Big, but dipping

Remittances held up well in 2008, but this year will be much worse.

AP

Last year was a terrible one for private financial flows to the poor and emerging economies. They collapsed from $1.16 trillion in 2007 to $707 billion as panicky rich-world investors deserted emerging- and developing-country equity and debt markets last year and as banks became increasingly reluctant to lend across borders. But remittances from migrant workers proved to be a much more stable source of funds for the poor. Although many feared that such remittances would collapse too, the World Bank's figures show that they held up well, growing by an impressive 15% in the year. The bank estimates that migrant workers sent $328 billion home to their families in 2008. India is the largest individual recipient, hauling in $52 billion (up from $27 billion). Chinese workers sent home $40 billion, up from some $26 billion in 2007.

Dilip Ratha, the World Bank's main expert on remittances, says wryly that migrants have been “thrust into the role of a sort of lender of last resort” by developing countries facing shortages of hard currency. This is a particularly pressing for small economies which depend disproportionately on money from emigrants. In 2007 remittances amounted to 46% of GDP in Tajikistan, 34% in Moldova, and 28% in Lesotho. They were between a fifth and a quarter of GDP for Honduras, Jordan, Samoa and Lebanon.

Policymakers in such countries hope that remittances will continue to hold up this year. Optimists argue that remittances are less affected by economic conditions in the recipient countries than other kinds of financial flows, because they are sent primarily to support people's families rather than with an eye on returns.

There is some truth to this: remittances typically fall less in response to economic downturns in the receiving country than investment flows do. But returns do matter. For example, the combination of a weak rupee and higher interest rates in India compared with rich countries, may go a long way towards explaining last year’s vastly increased flow of remittances from Indians abroad.

However, the global nature of the economic crisis, as well as the fact that countries where migrants work have been hit harder, in most cases, than the countries they come from, cast doubt on the prospects for the continued resilience of remittances. In Latin America and the Caribbean, most migrants send money back from the United States, the first big economy to go into recession. Remittances to the region grew by only 2% in 2008, the worst of any region. Data for the first half of this year show that remittances to Guatemala, El Salvador, and Mexico all fell by at least 10% compared with the same period last year.

So it may only be a matter of time before the current global downturn also slows the flow of remittances. If, for example, Russia's economy were to shrink by 6.5% this year, as the IMF has estimated, it seems likely that some of the many migrant workers from Tajikistan would lose their jobs. As flows of remittances to Tajikistan, mostly from Russia, make up some 46% of the country's GDP, the Tajik economy as a whole would suffer. The bank now expects remittances worldwide to decline by at least 7%, and possibly by as much as 10%, this year.

As more migrants lose their jobs, their ability to keep sending money home will be severely restricted. But rising unemployment and a shallow recovery in the rich world may also encourage more rich countries to enact or expand restrictive immigration policies, as many have already begun doing. The OECD has documented instances of everything from reductions in ceilings on the number of migrants to tougher norms to policies that explicitly aim to send migrants back where they came from. More policies like these could cause remittances to fall a lot more than even in the bank's most pessimistic projections.

BIG, but dipping. **The Economist**, New York, Aug. 17th 2009. Disponível em: <www.economist.com>. Acesso em: 19 ago. 2009.