Transcript of IMF podcast:

**Ralph Chami: Umbilical Cord of Remittances Under Threat**

Ralph Chami:

Remittances for many of the low-income, middle-income fragile states are perceived as a lifeline.

Bruce Edwards:

Welcome to this podcast produced by the International Monetary Fund. I'm Bruce Edwards. In this program, how the global pandemic threatens to cut the umbilical cord of remittances.

Ralph Chami:

So, imagine yourself, walking down the street in Tajikistan, if you like, and in your pocket, you have a hundred bucks. $60 or so are from your work in the country and 40 bucks are coming from your brother or sister or mother, sending you money from Russia, if you like. So, this is quite sizable, quite important at the micro level and at the household level and at the government level.

Ralph Chami:

My name is Ralph Chami. I am an Assistant Director in the Institute for Capacity Development, and I've been at the IMF for over 21 years.

Bruce Edwards:

So, how much do remittances contribute to economies?

Ralph Chami:

In totality, there are about $500 billion worth of remittances in 2019. And for many, many countries, remittances are between 5% of GDP up to 45% of GDP, and that's only through the official channels. A lot more goes through unofficial channels.

Bruce Edwards:

So, how much of that are we losing because of this pandemic?

Ralph Chami:
According to the World Bank's estimates, about a hundred billion will be lost in 2020. That's 20% drop, and it varies across regions. For Africa, it's about 22% drop, and these are just first estimates. So, that's a huge amount, but it's not only the loss of the money itself that's important. It's what would the implications of all of that?

Ralph Chami:

There are 165 million migrant workers across the globe. About 60% or so are males, and 70% of them are in rich and high-income countries. And those migrant workers contribute to the economies of the countries, the host countries, in which they reside. In return, they get something called wages. And from those wages, they send money home to their countries, to their families back home to help them out, especially in times of need. So, typically what you would see are remittances coming back when that country in question is in dire straits, more money comes in. And they are typically sent in very small amounts, $50 here, $100 there, 200, but when you put them all together, they're huge. They're a big amount. That's why they've been viewed as a lifeline. And they are usually stable, meaning when you compare the volatility of remittance flows to any other flows into these countries, low, middle-income, and fragile states, remittances historically have been far more stable than FDI's portfolio flows or even official development aid.

Bruce Edwards:

Yeah. And the beauty of remittances is that they help smooth shocks, particularly counter-cyclical shocks, when a shock is happening in one place, but not the other. But what happens in this circumstance when the whole world or the whole global economy is essentially experiencing this same shock at the same time?

Ralph Chami:

And that's exactly it, Bruce. This is... I've been working on remittances for 24, 25 years. This is the first time I've ever seen this. I didn't even see that in 2008, when I looked at it, and to Africa and other countries, what was happening to remittances. This is what I would call the perfect storm.

Ralph Chami:

So, what's happening here, this is an unintended channel of transmission, over and above everything else that's happening with COVID crisis, and trade channels being hit, all other channels being hit, exports, imports, and so forth. This one, over and above. Again, as you said, remittances are typically viewed as counter-cyclical. So, if my home country is going through a rough time, I send more money home. That's what we mean by countercyclical. However, what's unique about this experience right now is that the whole globe is being hit. As a result, my own family- migrant worker here, sending money home, I'm at risk myself. Not only my family back home is at risk, I am at risk. I'm losing my job. I can hardly fend for myself. And as a result, I am less likely to send money home. So, just as all the other flows are at risk, for the first time ever, remittances themselves are at risk. So, it is for those countries that receive remittances, it sort of looks like a kind of a perfect storm.

Bruce Edwards:

And another thing that you mentioned as being a problem with this scenario is the loss of tax revenues for countries to which migrants are sending money in the form of remittances. But aren't remittances generally tax-free income for the recipients? So, how does that work?

Ralph Chami:

Exactly. So, remittances are person-to-person transfers. So, I send money home to my family, and my family usually use it to, as you said before, ensure themselves against shocks to their consumption. They also use it to purchase education for children, better healthcare, to borrow to... There's sometimes that money is used to start a business. Whatever it is, it alleviates poverty
and increases consumption of the household back home. So, my family back home can use it to purchase more stuff, be it imports or be it things that are produced in the home country. But all that means from a macro perspective is that the tax base expands because the consumption goes up when more remittances come in, consumption base expands. The governments have figured out, governments are quite smart, they figured out that remittances are used basically for consumption. So, they've geared their tax system towards consumption-based taxes, meaning value-added tax, sales tax, import tax. And they don't want to tax remittances directly because if they were to do so, remittances would disappear off their radar.

