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GCC Remittance Flows: Resiliency During Rough Seas

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Executive Summary

Remittance flows are large in absolute value but also in share of national output for many receiving countries. Additionally, remittances have proven remarkably stable compared to foreign direct investment (FDI) during economic crises. This policy brief examines the resilience of remittance flows to Pakistan amidst the COVID-19 pandemic, using data from July 2018 to January 2024. We first find that remittance flows are significantly larger than FDI. Second, the Gulf Cooperation Council (GCC) countries, particularly Saudi Arabia and the UAE, lead remittance sending countries to Pakistan. Finally, remittance inflows to Pakistan are much more stable than FDI flows. The government of Pakistan should emphasize support for their own migrants, expand productive use of remittances inflows, and build strong relations with GCC countries.

Introduction and Background

The World Bank estimates that there are more than 180 million migrants in the world.1 One of the visible impacts of migrants is the money that they send back to their home country. The latest figures estimate remittance flows worldwide to be almost $670 billion dollars.2 Remittance flows have been the largest source of income for the least developed countries for decades now. For many countries, remittance flows constitute a significant portion of financial flows3 in absolute value (more than $125 billion for India, $40 billion for the Philippines, and almost $25 billion for Egypt),

1 Migrants, Refugees, and Societies (2023). World Bank https://www.worldbank.org/en/publication/wdr2023 (accessed March 30, 2024).

2 Migration and Development Brief 39 (2023). KNOMAD https://knomad.org/publication/migration-and-development-brief-39?s=09 (accessed March 30, 2024).

3 Gammeltoft, P. (2002). Remittances and other financial flows to developing countries. International migration, 40(5), 181-211.

and for others they make up a large share of their Gross Domestic Product (GDP) (for example almost 50% for Tajikistan, 41% for Tonga, and 28% for Lebanon).4

The significance of remittance flows to policymakers and academics extends beyond their sheer volume, encompassing their resilience as well.5 The academic literature documents that remittances flows are the least affected by economic shocks as they reflect the willingness of migrants to send money back home. Migrants often remit due to altruistic reasons making remittances act as a "vital lifeline for households" back home.6 Most economic shocks are usually localized to a country or a region, allowing migrants in other countries to support their families in their home country. However, the latest pandemic presented a new challenge to migrants by affecting all countries, to a certain extent, at the same time. COVID-19 lowered the global economic output by almost $9 trillion7 and increased unemployment in 70% of all countries, leading to significant income loss.8

Remittance Inflows to Pakistan

The academic community has been pondering the impact of a worldwide pandemic on remittance flows. This brief examines the trends of remittance inflows to Pakistan focusing on the COVID-19 period. Pakistan is an interesting case study for a few reasons. First, Pakistan regularly appears in the top 10 in remittance inflows, and ranked 7th in 2023 total inflows.9 Second, Pakistan receives the majority of its remittance money from the Gulf region. Finally, the Pakistan Central Bank10 collects extensive monthly time series data on remittance inflows identifying countries of origin (including by city for some countries). The Pakistan Central Bank also provides monthly figures for foreign direct investment (FDIs) to Pakistan. This impressive data set allows us to examine the changes in incoming remittance and FDI trends over time. The monthly frequency further helps

4 World Bank (2023). "Remittance Flows Continue to Grow in 2023 Albeit at Slower Pace." https://www.worldbank.org/en/news/press-release/2023/12/18/remittance-flows-grow-2023-slower-pace-migration-development-brief#:~:text=The%20United%20States%20continued%20to,and%20Egypt%20(%2424%20billion) (accessed March 27, 2024).

5 Ratha, D. (2023). "Resilient Remittances." Finance & Development. https://www.imf.org/en/Publications/fandd/issues/2023/09/B2B-resilient-remittances-dilip-ratha#:~:text=Stable%20flows,source%20country%20falls%20into%20crisis (accessed March 24, 2024).

6 Malpass, D. (2002). "Remittances are a critical economic stabilizer." https://blogs.worldbank.org/en/voices/remittances-are-critical-economic-stabilizer (accessed March 25, 2024)

7 United Nations (2020). "COVID-19 to slash global economic output by $8.5 trillion over next two years." https://www.un.org/en/desa/covid-19-slash-global-economic-output-85-trillion-over-next-two-years (accessed March 15, 2024).

