

Migration and Development Brief 2

Development Prospects Group, Migration and Remittances Team¹

Remittance Trends 2006

Remittance flows to developing countries to exceed \$200 billion in 2006

Recorded remittances sent home by migrants from developing countries are expected to reach \$199 billion in 2006, up from \$188 billion in 2005, and more than double the level in 2001 (table 1). Worldwide flows of remittances, including those to high-income countries, are estimated to have grown to \$268 billion in 2006. This amount, however, reflects only transfers through official channels. Econometric analysis and available household surveys suggest that unrecorded flows through informal channels may add 50 percent or more to recorded flows (see *Global Economic Prospects 2006*). Including these unrecorded flows, the true size of remittances, is larger than foreign direct investment flows and more than twice as large as official aid received by developing countries. Remittances are the largest source of external financing in many developing countries. Also in the 1990s, remittances were less volatile than other sources of foreign exchange earnings (figure 1).

Table 1. Global flows of international migrant remittances (\$ billion)

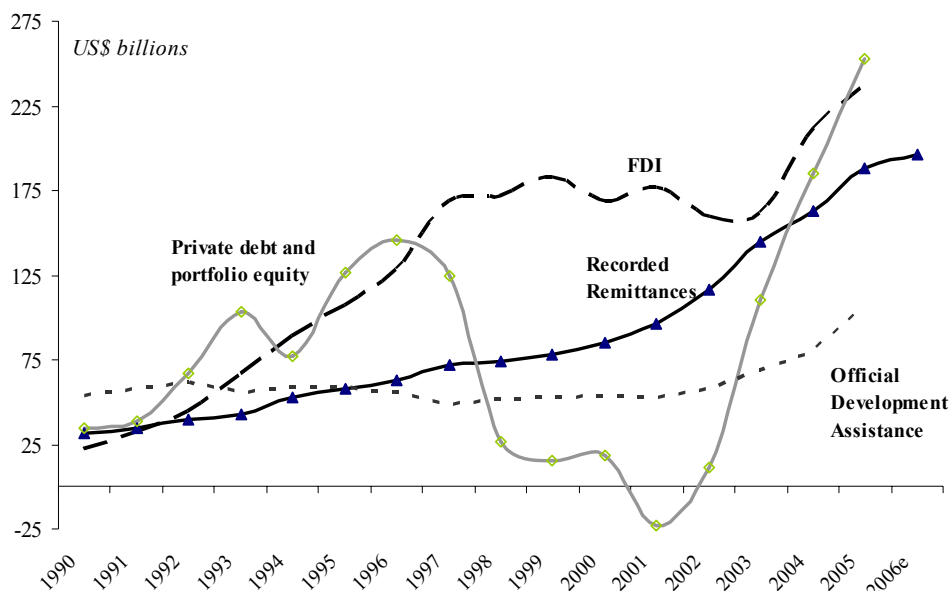
<i>INFLOWS</i>	2000	2001	2002	2003	2004	2005	2006e	Change 2005-06	Change 2001-06
All developing countries	85	96	117	145	163	188	199	6%	107%
Low-income countries	22	26	32	40	41	46	47	2%	81%
Middle-income	63	70	85	105	123	142	152	7%	116%
Lower MICs	43	48	61	75	86	95	101	6%	110%
Upper MICs	20	22	23	30	37	47	51	9%	128%
East Asia and the Pacific	17	20	29	35	39	44	45	3%	125%
Europe and Central Asia	13	13	14	17	23	31	32	5%	149%
Latin America and the Caribbean	20	24	28	35	41	48	53	12%	119%
Middle-East and North Africa	13	15	16	21	23	24	25	5%	64%
South Asia	17	19	24	31	30	35	36	3%	86%
Sub-Saharan Africa	5	5	5	6	7	7	7	0%	62%
High income OECD	46	50	52	59	66	68	68	0%	37%
World	132	147	170	205	230	257	268	3%	83%
<i>OUTFLOWS</i>	2000	2001	2002	2003	2004	2005		Change 2004-05	Change 2001-05
All developing countries	12	14	21	25	32	37		17%	161%
High income OECD	76	83	88	98	111	119		7%	44%
High income non-OECD	22	22	22	21	20	21		5%	-3%
World	110	118	131	144	163	177		9%	50%

Source: Authors' calculation based on data from IMF Balance of Payments Statistics Yearbook 2006. Remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers – see box below for data definitions and www.worldbank.org/prospects (migration and remittances link) for the entire dataset.

