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Fall in remittances is another Covid-19 Blow!

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"It is not true that life is one damn thing after another; it's one damn thing over and over."

Those words of the American 1923 Pulitzer Prize winner for poetry, Edna St. Vincent Millay, according to critics, might fall into the category of poetic hyperbole. In these days darkened by the Covid-19 by daily news coming one after another on growing misery, the poetic expression seems apt.

Developed countries, which were shocked and pained by the rapid rise in the loss of lives, resorted to shutdowns of industrial centres, once the number of positive Covid-19 cases started increasing. The result is that the world economic output has fallen. The jobless number rose to the highest in the US, in addition to heavy loss of lives due to poor preparedness of the country to deal with the virus and delayed response such as social distancing. The jobless in the US constitute around 26.4 million, more than 15% of the US work force.

Looking at the economic crisis through the lens of migration, the World Bank's latest report on international migration and remittance focuses on loss of employment, wages, and health insurance coverage, forecasts that global remittances which include those from the developed countries to other developed countries and to developing countries, would decline to $572 billion in 2020 from $714 billion last year. The remittance flows received by low and middle-income countries, including India, would decrease by 20% this year to reach $445 billion from $554 billion in 2019.

A virus driven recession

The International Monetary Fund (IMF) described the stunning collapse as "the deepest downturn, since the Great Depression of the 1930s". In its *2020 April Economic Outlook*, IMF predicts the global economy to shrink by 3% this year. It is a virus-driven recession. As the uncertainties continue, these forecasts are at best informed guesses.

The only way to get out of the morass of economic depression is to take risks. But medical experts are against any reopening of the economy. Researchers from the Harvard T.H. Chan School of Public Health in their article on April 14 in *Science* warn that until a vaccine is found, tested and finally accepted, social distancing and shutdowns will have to continue well into 2022. They are of the view that a one-time lockdown will not be sufficient to bring the pandemic under control; and that secondary peaks could be larger than the current one.

The current crisis, which emerged as the supply propelled crisis, with drop in production and rise in unemployment layoffs, is now becoming a demand driven crisis as well. Fall in demand for oil, which is both literally and figuratively a lubricant for production has now led to heavy fall in price, now around $25/barrel. That is not a good sign for migrant workers in the oil exporting countries, including United Arab Emirates (UAE) and Saudi Arabia. Further with the major events such as Dubai Expo 2020 now cancelled, many have lost jobs or are on their way out. They are now stranded as airlines have cancelled outward flights. It looks that the return of about 400,000 Keralites is a possibility, once the flights are resumed.

India's inward remittances

India-born migrants residing and working overseas are around 17 million, followed by the number of the Mexican-born persons (13 million), residing and working outside Mexico. They are followed by migrants from Russian, China, Bangladesh, Syria, Pakistan, and Ukraine, ranging from six to 11 million each. Nearly half of the 17 million expatriate Indians are employed in UAE, the Middle Eastern countries and in the United States. Blue colour workers dominate the Indian migrant numbers in UAE and the Middle East. In the US, the Indian migrants, mostly skilled professionals are the third largest group (around two million) of all migrants to US.

India has been the largest remittance recipient country for a long time. India's inward remittances rose from $ billion 53.5 billion in 2010 to $ 68.9 billion in 2015. In 2019, it was $83.1 billion, the highest so far. Remittances are estimated to fall in 2020 by 23%. The second largest recipient country China's remittances were $52.5 billion in 2010 and $62.3 billion in 2015 and $ 68.4 billion in 2019. However, India's dependency on remittances is high at 2.8% of GDP in 2019 as compared to China's, which is just 0.5% of its GDP.

How do remittances help?

Blue collar workers' remittances are regular, although in smaller in size. They are intended for supporting their families left behind in India. Occasional but more sizeable amounts are sent by highly qualified professionals of Indian origin and those residents working on temporary basis in advanced countries, including the United States. All remittances, being in foreign exchange are real resources in the sense that they are additions to India's foreign exchange reserves. In the context of declining export earnings, remittances have emerged to be a major support to India's balance of payments. Current account deficits, thanks to remittances, have remained smaller and manageable. Further, in the absence of remittances, the deficits would have been much larger and pressure on Indian rupee would have been much greater.

Further, annual remittances have been more than annual foreign domestic investment inflows. While net FDI was averaging at $32 billion during 2014-15 to 2016-17, the annual remittances averaged at $65 billion. More importantly, remittances are much more certain than the short-term portfolio funds from overseas investors. Rightly called as 'hot money', they move from advanced countries in search of higher returns to emerging economies, seeking higher premium from interest and risks. Being short term funds, the foreign investors pull them out any time at their will. By withdrawing their funds in dollars, the Indian rupee not only falls unexpectedly but also suffers from the volatility. On the other hand, inward remittances have always been steady and reliable.

Use of Remittances

The RBI's past survey findings have revealed that most of the remittances originated from the Gulf and West Asia - around 52% (UAE: 26.9%; Saudi Arabia: 11.6%; Qatar: 6.5%; Kuwait: 3.5%; and Oman: 2.3%). Kerala was the largest recipient state (19.0%) followed by Maharashtra (17%) and Karnataka (16%). About 59% of remittances were used for family maintenance. The findings show that remittances support the recipient families to fight poverty. They not only help to maintain but also help in raising their living standards. They are also a great help to young families with children for meeting education and health care expenditures.

The past survey findings further show that remittances are also invested. While 8% of remittances were invested in landed property including housing, 20% of the remittances were deposited in banks. The remaining 12% was spent on others, including weddings and religious functions. Depositing 20% in banks is encouraging. It reflects growing banking habits of the recipient families in the rural areas. In the absence of banks, their savings tend to get frittered away on needless and wasteful consumption.

After nearly two decades of rapid globalisation wth rise in migration of labour in search of jobs, the Covid-19 has put an abrupt halt to remittance inflows. The global economy was dependent on migrant labour. Developing countries rely on remittances. Remittances which served as a lifeline to low and middle-income countries all these years are now facing their sharpest fall.

A tentative econometric research finding on asymmetric relationship between remittances and growth in India using data for last 30 years shows that a one percent fall in remittances (expressed as a proportion of GDP) - holding all other things constant - would reduce India's growth rate by 0.3%.

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