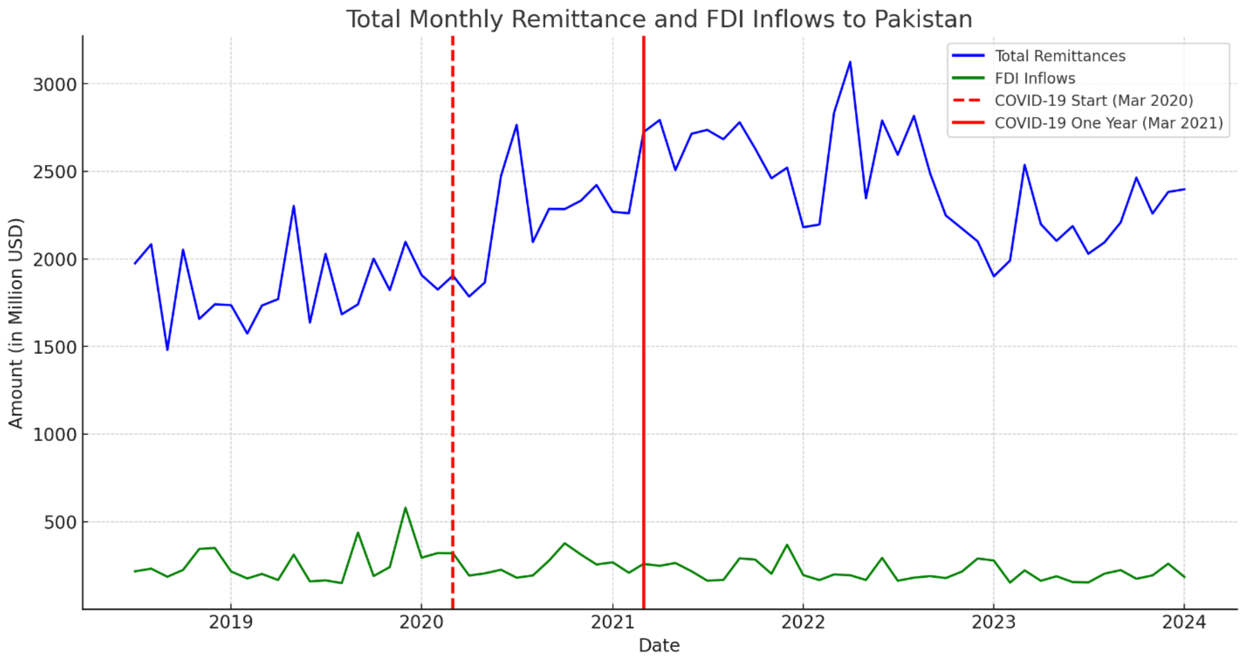
8 World Bank (2022). "The economic impacts of the COVID-19 crisis." https://www.worldbank.org/en/publication/wdr2022/brief/chapter-1-introduction-the-economic-impacts-of-the-covid-19-crisis (accessed March 10, 2024).

9 Knomad (2024.) "Remittances Data." World Bank. https://www.knomad.org/data/remittances (accessed March 1, 2024).

10 Pakistan Central Bank. https://www.sbp.org.pk/index.html

identify granular changes in flows. All the data below ranges between July of 2018 and January of 2024. The first figure (Figure 1) shows monthly FDI and remittance flows to Pakistan. Remittance inflows averaged $2.2 billion a month while FDI flows averaged around $233 million. It is clear from the figure that for Pakistan, remittance inflows are significantly larger than FDIs. In fact, across this studied timeframe, the ratio of remittance inflows to FDI flows averaged 10 reaching as high as 15 times. Figure 1 also highlights the first year of the COVID-19 pandemic (March 2020 to March 2021)[11]. FDI flows declined by almost 40% in April of 2020 while remittance inflows declined by only 6%. Both flows recovered and increased in June of 2020 with remittance flows growing by 33% from May while FDI increased by only 10%.

