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Rise in remittances

It is good to see that home remittances sent by overseas Pakistanis are rising and contributing a great deal to the improvement in external sector of the economy. According to the latest data released by the State Bank, workers' remittances amounted to dollar 15.127 billion during the first eight months of the current fiscal year compared to dollar 14.356 billion in the corresponding period of 2018-19, showing an increase of 5.37 percent. The rate of increase, however, has slowed down from the growth of 10.44 percent in the same period of FY19. Saudi Arabia remained the biggest source of inflows of remittances which clocked in at dollar 3.47 billion during July-February, 2020, edging up by 3.95 percent over dollar 3.341 billion received in the same period of last year. The UAE was the second biggest source, accounting for inflows of dollar 3.132 billion in the first eight months of FY20, going up by 3.22 percent over dollar 3.034 billion received in the corresponding period of FY19. Remittances from the US and the UK also soared by 13.9 percent and 5.5 percent to dollar 2.558 billion and dollar 2.306 billion, respectively, during July-February, 2020. Pakistanis in the GCC countries also sent dollar 1.454 billion to the country, indicating an increase of 5.75 percent while dollar 431 million was received from the EU countries, representing an increase of 9.57 percent over dollar 393.5 million in the first eight months of 2018-19. Malaysia, which had posted a very stellar growth of 44.5 percent in July-February, 2019 showed a much lower growth this year as remittances from that country inched up by only 2.36 percent to reach dollar 1.041 billion during the first eight months of FY20 compared to dollar 1.017 billion in the same period of last year. During the month of February, 2020, home remittances jumped by 16.47 percent year-on-year to dollar 1.824 billion compared to dollar 1.581 billion in January, 2019 but showed a decline of 4.35 percent over dollar 1.90 billion in January, 2020.

A reasonable increase in workers' remittances is of course a very positive development for the economy of the country. A consistent increase in home remittances together with a jump in inflows in "hot money" in the form of investment in treasury bills and Pakistan Investment Bonds (PIBs) mainly from the US and the UK and a significant narrowing in the trade deficit due to compression in imports and some improvement in exports had resulted in the plunging of 73 percent in the C/A deficit and increasing the foreign exchange reserves of the country held by the SBP to about dollar 13 billion. It may be mentioned here that when PTI government assumed power, the country was facing acute problems in the external sector and was almost on the verge of default. Without such a positive development, C/A deficit would have been higher and exchange rate of the rupee would have come under greater pressure, exacerbating inflationary pressures in the economy. It could also be argued that investor sentiment would also have been adversely affected, leading to a further slowdown in the growth rate of the economy. Such a healthy development of course would have not been possible without hectic efforts of the incumbent government which has depreciated the Pak rupee substantially, imposed higher tariffs, especially on non-essential items of imports, mobilised foreign currency deposits from friendly countries, tightened the monetary policy to attract “hot money”, although, its outflows have picked up momentum in recent days due to coronavirus threat, incentivised the banks to collect and send remittances back to the country, and negotiated a programme with the IMF to ensure foreign and domestic investors about the continuity of reform process. The past record of the present government shows that it would be fully aware of the possibility of slowdown in home remittances due to coronavirus that is spreading fast and the fall in revenues in host countries due to a steep decline in the international oil prices over the past few days which could adversely affect their infrastructural development, other business activities and demand for labour. Hopefully, the government will now be thinking about ways to neutralize the impact of these negative developments so that the external sector of the country could withstand the pressure of these adverse developments. It is of course no coincidence that the authorities have managed to keep the open market and inter-bank rate of the rupee as close as possible and announced that the amount of home remittances transferred into bank accounts would be exempted from withholding tax with effect from 1st July, 2020. We could only propose to the government that it should continue to keep a very close watch to ensure that the rising trend in home remittances is maintained so that the country could achieve a sustainable position in the external sector and the mounting external debt is repaid expeditiously to discard the begging bowl once and for all.