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Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 7-10 percent in 2009

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Newly available data show that remittance flows to developing countries reached \$328 billion in 2008, larger than our previous estimate of \$305 billion. Remittances grew rapidly during 2007 and 2008, but have slowed down in many corridors since the last quarter of 2008. In line with a recent downward revision in the World Bank's forecast of global economic growth, we have also lowered our forecasts for remittance flows to developing countries to -7.3 percent in 2009 from the earlier forecast of -5 percent. Flows to Latin America have been falling in a lagged response to the construction sector slowdown in the US, but there are emerging signs of a bottoming out. In contrast, flows to South Asia and East Asia have been strong; but there is risk of a slowdown going forward. The predicted decline in remittances is far smaller than that for private flows to developing countries. The resilience of remittances arises from the fact that while new migration flows have declined, the stock of migrants has been relatively unaffected by the crisis. Sources of risk to this outlook include uncertainty about the depth and duration of the current crisis, unpredictable movements in exchange rates, and the possibility that immigration controls may be tightened further in major destination countries.

Recent trends

Newly available data show that remittance flows to developing countries reached \$328 billion in 2008, up 15 percent from \$285 billion in 2007 (table 1). These estimates are higher than our previous estimates of \$305 billion in 2008 and \$281 billion in 2007 (see Migration and Development Brief 9). All regions experienced stronger growth than our previous estimates. South Asia registered a 33 percent growth in remittance flows as India reported \$52 billion in 2008, sharply higher than our earlier estimate of \$45 billion. Remittances to East Asia and the Pacific rose 20 percent as China and the Philippines reported strong growth. In contrast, flows to Latin America and the Caribbean grew by a modest 2 percent in 2008, reflecting continuing weakness in the job market in the United States.

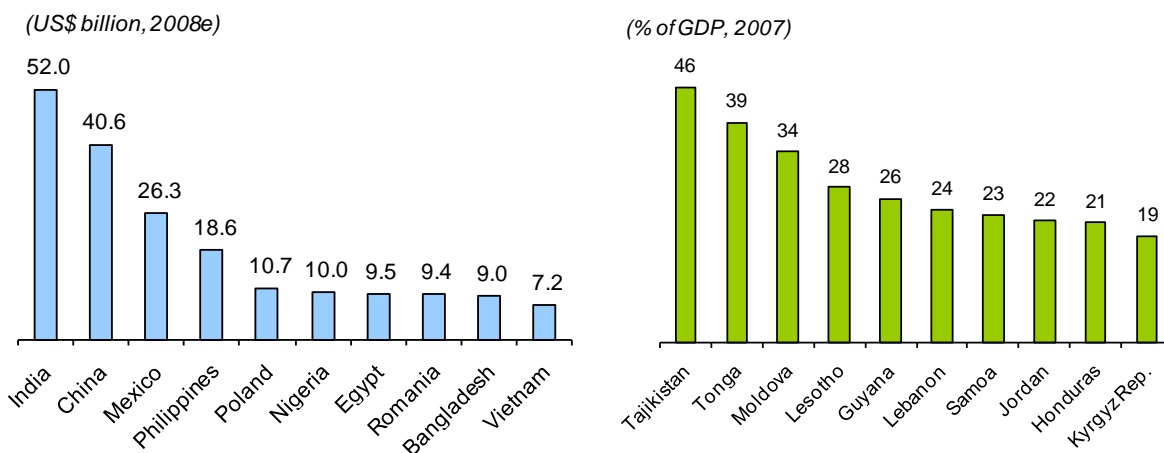
After the latest data revisions for 2008, India, China and Mexico retain their position as the top recipients of migrant remittances among developing countries (see figure 1). The top 10 recipients list also includes Philippines, Poland, Nigeria, Romania, Egypt, Bangladesh, and Vietnam. In contrast, the top recipients in terms of the share of remittances in GDP include many smaller economies such as Tajikistan, Tonga, Moldova, Lesotho, and Guyana; in these countries remittances exceeded a quarter of the GDP, providing a lifeline to the poor.

