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Remittances on the rise in the Pacific

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REMITTANCES are on the rise for East Asia Pacific region, which includes Fiji and other Pacific Island countries.

The latest *World Bank report, Migration and Remittances: Recent Developments and Outlook* says despite certain unfavourable developments, remittances to developing countries, have risen to \$US432 billion (\$F896b) in 2015. However, this increase is only by around \$US2b (\$F4b) from \$US430b (\$F891b) in 2014. The growth rate in 2015 is certainly much lower: 0.4 per cent as against 3.2 per cent in 2014.

The unfavourable developments are: difficult economic conditions in source countries; and appreciation of the US dollar. Difficult economic conditions in source countries do not simply refer to the ongoing recession for past eight years in the advanced countries, Eurozone and Japan.

They now include Gulf countries and Saudi Arabia and, generally all oil exports dependent countries. With plummeting oil prices, these once rich nations which import cheap labor from the East Asian and South Asian countries for manual work, are now employing less or are even paying less.

The result is seen in the decreasing remittances from migrant labour back to countries of their origin. For example, Saudi Arabia has nine million immigrants (amounting to one third of its population) are now sending less than what they sent back home in 2014.

Steady fall in oil price from \$US50 (\$F103) per barrel in October 2015 to below \$US30 (\$F62) per barrel in January 2016 has reduced export earnings of all Gulf countries. If oil production continues without any output adjustment, and oil price falls, IMF fears remittance outflows to developing countries would slow further.

Secondly, appreciation of the US dollar has lowered the value of earnings of migrants working in countries, such as Russia and Eurozone, whose currencies have gone down in value against the US dollar. Consequently, the remittances of migrant workers from Eurozone and Russia to their countries of origin have decreased in US dollar terms. World remittances are reported in US dollars.

The rouble and the euro depreciated by 42 per cent and 1 per cent against US dollar in late 2015. Remittances from Russia and Eurozone to Central Asia and Middle East and North Africa and Latin America declined in value when measured in US dollar.

The Caribbean and Pacific regions

Economic recovery in the US and the US central bank efforts to normalising its benchmark interest to above zero per cent has benefitted labourers working in the US. Remittances from the US are now valued much higher in recipient countries as the US currency has appreciated.

Latin American and Caribbean nations are the beneficiaries since the migrants in the US are encouraged to send back more to families. The Latin American and the Caribbean countries recorded the highest growth rate: 4.8 per cent in 2015.

However, remittances received by East Asian and Pacific region recorded only a growth rate of 4.2 per cent, which is much less than what it was in 2014: 7.4 per cent in 2014.

Similarly, remittances to south grew only by 2 per cent in 2015 as against 4 per cent in 2015.

The regions which did not do well on the remittances front are Sub-Saharan Africa whose inflows grew only by 1 per cent; and the Middle East and North Africa's remittance inflows decreased by 1 per cent.

Fiji's inward remittances

Fiji's remittances have been on the rise.

In 2011, it was around \$US160.4m (\$F332m). It rose to \$US190.6m (\$F395m) in 2012, \$US203.4m (\$F421m) in 2013 and \$US209.4m (\$F434m) in 2014.

We do not have the 2015 figure yet. Assuming the same region's average growth rate of 4.2 per cent is valid for Fiji's remittances for 2015, the figure would be US\$219m (\$F454m).

Further, for 2016, Fiji's remittance receipts are expected to be much higher, as it happened in the case of Nepal last year. The April-May earthquake relief appeal by Nepal resulted in a huge surge of remittances exceeding the average growth rate of remittances for South Asia.

On the other hand, other PICs have been experiencing fluctuations in the inflows of remittances during the last four years. In the case of Samoa, remittances in 2011 amounted to \$US159.6m (\$F330m). Although it went up in 2012 to \$US177.7m (\$F368m), there has been a decrease: \$US164.6m (\$F341m) in 2013 and \$US140.5m (\$F291m).

In the case of Tonga, remittances rose from \$US78.7m (\$F163m) in 2011 to \$US117.6m (\$F243m) in 2012 and \$US121.0m (\$F250m) in 2013, there was a decrease in 2014. It was \$US114.2m (\$F236m).

Remittances received by Solomon Islands were also subject to similar volatility.

Only Vanuatu's remittances displayed a rising trend similar to Fiji's. Its remittances increased from \$US21.8m (\$F45m) in 2011, to \$US22.0m (\$F45m) in 2012, \$US23.7m (\$F49m) in 2013 and \$US28.3m (\$F58m) in 2014.

Among the major PICs, past four-year data on remittances reveal Tonga is the most remittances dependent country (nearly a quarter of GDP is derived from remittances).

The next country is Samoa with remittances being 21 per cent of GDP. Fiji's remittances were around 4.6 per cent of GDP as its economy has a more diversified export base.

Remittance- growth nexus

Remittances supplement domestic savings. They also add to real resources of the country, since they are in the form of foreign exchange.

The nexus between remittances and growth in the short run is through increased consumption by recipient families.

Although remittances helped spending more on food, clothing, medicines and children's schooling thereby alleviating poverty, the rural families have limited avenues for saving. They tend to fritter away their savings on needless consumption.

If there were opportunities for savings by way of easy access to banks, additions to reserves in banks would enable greater flows of credit to would-be investors needing funds.

Fiji's efforts for promoting financial inclusion of the bypassed regions and people have made notable progress in the past five years.

Research study , jointly undertaken with Dr Hong Chen of USP on Fiji's remittances and the ongoing research on all PICs at FNU by this author with University of Tunku Abdul Rahman, Malaysia have revealed some important results.

They will make an interesting reading in a future column.

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