Ralph Chami:

So, what they do, they put taxes on consumption. But when consumption is shrinking, that means the tax revenue is shrinking. So, I mean, I can elaborate on what that means. Meaning, for the governments that have relied on these remittances to come in, especially in times of need, they're going to look around and say, "Hey, the tax revenue is not coming." And now, people can't even spend the money that they were getting from their relatives to spend on healthcare or education. So, the government now has pressure on the government to provide those services themselves. And these are, remember, these are countries already reeling under the crisis, and they're dealing with other issues before this crisis arrived. Okay? So, they find that their tax revenue is not there. Even the service, that service is come to be affected because these are cheap dollars that are coming in.

Bruce Edwards:

Absolutely, yeah. And you mentioned in this paper that the loss of remittance inflows also means that domestic banks will also have more difficulty lending money, and among other effects.

Ralph Chami:

Yes. Because what banks... When you send money home, when I send money home to my mother, let's just make it very simple, I'm not sending money home to my mom to make money. I'm sending funds home to help my mother to help my family. So, the way I do it, I send it through the banking system. One way or another, it goes through the banking system. Now, from the perspective of the bank that receive the flow, they don't have to do anything to attract that flow because that money is being sent to help. Which means, when it goes through the banking system as a deposit, it's a cheap source of funding and it's stable. It's always been stable. It's always been coming in, although it comes in in 50 and 100s and so forth. But when you put them all together, on average, the bank realizes that within a year, they receive this much money, and that money has been reliable and that money is a cheap money because it's not profit-driven. It's altruistically motivated.

Ralph, Chami:

Now, what do banks do... Well, banks borrow money to lend money. So, they get all the cheap funding and they turn around and usually, they lend it. Now, the question is, in those countries, those low, middle-income, poor countries, fragile states, typically, those banks have shied away from lending money to the private sector. They have preferred always to lend the money to the government. So, the banks are going to look around and say, "Well, I'm not getting those remittances." So, when the government comes around to say, "I need to borrow more from you, to shore up my finances," banks are going to say, "I can't help you. So, and if you want me to help you, I have to borrow, but now it's going to cost me more to borrow." So, the cost of borrowing for the banks, for the government, for the private sector, all going to go up, will surely going to affect the balance sheets and income statements of those banks, putting some of these banks are at risk, which means there's a stability angle to all of this.

Bruce Edwards:

And so, there's another aspect to this story in migration. When migrants in host countries lose their jobs, they also, at least in some countries, risk losing their status. So, what happens when all these people have no choice but to go back home to their home countries?
Ralph Chami:

So, the story starts in the rich and high-income countries where these migrants are. They are contributing to the economies of these countries, but they're living on sort of hand-to-mouth, if you like. They don't have the necessarily, they don't have access to social security. They don't have employment guarantees that the citizens enjoy. Plus, in many of these countries, rich countries, the housing conditions of these migrants leave a lot to be desired. You have 20, 30, 40, 50 to a room! So, what happened in some countries is when they looked at the rate of infection, they realized that it's highest among the migrant workers because of their housing conditions.

Ralph Chami:

So now, let's put the whole picture together. You're the economy of the host country, the rich country, the high-income country is not doing well. People are losing their jobs. Migrants are losing their jobs. And in many of those countries, when you lose your job, you lose your residency. But at the same time, you've been housed in dire conditions. So, the risk of infection is high. So now, you lose your job, you lose your residency. You're more likely to have been infected. And now, you have to go home. And when you go home, where are you going home? To a country that's barely able to deal with the crisis itself, looking at its own people coming back, no money, most likely infected, and looking for a job. These countries are brimming with unemployed, high unemployment, and high unemployment among the youth. So, what you're going to find is these migrant workers going home, putting even more pressure on their country's governments and public health programs that are barely able to keep up with the residents of their home countries. All of this is going to create tremendous social pressures within those countries.