The slowdown in remittance flows that became evident in the last quarter of 2008 has continued into the first half 2009. As the US job market weakness continues, officially recorded remittance flows to the Latin America and the Caribbean region have dropped significantly in the first half of 2009 (figures 2 and 3). In Mexico, remittance flows in 2009 year-to-date have declined by 11 percent compared to a

¹ Migration and Remittances Team, Development Prospects Group, World Bank. We would like to thank K. M. Vijayalakshmi for assistance with updating remittances data for 2007 and 2008.

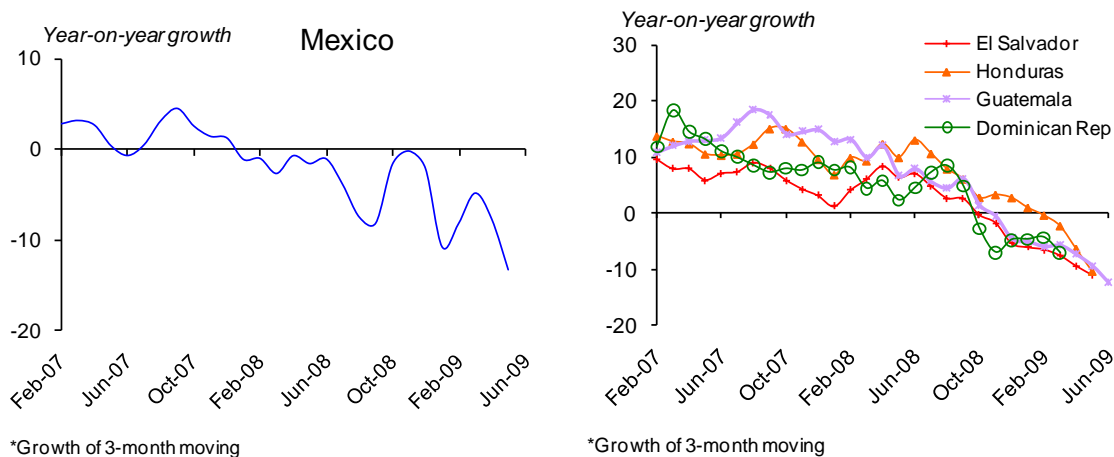
year ago, after a 4 percent decline in 2008. Jamaica has registered a sharper 17 percent decline during the same period. The slowdown in the US construction sector, a major employment sector for migrants from Mexico, is believed to have affected remittance flows to Mexico with a lag of about 3 months (see figure 8 in the next section).

Figure 1: Top recipients of migrant remittances among developing countries in 2008



Source: Same as table 1. GDP data for 2008 are not available for many countries; hence data are shown for 2007.

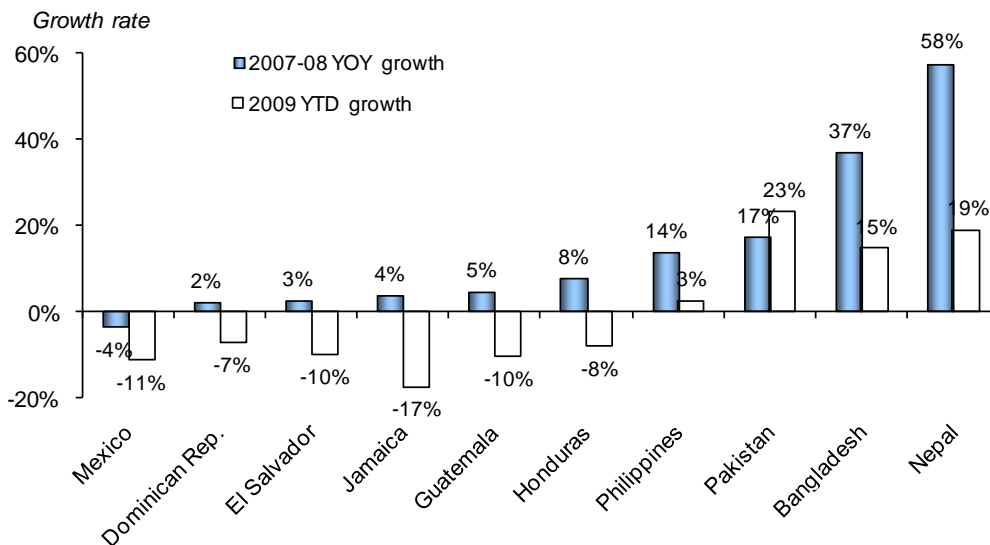
Figure 2: Remittances to Mexico had been declining since early 2008, and also started declining in other Latin American countries in the first half of 2009