Figure 1: Total Monthly Remittances and FDI Flows to Pakistan

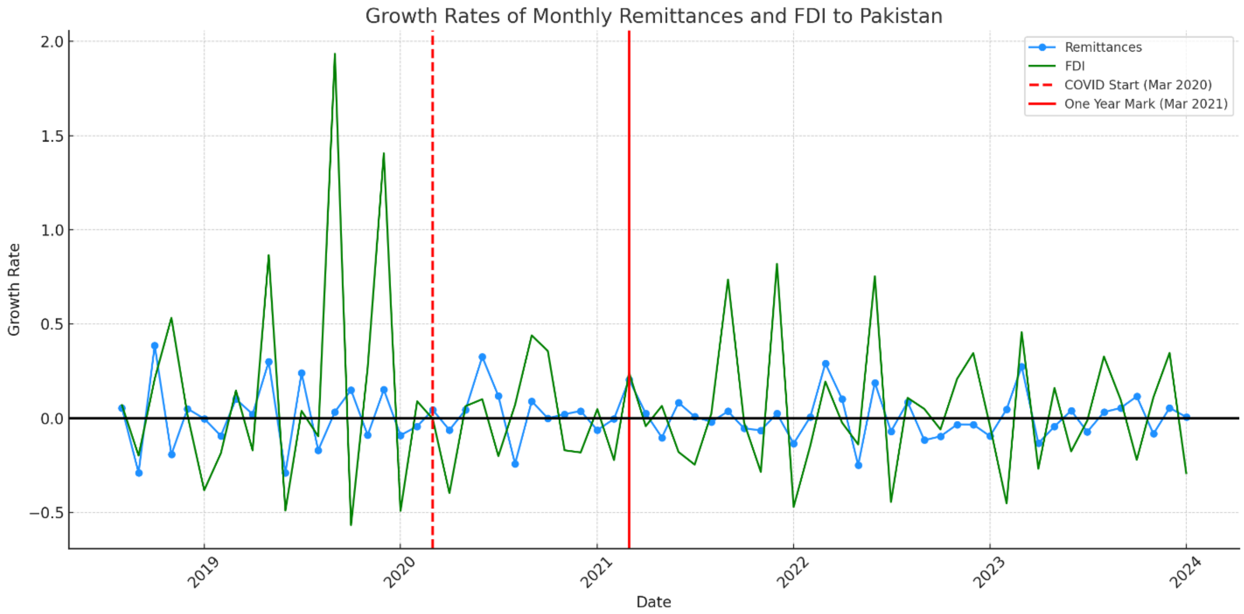


Source of data: Pakistan Central Bank

Figure 2 examines the growth rate of these two flows over the same time period. There are two clear observations from Figure 2. First, FDI flows are more volatile than remittance flows (three times more volatile on average). Second, Figure 2 also highlights the period for the first year of the COVID-19 pandemic showing that during that time the average growth rate of remittance flows to Pakistan was around 4% while it was around 1% for FDIs. Throughout the graph, the remittance growth rate hovered around the 0% mark more closely than the FDI series, again highlighting a difference in volatility of the growth rate in the magnitude of 3 (the volatility of FDIs' growth rates is three times that of remittance flows).

11 Yale Medicine. (2021). "The World Health Organization (WHO) declared COVID-19 a pandemic on March 11, 2020." https://www.yalemedicine.org/news/covid-timeline#:~:text=On%20March%2011%2C%202020%2C%20the,swiftly%20spreading%20around%20the%20world (accessed March 15, 2024).