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In nominal dollar terms Latin America and the Caribbean region remains the largest recipient of (recorded) remittances. However, as a share of GDP remittances are highest in the Middle East and North Africa region. Due to a lack of data, remittance flows to Sub-Saharan Africa are grossly underestimated. Recorded remittance flows have grown robustly in virtually every region, although most quickly in Europe and Central Asia and in East Asia and the Pacific.

Figure 1. Remittances and capital flows to developing countries



Sources: *Global Economic Prospects 2006: Economic Implications of Remittances and Migration* (World Bank), *World Development Indicators 2006*, and *Global Development Finance 2006*.

The doubling of recorded remittances over the past five years is a result of (a) increased scrutiny of flows since the terrorist attacks of September 2001, (b) reduction in remittance costs and expanding networks in the remittance industry, (c) the depreciation of the U.S. dollar (which raises the value of remittances denominated in other currencies), and (d) growth in the migrant stock and incomes.

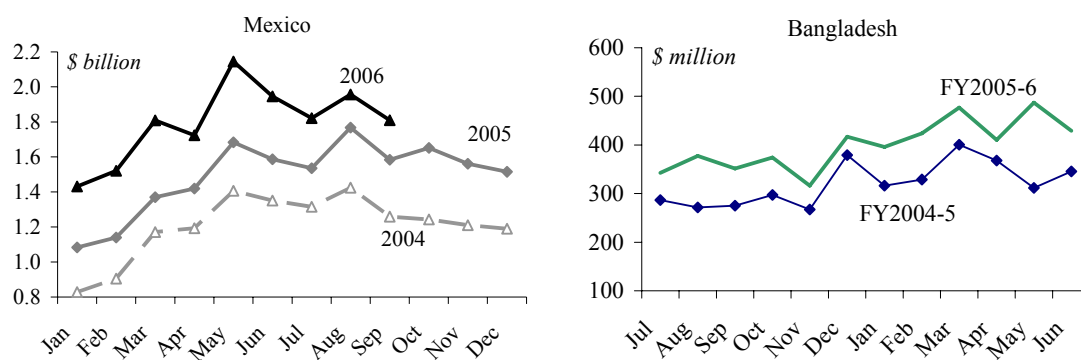
Efforts to reduce remittance costs in Mexico, and to an extent in the Philippines, are well known, but with increasing awareness of the size, magnitude and development impact of remittances, authorities in many other developing countries are now pro-actively trying to attract remittances. Pakistan's central bank governor recently advised banks to increase their level of commitment and interest in provision of remittance related services to overseas Pakistanis. The central banks and governments of Bangladesh, Sri Lanka, Philippines and India have also put in place measures to increase remittance inflows, creating special departments within central banks or ministries for diaspora-related issues, implementing special schemes (low-interest housing loans, insurance), facilitating local and foreign-currency deposits, and even granting dual nationality. On the other hand, some countries such as El Salvador, Kenya, Moldova are concerned about the effect of large remittance inflows on currency appreciation. (The appropriate policy response, however, is not to sterilize these flows, but to learn to live with them – unlike natural resource windfalls, remittances are persistent over time.)

Seasonality in monthly remittance receipts

Recently there has been some concern in the remittance market that remittance flows to Mexico and other large recipients are declining. This concern started with a report from Western Union that their business in the Mexican market declined in spring 2006. As a result, the stock price of First Data Corporation, the parent company of Western Union, fell over 16% during May-August 2006, and that of MoneyGram, the only other public traded remittance company, fell nearly 20% during the same period.

While it is true that remittance flows to Mexico appear more volatile this year compared with earlier years, there is no evidence of a reversal in the rising trend seen in recent years (figure 2). Monthly remittance data for Mexico reveal strong seasonality: remittances increase during summer and decrease at Christmas vacation times as (nearly a million) Mexican migrants go home. The early peaking of remittances in May 2006 may have been due to the uncertainty surrounding the US Immigration Bill (see Migration and Development Briefing Note 1).