Bruce Edwards:

So essentially, it would be much better for host countries at the moment to sort of make it feasible for workers to stay. But it is a little bit of doing something for the good of the global economy. How do you convince host countries to stabilize employment for migrants for the greater good, when there's so much pressure on them to focus on the demands of their own citizenry?

Ralph Chami:

Right. So, it doesn't end that migrant workers can't send money and find themselves going home, and the home countries finding that they've lost that lifeline. All of the social pressures within the country of loss of income and migrant workers coming back under pressures could really boil over and spill over, beyond the borders of these countries, and we may find ourselves dealing with a huge refugee problem. People leaving their homes, looking for a way out of this predicament, and ending up in whatever means possible, trying to get to shores of the rich countries. Unfortunately, the narrative has shifted because now, the rich countries themselves are barely able to deal with their own problems with containing the crisis.

Bruce Edwards:

And there are stricter border controls.

Ralph Chami:

Exactly. So, what you're seeing, I call it the boomerang effect, meaning it goes out and comes back. So then, we go back to the host countries and say, "Look, it's in your own best interest to look after the migrants within your borders." Because by stabilizing them, just as we, in the U.S. for example, we passed the bill of $2.4 trillion to help citizens, I would say, and there could be another package coming around, and other countries were doing other things. We need to look after the migrant workers in our countries.
Ralph Chami:

There have been now anecdotal evidence of fields in Europe of asparagus and strawberries that are gone bad because there's no one there to do the work that the migrant workers do that the citizens don't want to do. So, it's in our best interests. So, how we do that is just as we're passing these bills to protect our own citizens, we extend the same benefits to these migrant workers, not only in terms of the checks, but in terms of the employment opportunities, and in terms of the social insurance. Because by stabilizing them here, with means with stabilize the remittance transfers back home, which will help to mitigate the impact of the crisis in their home country, and would avoid the other situation that I was describing of refugee problems galore.

Bruce Edwards:

And would also bolster, or at least mitigate the impact on the global economy, which would in turn, help these countries as well, right?

Ralph Chami:

Yes. Plus, while we want to restart our economy, these migrant workers are part and parcel of our economies, in the rich and high-income countries. So, when we want to restart, we want to restart with the labor force that's already here. It already knows what needs to do and gets going. So, it's in our best interest to do it right now, and avoid the very ugly scenario.

Ralph Chami:

By the way, it's high time that we deal with the issue of living conditions of these migrant workers, which we've known about for many, many years, and we've done very little about. We need to really make a change in how their housed, how they're treated, and also in terms of the cost of remitting, which remains too high. And by taking this opportunity to help the migrant workers reduce the cost of remitting for them, so that more dollars get home. All of this would help.

Bruce Edwards:

So, you've been working on this for many years. Do you think that this pandemic might prompt people to recognize the benefits of remittances?

Ralph Chami:

Yes, in the sense that remittances are not the answer to everything, but they are the lifeline of many of these countries that do not have social insurance, do not have any of the things that we take for granted in our countries. Those countries are not going to be able to get themselves out of it, because this is a collective shock. All of us are being hit by this. In 2008, I worked on the financial crisis, the great recession. What was different then than now is whereas the epicenter was the U.S. and Europe, Asia was pretty much not really affected. So, Asia was able to pull us out, if you like.

Ralph Chami:

So, imagine this situation. You fall into the river. There's a huge current about to suck you in, and you have someone on the banks of the river throwing you a lifeline and pulls you out. This is 2008. This time, we are all in the river, all of us, treading water. There's a huge current, and we are all tied together by a belt called belt of humanity. And we either all sink together, or we all swim together, to the bank of the river. No one can do this on their own.

Bruce Edwards:

Thank you so much, Ralph.

Ralph Chami:

Thank you, Bruce.
Ralph Chami is an Assistant Director for the Institute for Capacity Development at the International Monetary Fund. Chami and IMF deputy managing director, Antoinette Sayeh, coauthored Lifelines in Danger, published in the June 2020 issue of Finance & Development magazine. You can read the article online at imf.org/FandD, or download the Finance & Development app to read it on your mobile device. Look for other IMF podcasts, wherever you get your podcasts. Subscribe if you like what you're hearing and follow us on Twitter at IMF_podcast. Thanks for listening.