Figure 2: Growth Rates of Monthly Remittances and FDI to Pakistan

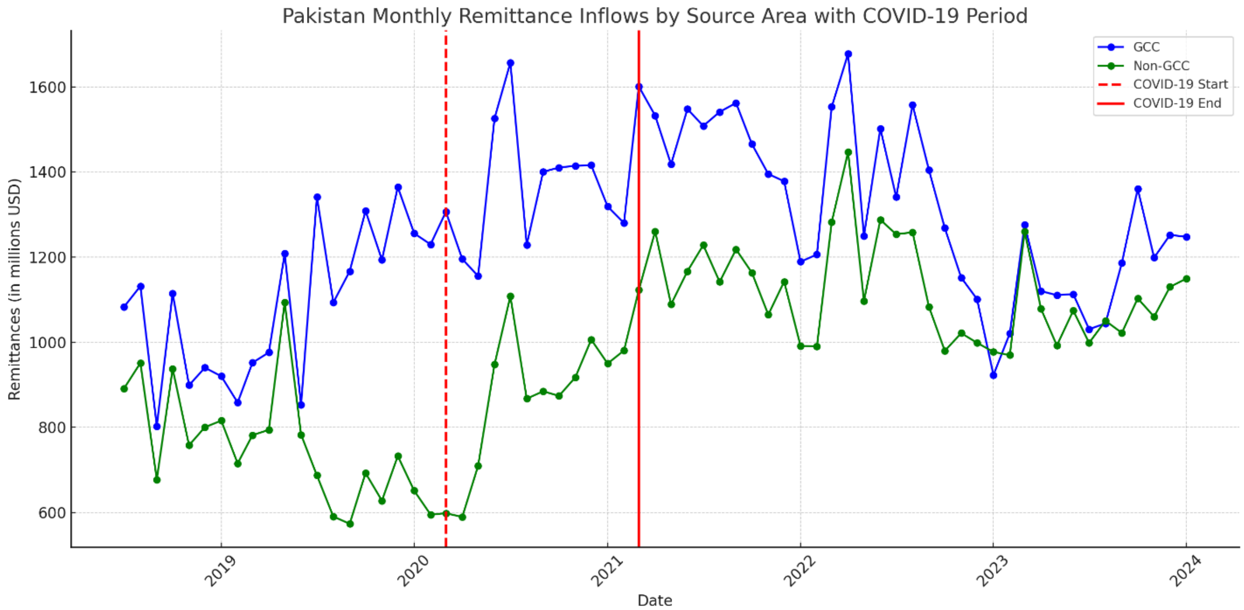


Source of data: Pakistan Central Bank

Together, Figures 1 and 2 suggest that remittance inflows to Pakistan are large--larger than FDI flows--and are less volatile than FDIs. These findings are again in accordance with the literature. For the period of the data, Pakistan received \$148 billion in remittances and \$15 billion in FDI flows.

We now focus on remittance inflows to Pakistan. Figure 3 splits the source of remittance flows to Pakistan by the main two source regions: Gulf Cooperation Council (GCC) countries and non-GCC countries. The non-GCC countries in Figure 3 include remittance flows from all countries other than GCC states including the United States, United Kingdom, countries of the European Union, and other (Australia and Asian countries). Remittance flows from GCC countries averaged \$1.2 billion a month while the average for the non-GCC countries was around \$966 million. While remittance flow series from both regions followed each other closely, they diverged right before 2020, where GCC remittance flows kept on an upward trajectory while non-GCC remittances to Pakistan declined. This difference could be explained by the staggered movement of the COVID-19 pandemic as it affected different areas at different times. During the first year of the pandemic (March 2020 to March 2021), both sources initially declined but then both remittance flows jumped by 33.5% (non-GCC) and 32.1% (GCC) in June of 2020 showing the power of remittances to respond to the economic crisis (caused by the pandemic). Ultimately, the average growth rate during that year was 5.8% for flows coming from non-GCC countries relative to 3.1% for money remitted from the GCC countries. While the difference is not significant, it could be explained by differences in macroeconomic policies during the pandemic, the spread of the virus, and labor market adjustments but that is beyond the scope of this brief.