Source: Central banks of the respective countries.

Although there are reports that new migration from Latin America is slowing, there is little evidence of large-scale return migration. Instead, new data show that existing migrants are unwilling to return as the employment situation back home is not very good and re-entering the US, in case they return, has become more difficult with tighter border controls. According to Mexican Migration Project data, the duration of migration has lengthened – the average stay of Mexican migrants in the United States has consistently risen from 7 months in 1994 to 10 months in 2002 and 15 months in 2007. Many migrants are staying on even after losing employment in the formal sector. Such migrants are either unable to afford the higher fees or lack the proper identification for sending remittances through the formal channels. Increasing use of informal channels by such migrants would imply that official statistics understate the true size of remittance flows (see box 1 on measuring remittance flows).

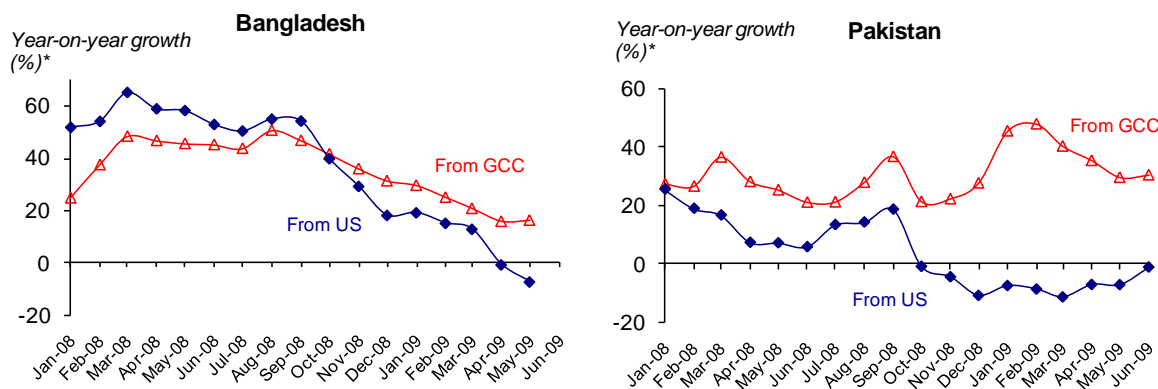
Figure 3: In contrast to a decline in Latin America, flows to some countries in South and East Asia are still growing but the rate of increase has slowed



*Year to date (YTD) growth refers to growth of remittances up to the latest available month in 2009 compared to the same period the previous year. Latest available monthly data for 2009 are January-June for El Salvador, Guatemala and Pakistan, January-May for Bangladesh, Honduras and Mexico, and January-March for Dominican Republic.

Source: Central banks of the respective countries.

Figure 4: The rate of increase of remittances from Gulf countries is slowing but still positive, while those from the US have become negative



*Growth of 3-month moving average

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Source: Central banks of the respective countries.

