

## Will Covid affect our remittance inflows?

Overseas Pakistani workers will need all the help they can get from the authorities to limit their losses

Dr Junaid Ahmed/Dr Mazhar Mughal | May 07, 2020



Representational image. PHOTO: REUTERS

Pakistan is one of the world's top 10 recipients of international remittances, according to the World Bank. In 2019, it received \$21.8 billion in remittances from an estimated six million Pakistanis living abroad, principally in North America, Europe and GCC countries. In addition to these remittances sent through formal channels, about 40% is transferred through hand carry, hawala and other informal means annually.

Thanks to a record number of Pakistani workers who went abroad in 2019, according to the Bureau of Emigration and Overseas Employment (BEOE), remittances were expected to increase in the coming months. In fact, at the onset of the Covid-19 outbreak, remittances for February rose by 16% to \$1.82 billion. The upswing was wide-ranging, with a substantial increase from all major sources: Saudi Arabia (14%), UAE (15%), other GCC countries (17%), EU countries (18%) and US (38%). Likewise, despite increasing economic challenges, remittance inflows for March remained robust. Remittances grew by 9% from March 2019 to 2020. All major migrant destinations showed substantial growth except for the UK from where remittance inflows fell by 12%.

The significance of these inflows for the Pakistani economy can hardly be overstated. During the first half of FY2019-20, remittances accounted for 49.15% of the country's import receipts and covered almost the entire trade deficit.

The overseas Pakistani community has become more geographically diversified during the past decade, making their remittances more resilient. Remittances from Pakistanis in the Gulf, which made up more than two-third of remittances, are now down to 54%. Whereas there is an increase in remittances from Malaysia, Australia and other Asia-Pacific countries while those from North America and Europe have kept pace. This

diversification has reduced Pakistan's excessive reliance on oil-exporting economies and kept the economy stable. Another beneficial characteristic of remittances pertains to their generally counter-cyclical nature. When the Pakistani economy reels from high prices of imported oil, rising remittances from oil-exporting countries keep the damage in check. Conversely, during oil price slump, Pakistanis in Western countries remit more to invest in the country's growing economy. This pattern may be behind the growth of remittances during the past two months which surprised analysts.

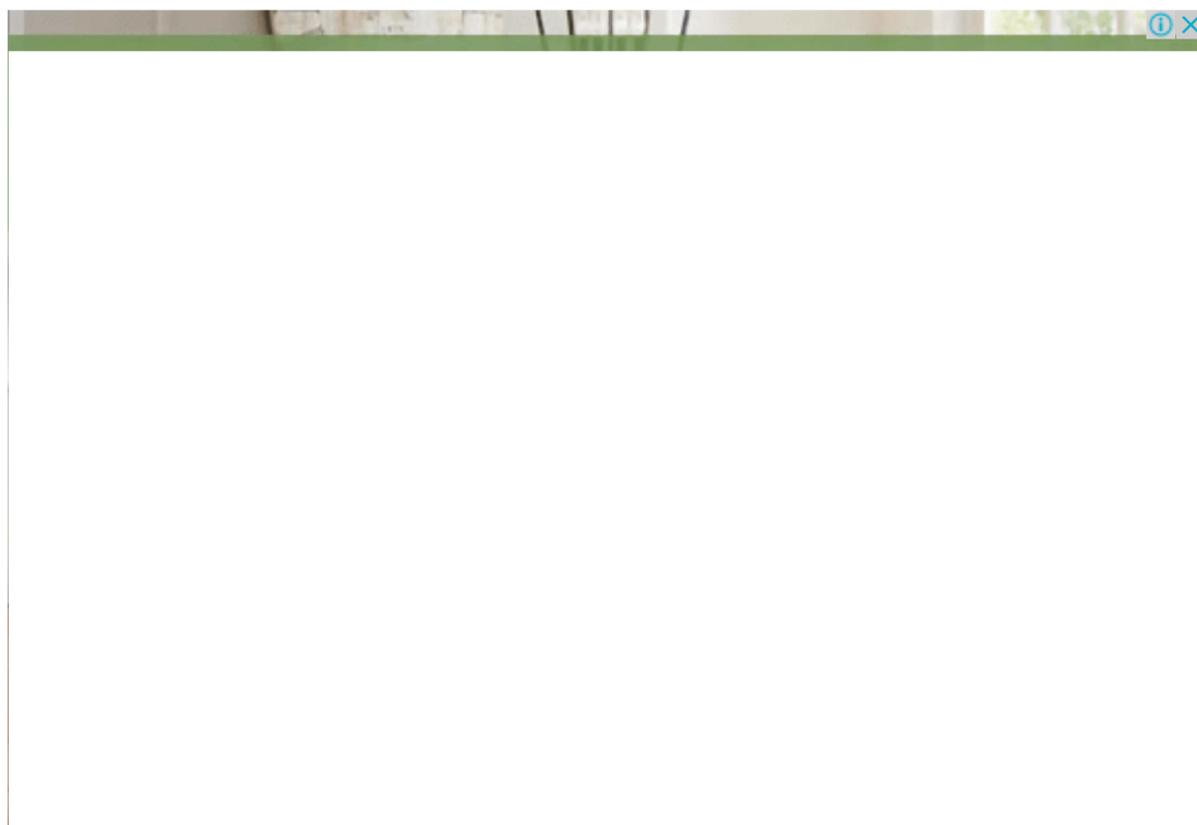
However, the pandemic may endanger this stabilising role of remittances. The world economy has come to a halt. Airplanes are standing idle; businesses closed; investments are on hold; new hirings have stopped. All major economic destinations of Pakistani migrants have significantly slowed down. Additionally, the Saudi-Russia oil-price war has seen oil prices plummeting to below \$30 per barrel. This has dented the finances of GCC countries. These shocks may eventually show in the volume of remittance inflows to Pakistan. If the global economic weakening prolongs, Pakistani overseas workers will begin losing jobs. Workers, particularly in the Gulf, are often employed in construction and services sectors. These are some of the professions that could be seriously affected from a prolonged lock-out.

Even a shortfall of a few billion dollars of remittances may tip the delicate balance in external payments the country had achieved prior to the outbreak. However, with hand carry not a possibility due to travel restrictions and people preferring electronic transfers over currency notes may prove a mitigating factor. This transition may be facilitated by the State Bank, and commercial banks can streamline their electronic remittance products. This will however not lessen the financial difficulties that workers may face due to loss in income.

In the coming future, 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 GCC and other countries the rights of workers whose job permits expire due to travel restrictions and the payment of pending dues of those who lose their jobs. This will be necessary to ensure the well-being of Pakistan's key assets.

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