Figure 2: Monthly remittances receipts in Mexico



Source: Banxico and Reserve Bank of Bangladesh

Seasonality is also observed for other countries that report monthly remittances, although the periods when remittances peak tend to be associated with seasonal events that are specific to the receiving country, in December in Bangladesh (at the end of the month of Ramadan or Eid ul-Fitr, which usually falls in October) and again in February and March (the Islamic New Year usually falls in February).

Valuation effects

Although the United States remains the largest single source of remittances, many remittance-receiving developing countries also have a significant number of migrants in countries in the Euro area. Since remittances receipts in developing countries are typically measured in US dollars, movement in the Euro-dollar exchange rate can have a significant valuation effects on remittance, even without accounting for the wealth effect when the Euro appreciates or depreciates in real terms relative to the dollar.

Using new estimates of bilateral remittances, we find that the appreciation of the Euro (from 0.89 US\$ dollar per euro in end-2001 to 1.19 US\$ per euro in end-2005) accounts for US\$5.7 billion, or 7 percent, of the increase in remittances received by developing countries between 2001 and 2005. For some specific countries, however, this valuation effect appears

to have accounted for a large share (ranging 21%-86%) of the measured increase in remittances during 2001-05 (table 2).

Table 2: Valuation effect of appreciation of Euro in 2001-5 (Nominal US dollars)

	(1) Change in measured remittances during 2001-2005 (\$ mil)	(2) Change in value of 2001 remittances due to Euro-US\$ exchange rate change in 2001-2005 (\$ mil) *	(3) Valuation effect as percentage of increase in remittance between 2001 and 2005 [(1)/(2)]
Ecuador	257	221	86%
Morocco	1463	902	62%
Bosnia and Herzegovina	323	192	60%
Tunisia	466	243	52%
Croatia	475	153	32%
Albania	591	185	31%
Sri Lanka	405	93	23%
Egypt	430	90	21%

* calculated as $R_{2001} * (E_{2005}/E_{2001}-1)$, where R_{2001} is remittances from the Euro area, and E is the exchange rate defined as dollars per euro.

Box: World Bank Data on Remittances

The Luxembourg Group, a group of experts from the UN, the IMF, the World Bank and several country representatives is currently preparing guidelines on the definition and compilation of remittance data. In this draft as in *Global Development Finance 2003* and *Global Economic Prospects 2006*, migrants' remittances are defined as the sum of worker's remittances, compensation of employees, and migrants' transfers as recorded in the IMF Balance of Payments. Where IMF BoP data were missing, gaps were filled using World Bank sources. The estimates for 2006 are based on recent reports from the central banks of a few countries where available; for others we assume either no growth or moderate growth in 2006 consistent with (usually lower than) recent trends. Judging from historical trends, the estimates for 2006 are likely to be revised upwards when new data become available next year.

Though the aggregate estimate for 2004 has not changed much since the data reported in GEP 2006, there have been important changes in the underlying data. In the GEP alternate estimates were used for about 12 countries either because data were not available from the IMF, or because World Bank country desks felt the IMF data under estimated actual flows. Since then, the IMF has added data for Lebanon and Nigeria. Many countries (notably Ghana) in Africa have also sharply revised up their remittances data, but we have not always reflected such revisions awaiting clarification from official sources.

Countries with alternative estimates of remittances for 2005 (\$ million)			
Algeria	1,950	India	23,548
Armenia	940	Iran	1,032
China	22,492	Kenya	494
Ecuador	1,678	Malaysia	987
El Salvador	2,830	Mauritius	215
Gambia	8	Morocco	4,724
Guatemala	2,990	Serbia & Montenegro	4,650
Haiti	919	Vietnam	3,200
TOTAL		\$73,349	

This Brief is an informal note for Bank staff on migration and remittances issues that have wider development implications. The views expressed here do not reflect those of the World Bank Group. Feedback, and requests to be added to or dropped from the distribution list, may be sent to Dilip Ratha at dratha@worldbank.org.