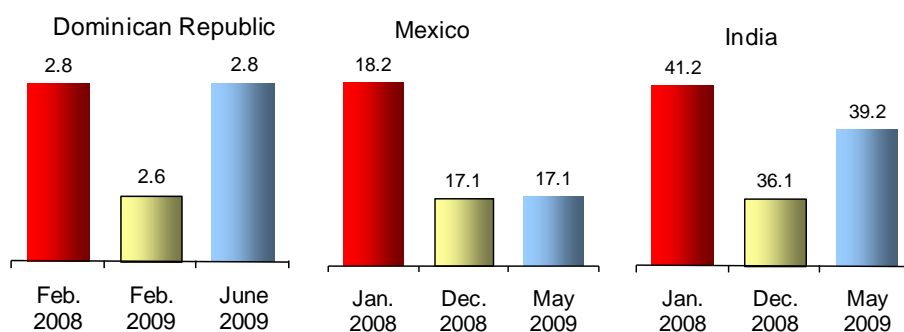
In contrast to Latin America, remittance flows to South Asia and East Asia have continued to post strong growth in 2009 (figure 3). Indeed in some countries (e.g., Pakistan) growth of remittances seems to have accelerated in 2009. This is in part due to the fact that the GCC countries, a major destination for Asian migrants, have not significantly reduced hiring migrants. Bangladesh and Pakistan, for example, report falling remittance inflows from the US while the flows from the GCC countries continue to remain strong (figure 4). A second reason for the growth of remittances to South Asia and East Asia appears to be a switch in the motivation for remittances from consumption to investment: falling asset prices, rising interest rate differentials and a depreciation of the local currency have attracted investments from

migrants. This is the dominant reason for the sharp increase in remittances to India in 2008.² Anecdotal, increasing flows into nonresident deposits have also been reported in Mexico, Tajikistan, Moldova, Ghana and Ethiopia.

Reverse remittances

There have been some anecdotal media reports about reverse remittances from Mexico and Dominican Republic to the United States. According to these reports, the economic crisis in the United States is forcing many migrants to dip into their savings and assets back home and to rely on their families for financial help. Also, some migrants have sold their homes in Mexico to make mortgage payments in the US. There are also anecdotes that some, deciding that returning home was not an option, have brought their family members to join them in the US. This would imply, again, that they would liquidate assets in the home country and remit the proceeds overseas.

Figure 5. Non-resident deposits* declined in 2008 but have risen since
(\$ billion)



* Dominican Republic - foreign currency deposits, India - foreign currency and repatriable rupee deposits, and Mexico - foreign currency demand deposits and time deposits from the public. Note that these charts use different scales.

Source: Central banks of the respective countries

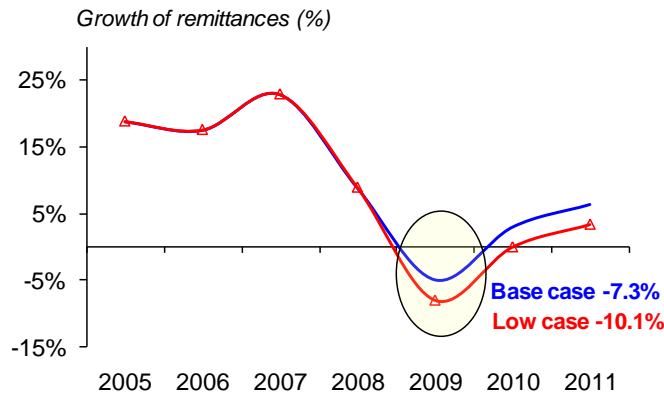
There is no way of judging the extent of such “reverse remittances”. Data on outward remittance flows are of questionable quality in most of the countries. Also many large migrant destination countries do not report high frequency data on inward remittance flows. A modest, and rather indirect, inference about reverse remittances can be drawn from a decline in foreign currency deposits - which are likely held by migrants or their relatives - in Dominican Republic and other countries. In 2008, these deposits declined by 7% in Dominican Republic, 12% in India, and 6% in Mexico (figure 5). However, these deposits have risen since indicating perhaps that reverse remittances are slowing down because of a bottoming of the US economic downturn. Reverse remittances are most likely miniscule – and they seem to be declining – compared to the size of remittance flows received by developing countries.

Outlook for 2009

Remittance flows in 2009 are expected to decline even more sharply than projected earlier because of a deterioration in the economic and employment situation in the migrant-destination countries in the first half of this year. According to the revised projections by the World Bank, global economic growth is also expected to be negative, with an expected 2.9% contraction of global GDP in 2009. Global GDP growth is expected to rebound to 2% in 2010 and 3.2% by 2011. In line with this outlook, we expect that remittance flows to developing countries could decline by 7-10 percent in 2009, with a possible recovery in 2010 and 2011 (table 1 and figure 6).

