

Remittance bonanza from the West

Remittances continue their merry march, exceeding \$2 billion consecutively for 12 months

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Remittances continue their merry march, exceeding \$2 billion consecutively for 12 months, a first in the country's history. The \$26.7 billion amount received during July 2020-May 2021 is 29.4% more than in the previous year. This amount already exceeds Pakistan's annual exports proceeds. The development is significant both in scale and scope as receipts from most sources showed a

double-digit increase. Remittances from six GCC countries, which collectively account for the bulk of inflows to Pakistan, increased substantially: those from Saudi Arabia were up by 19.5%; from the UAE by 9.7%; and from Bahrain, Kuwait, Qatar and Oman by 12.4%, 14.3%, 20.4% and 9.3% respectively.

This upward trend has withstood exchange rate fluctuations post-rupee free float. The growth in remittances is even more spectacular considering that Pakistani workers in many countries faced hardships during the first year of Covid-19, with thousands losing their jobs or unable to renew their work contracts. Besides, the number of registered workers going to GCC dropped sharply even though Pakistan managed to send more workers overseas during the period (224,705 workers) compared to its regional competitors. Departures to Saudi Arabia plummeted by 59% in 2020, while those to the UAE fell by 75%.

Major reasons proposed for this continuous growth in remittances include the rising trend of digitalisation, curb on Hundi and Hawala, and fewer cash transferred in person due to less frequent travel. The switch from cash to digital channels of sending money continued throughout 2020. According to recent GSMA report on mobile money, globally cross-border remittances processed via mobile money increased by 65% in 2020 (to \$12 billion), reaching over \$1 billion in transactions sent and received each month.

The increasing substitution of informal channels by formal digital means of transfer in Pakistan stems, in part, from a crackdown on Hundi operators and temporary breakdown of Hundi network due to Covid-related travel restrictions; and in part, from gradual lowering of cost of remitting through digital means. According to the World Bank remittance price worldwide database, the average cost of sending \$200 dropped to 4.1% in 2020. The cost fell for most major remittance corridors thanks to increased competition between service providers and greater use of technology. The government's decision of lowering the threshold for transactions eligible for fee discount under the PRI from \$200 to \$100 may also be a contributing factor. The average cost of remitting \$200 to Pakistan from Saudi Arabia fell to 3.30% in 2020, from the US to 4.47%, and from the UK to 3.20%. The cost of transferring \$500 followed a similar trend.

These factors may largely account for the growth of remittance inflows from Gulf, but fall short of explaining more significant rise in remittances from the