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● POST-COVID RECOVERY

Banking on remittances

The decadal outlook for remittance flows is undoubtedly more promising when viewed beyond the Covid-19 episode

A **BOAT RIDE THROUGH** the scenic backwaters of Alappuzha, Kerala, is perhaps the best way to understand the positive impact and affluence that inward remittances create to the surrounding economy. Covid-19 has however, unfortunately, brought in to focus this particular aspect of a country's BOP as a concern area, with the United Nations noting that even "resourceful" and "resilient" remittance families are struggling to tide over this period as livelihoods are lost. India has been a major beneficiary of remittances in the past. In our considered opinion, this is unlikely to change in the long-term, despite Covid.

As per World Bank and ILO reports, remittance flows to Low Middle-Income Countries (LMICs) have nearly doubled over the last decade *(see graph)*, with South Asia accounting for one-fourth of the inflows. India is a major recipient of remittance inflows from its diaspora of over 30 million nationals living and working abroad, forming 60% of flows received by South Asia, and retains the top spot in the world, receiving in excess of $80 billion in inward remittances in 2019.

The relative importance of remittances has grown substantially in recent years; they funded close to 35% of India's trade deficit last year, more than doubling over a decade *(see graph)*. While gross FDI has risen sharply recently, transfer payments constituted an important source for funding the current account even in the earlier years.

Direction and drivers of remittance flows

What are the key host countries from where these remittances come from?

A study by the Reserve Bank of India showed that India receives nearly three-fourth of its remittance income from the Gulf Cooperation Council (GCC) nations and the US.

Which are the states in India that are a key recipient of these inward remittances?

There are no surprises that, traditionally, the states of Kerala, Tamil Nadu, Maharashtra and Karnataka, have accounted for nearly 60% of India's remittance receipts. However, this dynamic seems to be changing, with states like Uttar Pradesh, Bihar, West Bengal and Rajasthan emerging as recent entrants *(see graph)*. This would imply that remittances are poised to not only benefit the less-developed states of India over the long run but also have the ability to pull up the overall growth of the country, through higher consumption from these less-developed states.

Remittances through a Covid lens and beyond

What are the factors that have affected the flow of remittances for India?

Remittance flows, over a time horizon, are affected by the stock of the migrant population, fiscal policy stance in host countries relating to the taxation of outward remittances, macroeconomic conditions in source and host economies, and the ease of outward migration. The employment scenario typically tends to be more tenuous for immigrants than for natives in any region at any point of time. For instance, the average unemployment rate for foreign-born workers in the EU-28 countries, in 2018, was nearly double compared to Europeans. Consequently, in a crisis paradigm, immigrants typically tend to be far more vulnerable to loss of livelihoods and income than their native-born counterparts. Cost of remitting funds is also a key factor influencing the size of remittances. A gradual shift toward using digital services (to reduce costs) for remittance transfers is being seen as a big impetus for remittances in the future.

Looking at it through the Covid lens. Covid-19 has created challenges in host countries for sectors that depend on the availability of migrant workers, such as hospitality, retail and wholesale, tourism, transport, and manufacturing. Disruption in livelihoods has seen many international migrants return to home countries, including India.

This could impinge on India's remittance inflows, with a fall in wages and employment of migrant workers in host nations, followed by a decline in the stock of international migrants (until normalcy returns).

Remittances to India from the Middle East expectedly have a long-term, direct correlation with the price of oil. The economic slowdown affecting the Gulf nations, especially Saudi Arabia and Kuwait, since 2015, has slowed the flow of Indian workers and their income over the past five years. Thus, in addition to the recession-induced by the coronavirus, soft oil prices will weigh on remittances.

Another emergent trend that could impact remittance flows is an anti-immigration sentiment in host countries, with a clamour to stimulate the employment of nationals over immigrants. Anti-migration is likely to find favour in the post-Covid world, as nations struggle to generate adequate employment.

The combination of the above factors is likely to impede out-migration from India for fresh emigrants, as well as those who returned home in the pandemic, consequently depleting the migrant stock, and hence, India's remittance income over the next one or two years.

Permanent or temporary disruption: Historical lessons

But is this impact likely to be long term? What are the historical lessons for remittances during the crisis? When we look at the pattern of remittances during the global financial crisis *(see graph)* or the Middle East Respiratory Syndrome episode in 2012, a few commonalities emerge. Firstly, a crisis expectedly causes remittance flows to fall in and around the crisis period, as people lose jobs or take pay cuts to remain employed. Secondly, in the immediate aftermath of a crisis, remittance flows rebound sharply for a quarter or two, as people compensate for the frugal times. Thirdly, after the aforementioned surge, remittances once again normalise to an average level seen before the crisis manifested. Covid-19 will likely be much more severe than the above episodes. But over the longer term is likely to be an iteration of this trend.

Long-term story remains intact

In the long-term, global migration flows are expected to increase significantly, and remittances to countries like India are only set to rise. Factors like income gaps among countries and demographic changes, among others, will reinforce this trend. The already wide income gap between high-income and low-income countries (presently at 54:1) would encourage more migration from the latter. Demographic change will also propel migration, as the working-age population of our nation will continue to rise over the next two decades, thus, contributing positively to the migrant stock. Therefore, the decadal outlook for remittance flows is undoubtedly more promising, when viewed beyond the Covid-19 episode, as the global economy recuperates and rebuilds with an indomitable spirit.