² Also there has been an increase in high-skilled migration from India to the United States, Canada, Europe and Australia. Remittances to India also increased because of a shift from informal to formal channels, increased competition, and a reduction in remittance costs, and better recording of these flows.

Figure 6: Remittance flows to developing countries expected to decline in 2009 but recover in 2010

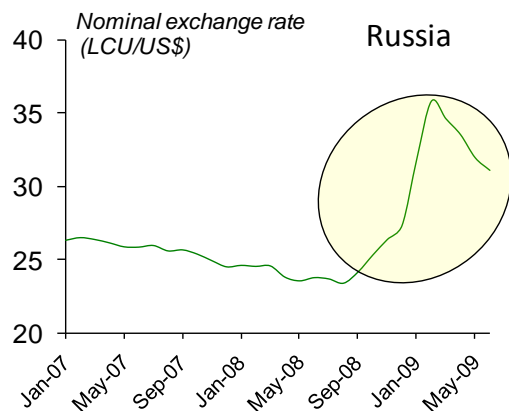


Source: Same as table 1.

Remittance flows to all the developing regions are expected to decline in 2009. Europe and Central Asia is expected to experience the largest decline (15 percent) among all developing regions in 2009. Remittance flows to Latin America and the Caribbean are expected to decline by 7 percent, those to the Middle-East and North Africa by 6 percent, and to Sub-Saharan Africa by 8 percent. Remittance flows to South Asia are expected to decline more modestly by 4 percent. These flows are expected to return to positive growth in 2010 and 2011.

Migrants from countries in Europe and Central Asia have been affected by the deepening recession and a rise in anti-immigration sentiment in Russia and the UK. The impact of the worsening employment outlook in Russia has been particularly severe for Central Asian countries such as Tajikistan, Moldova and the Kyrgyz Republic that receive a large share of remittances from Russia, and where remittances are a large share of GDP. Combined with a deteriorating economic outlook for Russia, the sharp depreciation of the Russian ruble since September 2008 has reduced remittance inflows in nominal dollar terms to the Central Asian countries in 2009, but the ruble appears to be strengthening since March (figure 7). A rebound in oil prices in the latter half of this year may yet again increase demand for migrant labor in Russia and result in a recovery in remittance flows to the region in 2010.

Figure 7: Depreciation of the ruble against the US dollar will reduce outward remittances in US dollar terms



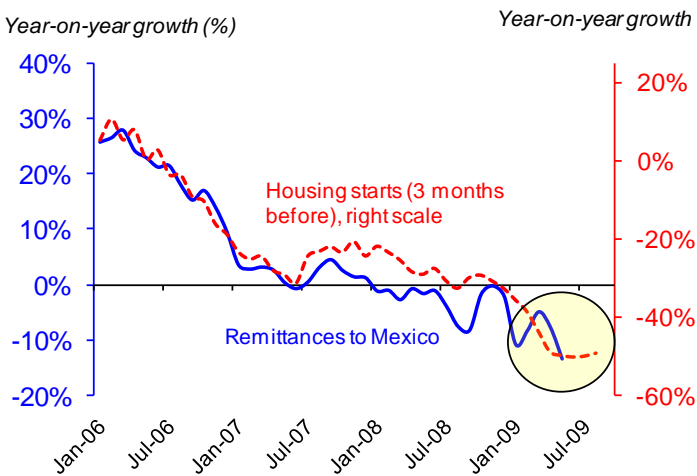
Source: Development Prospects Group, World Bank.

Developing countries in Eastern Europe such as Poland benefited from the opening of European Union labor markets and the resulting increase in migration to the UK and Ireland more than doubled remittances between 2004 and 2008. With a decline in economic activity in the UK and hardening of

anti-immigration sentiment, many migrants have returned. Remittance flows to these countries are also expected to decline in 2009.

