A second cause could be the record number of Pakistani workers who went abroad in 2019. According to the Bureau of Emigration and Overseas Employment, 563,018 Pakistanis went overseas for employment in 2019 compared to 382,439 in 2018, registering a massive increase of 47%. This increase should inevitably show in higher remittances.

The larger stock of Pakistani migrants, greater use of digital remittance services, and policy reforms aimed at promoting remittance facilitation suggest fundamental changes in Pakistan's remittance profile which could keep monthly remittance inflows regularly above the threshold of $2 billion.

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