Figure 3: Pakistan Monthly Remittance Inflows by Source Region

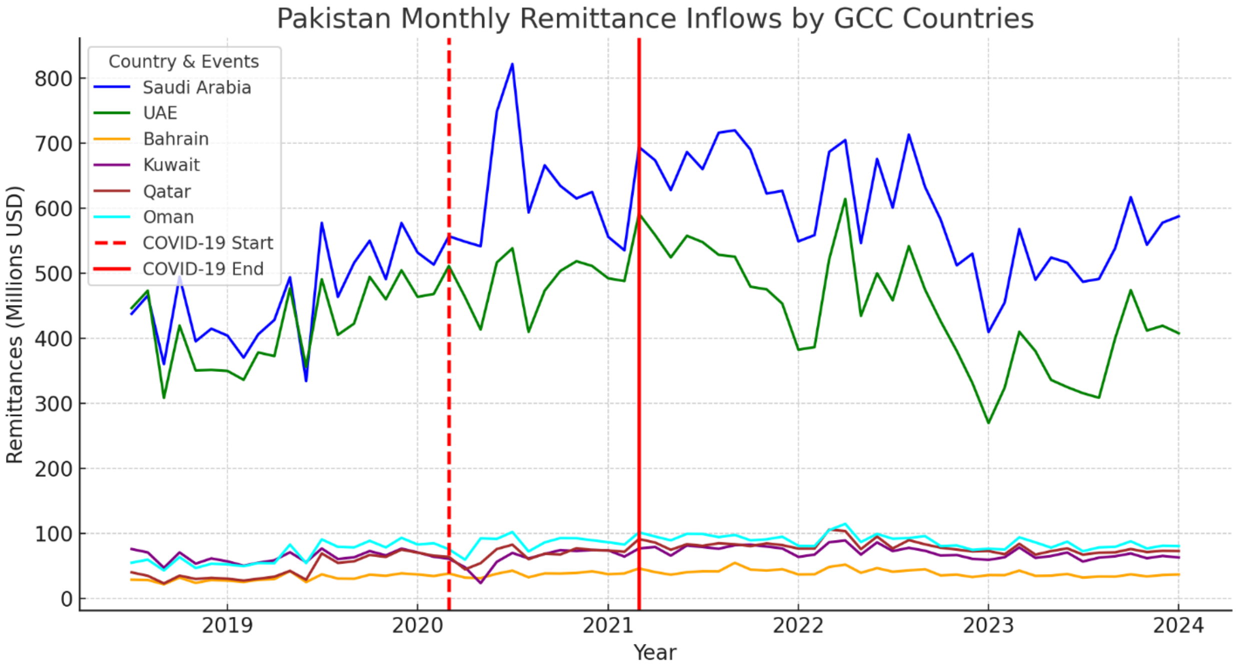


Source of data: Pakistan Central Bank

The Pakistan Central Bank also collects data on specific source countries for large remitting countries to Pakistan.[12] Figure 4 shows the time series of remittance inflows to Pakistan from all 6 GCC countries. Saudi Arabia and the United Arab Emirates (UAE) lead the region in remittance outflows to Pakistan averaging about $560 million and $442 million respectively versus Oman which comes in as third averaging $81 million. Surprisingly, Qatar ($67.2 million) comes fifth after Kuwait ($67.5 million) and before Bahrain with the lowest average of $36 million across the studied time period. Saudi Arabia and the UAE account for almost 80% of GCC remittances to Pakistan between July of 2018 and January of 2024 highlighting the importance of these two economies to households in Pakistan. Remittances from all GCC countries slowed down a bit in the first two months of the pandemic but then spiked in June of 2020 with the exception of remittance flows from Bahrain which seemed to have been stable. All six GCC countries enjoyed a positive month to month average growth rate for remittance outflows to Pakistan with Kuwait leading the group with 8.8%, followed by Qatar (5.0%), Oman (4.5%), Saudi Arabia (3.2%), Bahrain (2.6%), and the UAE (2.1%). If one calculates the growth rate between March of 2021 and March of 2020, remittance outflows to Pakistan from Qatar grew by 42.7%, Oman (34.4%), Kuwait (26.0%), Saudi Arabia (24.6%), Bahrain (20.6%), and the UAE (15.7%).

12 For the United Arab Emirates, the Pakistan Central Bank has information about the originating city (Abu Dhabi, Dubai, Sharjah, or other).

Figure 4: Pakistan Monthly Remittance Inflows by GCC Countries



Source of data: Pakistan Central Bank

Policy Implications

To summarize, remittance flows to Pakistan are significant, increasing, and larger than FDI flows. Second, remittance inflows to Pakistan are more stable than FDI. Remittance inflows to Pakistan seem to have weathered the COVID-19 pandemic well and migrants from Pakistan supported their families back home throughout the pandemic. The GCC countries send more remittances to Pakistan than all other countries combined. Among the Gulf region, Saudi Arabia and the UAE are responsible for the bulk of remittance outflows to Pakistan.

The above findings highlight important policy implications for Pakistan.

1. Migrants from Pakistan supported their families back home during a worldwide public health and economic crisis. The Pakistan government should focus on supporting its migrants, facilitating remittances, and making sure their voices are heard.
2. Remittance inflows to Pakistan are large, stable, and consistent. The Pakistan government should explore options for this money to be spent on productive endeavors instead of consumption, as most remittances typically are spent on.
3. Pakistan should maintain excellent relationships with the GCC countries, paying attention to any migrant or labor law changes that might affect the number of workers from Pakistan to the Gulf region and their incentives or ability to remit.

About the author

Georges Naufal is an associate research scientist at the Public Policy Research Institute (PPRI) at Texas A&M University, a visiting Scientist at the Center for Health Data Science and Analytics at Houston Methodist Research Institute, a research fellow at the IZA Institute of Labor Economics and the Economic Research Forum (ERF). Previously he was the Technical Director at Timberlake Consultants. He was also an Assistant/Associate Professor of Economics at The American University of Sharjah (2007 to 2014) in the United Arab Emirates. George earned his Ph.D. in Economics in 2007 from Texas A&M University. His area of expertise is applied econometrics with applications to labor economics including criminal justice, education, migration, and public health. He has published extensively on migration and labor market issues in the Gulf region including a book titled "Expats and the labor force: The Story of the Gulf Cooperation Council countries". Dr. Naufal's work has been cited by regional such as Al Arabiyah, GulfNews, National News, and international media outlets such as the New York Times, Bloomberg, Reuters, the Washington Post, and NPR.

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Short Reference: G. Naufal, "GCC Remittance Flows: Resiliency During Rough Seas", PB No. 9/2024, GLMM, https://gulfmigration.grc.net.

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