The pace of decline in remittance flows to Latin America and the Caribbean in the first half of 2009 is expected to level off as employment in the construction sector in the United States, a leading indicator of remittances (with an estimated lead of 3 months) to Latin American countries, appears to be stabilizing (figure 8). Migrant employment in other sectors such as manufacturing and retail and wholesale trade also appear to be stabilizing (figure 9). Flows to countries in the Latin America and the Caribbean region are expected to level off, with a smaller decline in the second half of 2009.

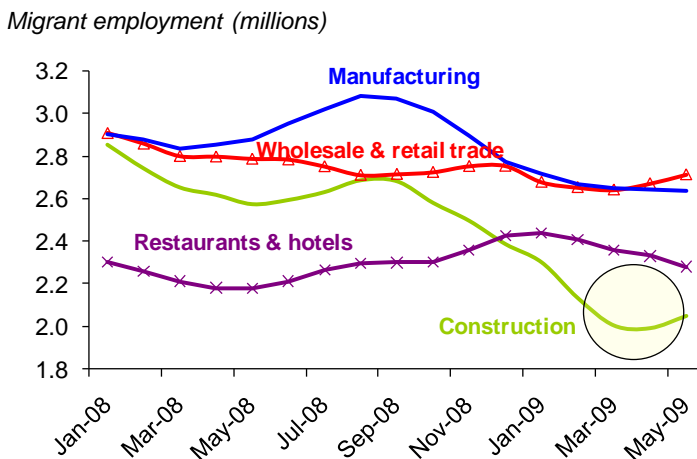
Figure 8: Recent US construction trends indicate that the decline in remittances could stabilize in second half of 2009



* Housing starts refers to construction of new private residential housing construction started.

Source: US Census Bureau and Banxico.³

Figure 9: Migrant employment in other sectors in the US also appears to be stabilizing



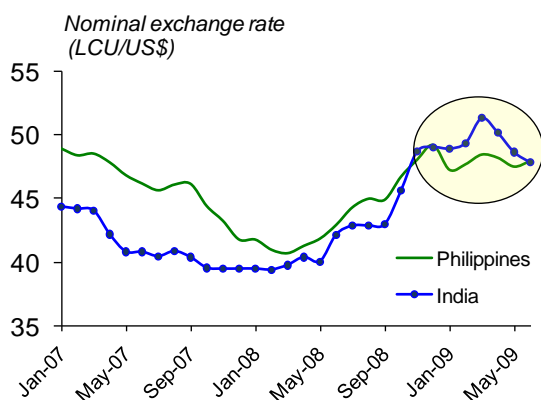
Source: US Census Bureau Current Population Survey June 2009.

³ Federico Mandelman of the Federal Reserve Bank of Atlanta presents a similar chart. See <http://economix.blogs.nytimes.com/tag/federico-mandelman>

Risks to the outlook

There are three key sources of risk to the outlook for remittance flows. First, if the crisis were deeper and longer than currently projected, the decline in remittance and migration flows would be steeper. Unpredictable movements in the exchange rates pose a second source of risk. If the exchange rates of these remittance sources weaken, it would result in an even greater decline in remittance flows to developing countries. Finally, the political reaction to weak job markets in destination countries could lead to more tightening of immigration controls.

Figure 10: Exchange rate depreciation in some countries created incentives to send more remittances for investment motives, but that incentive may diminish in 2009



Source: Development Prospects Group, World Bank.

The impact of the US economic and construction sector slowdown has been felt with a lag on remittance flows to Latin American countries. A similar lagged response in remittance flows to South Asia and East Asia may arise from the current slowdown in economic activities in the GCC countries. This is especially relevant for Kerala (India), Bangladesh, Sri Lanka and the Philippines that have migrant workers in the construction sector in Dubai. As discussed above, remittance flows to some South Asian and East Asian countries increased sharply in 2008 partly because depreciating currencies against the US dollar made assets in the home country more attractive, with a “sale effect” resulting in a shift in remittances being sent for consumption motives to investment motives. These currencies appear to have plateaued in recent months (figure 10). The Reserve Bank of India has also lowered interest rates to mitigate the impact of the crisis. The high base effect of a large increase remittance flows in 2008 will imply that remittances sent particularly for saving and investment motives to these countries could be substantially lower in 2009.

