COVID-19 Analytical Snapshot #16: International Remittances

Understanding the migration & mobility implications of COVID-19

These COVID-19 Analytical Snapshots are designed to capture the latest information and analysis in a fast-moving environment. Topics will be repeated from time to time as analysis develops. If you have an item to include, please email us at research@iom.int.

What are international remittances?

Migrant remittances are cash or in-kind transfers made by migrants to relatives in countries of origin. International remittances also include compensation of employees, such as cross border workers.

According to the World Bank, global remittance flows totaled $706 billion in 2019, with $551 billion flowing to low- and middle-income countries. In 2019, India was the top recipient of remittances in US dollar terms ($82bn), while Tonga was the largest recipient relative to the size of their economy (38% of GDP). The US was the top remittance sending country in 2018 ($68bn).

On average, migrants send home 15% of their earnings, with one in nine people—or around 800 million people—on the receiving end of these flows.

The impact of COVID-19 on remittances

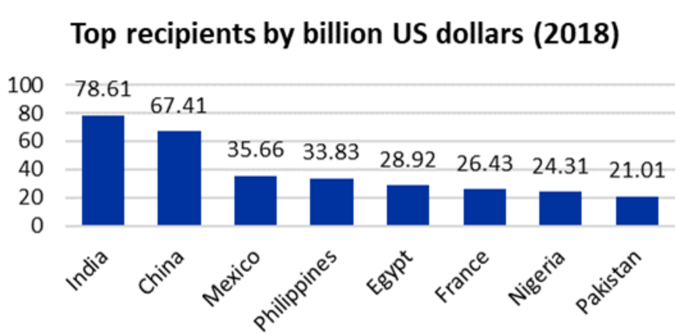
Global remittances are widely expected to decline as a result of the pandemic, with one prediction that US outbound remittances will fall by 7%, or $6bn, in 2020. Three key factors are driving this:

⇒ Some of the largest remittance sending countries—such as the US and Germany—have locked down in an effort to reduce the impact of the virus, leaving many migrants unable to work.

⇒ COVID-19 has played a role in the recent collapse of oil prices, which have been found to be closely related to the value of remittances, notably from those migrants residing in Russia.

⇒ Even in cases where migrants have money to send home, it has become more difficult to do so — around 80% of remittances are sent physically via a Remittance Service Provider, but these money transfer networks have partially or totally shut down.

Top recipients of remittances



Source: *World Bank, 2019, in the World Migration Report*

In US dollar terms, the top remittance receiving countries have larger economies, with India, China, France and Germany among the top 10 recipients.

When considered as a percentage of gross domestic product, however, the top recipients are countries with smaller economies, such as Tonga, Kyrgyzstan, Tajikistan, and Haiti.

17 April 2020

The impact of declining remittances due to COVID-19

From countries in Africa—such as Egypt and Somalia—to those in Asia, the Caribbean and Latin America, remittances are a crucial source of income, particularly for the poorest.

Remittances often make up 60% of family household income, and UN DESA estimate that 75% of money received is used to cover essentials, such as food, school fees, and medical expenses.

Many remittance recipients do not have any form of social protection, so are unable to fill any gap in income arising from a decline in remittances received.

As migration has risen, so too has the importance of remittances to development: such flows to low- and middle-income countries are 3 times larger than development aid and around the same as foreign direct investment. In 66 countries, international remittances accounted for 5% or more of GDP in 2019.

Given that remittances can help achieve at least 7 of the 17 Sustainable Development Goals (SDGs), their absence will hinder development. Indeed, the World Bank cited a fall in remittances due to COVID-19 as one of the disruptions pushing sub-Saharan Africa into its first recession in over 25 years.

70% The share of remittances The Gambia receives from major "lockdown economies" (France, Italy, Spain, the UK and the US).

The cost of remittances

As of March 2020, the global average cost of sending $200 was 6.79% (or $13.58)—well above the SDG aim of 3%—a large portion of which arises because cross-border remittance transactions tend to require a currency conversion. However, the economic volatility caused by the pandemic has made it difficult for Remittance Service Providers to set exchange rates, leading to higher foreign-exchange related fees.

One factor which may offset such fees is a decline in the value of recipient countries' currencies, which will increase the value of what migrants send home.

Policy responses

A number of countries have enacted policies designed to combat the forecasted fall in remittances:

⇒ According to the IMF's COVID-19 Policy Tracker, the Sri Lankan government has exempted inward remittance flows from certain regulations and taxes.

⇒ In Zimbabwe, money transfer agencies have been allowed to open 3 times a week "to allow for the receipt of foreign currency remittances which cannot be transacted on any digital platform."

This COVID-19 Analytical Snapshot has been produced by IOM Research (research@iom.int).