Finally, a key source of risk to the outlook presented above arises from rising protectionist tendencies in destination countries. Almost all major destination countries—for example, the United States, the United Kingdom, Australia, Malaysia, Russia, South Africa, Italy, Spain, India—have reduced the annual quotas or imposed tougher standards for immigrant workers (see Migration and Development Brief 9). There is little evidence to believe that immigration controls would reduce immigration or protect native workers. Businesses facing falling revenues need flexibility in hiring and firing decisions. Migrant workers are on an average more flexible and cheaper than comparable native workers. A market-based approach will not only help preserve the productive capacity—the employers and the firms—in the destination countries, it will also help sustain the lifeline of remittances to developing countries from which migrants come.

The persistence of the migrant stocks, however, will contribute to the resilience of remittance flows in the face of the crisis (see box 2). However, considering that private flows to developing countries are

expected to contract by 50 percent or more in 2009, remittances will become even more important for the external financing position of developing countries.⁴

Box 1: Measuring migrant remittances flows

Using the definition in chapter 7 of *Global Development Finance 2003*, migrant remittances are considered the sum of workers' remittances, compensation of employees, and migrants' transfers (World Bank 2003). Data for these variables are compiled from the IMF's Balance of Payments yearbook, World Bank country desks, and directly from central banks. Workers' remittances, as defined in the IMF Balance of Payments manual, are current private transfers from migrant workers who are considered residents of the host country to recipients in their country of origin. Compensation of employees comprises wages, salaries, and other benefits earned by individuals in economies other than those in which they are residents. Employees, in this context, include seasonal or other short-term workers who are in the host country for less than a year. Migrants' transfers are the net worth of migrants that are transferred from one country to another at the time of migration (for a period of at least one year).

Reporting of these variables, however, varies from country to country. For example, India shows very little compensation of employees, but large workers' remittances, although it is well known that India supplies a large number of temporary IT workers to the United States and European countries. Therefore, in order to get a complete picture of the resource flow from migrants, the three items—workers remittances, compensation of employees and migrants' transfers—have to be considered together.

While nonresident deposits are conceptually different from remittances (they are a liability item in the capital account), if they are withdrawn locally or converted to non-repatriable local currency deposits, these are included in remittance flows by some countries such as India (Reserve Bank of India 2006). That makes remittances responsive to the interest rate differentials between the origin and the destination countries.

Remittances data are often published by central banks according to fiscal years, which can vary from country to country. The figures provided in this brief are in calendar years. The figures published by central banks (and cited in the media) can therefore differ from the estimates in this brief.

Following the recommendations of a G8 Task Force on remittance statistics, the 6th edition of the *Balance of Payments and International Investments Position Manual (BPM6)* addressed the definition of remittances. It introduced three new concepts of remittances as summarized in the table below.

Total Remittances and Transfers to NPISHs: a+b+c+d+e+f					
Total Remittances: a+b+c+d				e	f
Personal Remittances: a+b+c			d		
a	b	c			
Personal transfers (part of current transfers)	Compensation of employees less taxes, social contributions, transport, and travel	Capital transfers between households	Social Benefits	Current transfers to NPISHs	Capital transfers to NPISHs

A first-ever manual providing detailed guidance on the compilation of remittances, *International Transactions in Remittances: Guide for Compilers and Users (RCG)* has recently been published. The World Bank has been recently invited to coordinate a *G8 Global Remittances Working Group* which has improving remittances data as one of the four thematic areas. Other thematic areas are interconnections with migration and development, and policy; payment and market infrastructure; and remittance-linked financial products and access to finance.

⁴ According to *Global Development Finance 2009*, net private capital inflows to developing countries fell to \$707 billion in 2008, a sharp drop from a peak of \$1.2 trillion in 2007. International capital flows are projected to fall further in 2009, to \$363 billion.

Box 2: Resilience of remittance flows relative to other types of flows during the current crisis

Despite the prospect of a sharper decline in remittance inflows than anticipated earlier, these flows will remain more resilient compared to many other types of resource flows such as private debt and equity flows and foreign direct investment, which are expected to decline or, in the case of portfolio flows, perhaps become negative in 2009 as foreign investors pull out of emerging markets. There are several reasons for the resilience of remittances in the face of economic downturns in host countries:

- (a) Remittances are sent by the cumulated flows of migrants over the years, not only by the new migrants of the last year or two. This makes remittances persistent over time. If new migration stops, then over a period of a decade or so, remittances may stop growing. But they will continue to increase as long as migration flows continue.
- (b) Remittances are a small part of migrants' incomes, and migrants continue to send remittances when hit by income shocks.
- (c) Because of a rise in anti-immigration sentiments and tighter border controls, especially in the U.S and also in Europe, the duration of migration appears to have increased. Those staying back are likely to continue to send remittances.
- (d) If migrants do indeed return, they are likely to take back accumulated savings. This may have been the case in India during the Gulf war of 1990-91 which forced a large number of Indian workers in the Gulf to return home (Ratha 2003, p 163). Also the "safe haven" factor or "home-bias" can cause remittances for investment purposes to return home during an economic down turn in the host country.
- (e) Several high-income OECD remittance source countries are likely to undertake large fiscal stimulus packages in response to the financial crisis. This increase in public expenditure, if directed to public infrastructure projects, will increase demand for both native and migrant workers. Taylor (2000) found that public income transfer schemes in the United States resulted in increased remittances to Mexico – other things being equal, immigrant households that received Social Security or unemployment insurance were more likely to remit than other immigrant households. Also documented migrants are likely to send more remittances to their families, to make up for a fall in remittances by undocumented migrants.

Source: Reproduced from *Migration and Development Brief 9*

Table 1: Outlook for remittance flows to developing countries, 2009-11

	2006	2007	2008e	Base case forecast		Low case forecast	
				2009f	2010f	2009f	2010f
\$ billion							
Developing countries	228	285	328	304	313	295	294
East Asia and Pacific	53	65	78	74	76	71	71
Europe and Central Asia	37	51	57	49	50	47	48
Latin America and Caribbean	59	63	64	60	61	58	57
Middle-East and North Africa	26	32	34	32	33	31	31
South Asia	40	55	74	71	74	69	69
Sub-Saharan Africa	13	19	20	18	19	18	18
Low-income countries	20	25	31	29	30	29	29
Middle-income countries	208	261	297	275	282	266	265
World	309	380	433
Growth rate (%)							
Developing countries	17.2%	25.2%	14.8%	-7.3%	2.9%	-10.1%	-0.3%
East Asia and Pacific	13.4%	23.4%	19.6%	-5.7%	3.0%	-8.8%	-0.5%
Europe and Central Asia	24.1%	36.5%	12.0%	-14.9%	3.0%	-17.2%	0.5%
Latin America and Caribbean	18.1%	6.6%	2.1%	-6.9%	1.0%	-9.4%	-2.0%
Middle-East and North Africa	4.6%	21.4%	8.6%	-6.2%	3.3%	-9.8%	-0.4%
South Asia	19.7%	40.1%	32.8%	-3.6%	3.9%	-6.4%	0.5%
Sub-Saharan Africa	34.5%	47.3%	6.5%	-8.3%	4.4%	-11.6%	1.1%
Low-income countries	23.8%	23.2%	25.3%	-5.0%	3.8%	-7.2%	0.7%
Middle-income countries	16.7%	25.4%	13.9%	-7.5%	2.8%	-10.4%	-0.4%
World	14.3%	22.9%	14.0%

e = estimate; f=forecast

Source: : Authors' calculation based on data from IMF Balance of Payments Statistics Yearbook 2008 and data releases from central banks, national statistical agencies, and World Bank country desks. Remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers – see www.worldbank.org/prospects/migrationandremittances for data definitions and the entire dataset. ¹

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