The Commonwealth

Small States Matters

Number 3, 2021

Unravelling the COVID-19 Remittances Puzzle

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Published by the Commonwealth Secretariat.

ISSN: 2664-0961 (print)

ISSN: 2664-097X (online)

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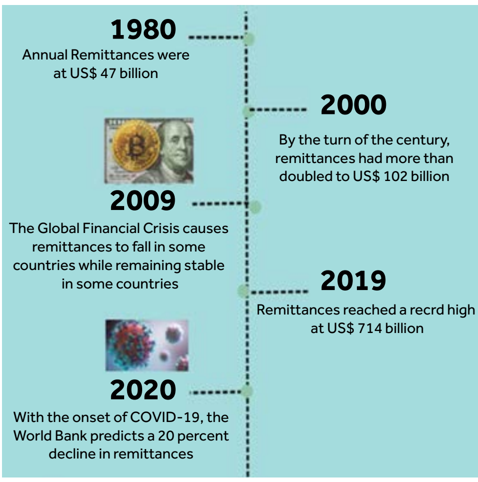
1. Introduction

Remittances—which include both cash and in-kind transfers by migrant workers—are a crucial source of income support for family members in a worker's country of origin and, in some cases, can be used to fund home-country start-up enterprises. Over the past two decades, remittances have been steadily increasing owing to persistent migration from developing to developed countries and rapid advancements in technologies. Recorded at US$ 47 billion in 1980, remittance receipts had doubled by 2000, to US$ 102 billion (Clemens and McKenzie, 2014). In 2019, remittances peaked at a record US$ 714 billion, surpassing the official development assistance (ODA) among members of the Organisation for Economic Co-operation and Development (OECD). Remittances have outpaced other capital inflows, with estimates showing that, for low- and middle-income countries, remittances have a value three times that of development aid and eight times that of private capital investment (Rillo and Levine, 2018).

What has been even more impressive in reviewing the past two decades is the relatively stable flow of remittances in the face of shocks. Notable cases include remittances to Mexico during the 1995 Latin American Financial Crisis and those to the Philippines and Thailand during the Asian Crash of 1997 (Mohapatra and Ratha, 2010). This highlights altruism and family connections as major drivers of remittances, potentially offsetting the effects of declining disposable incomes; hence, in 2020 with COVID-19 at play, it was not peculiar for economists to expect a continued steady flow of remittances.

But as the pandemic progressed and large-scale lockdowns were implemented, the World Bank forecast a decline of 20 per cent in remittances for 2020—a likely fall from its 2019 record high to US$ 572 billion (UN Network on Migration, 2020; Asare et al, 2020; Quinn, 2020). In arriving at these projections, the Bank cited slowing global economic growth, plummeting oil prices, and the loss of millions of jobs as the main underlying

Figure 1. A timeline of remittances



Source: World Bank, 2020; Mackenzie, 2014; European Migration Network, 2020 factors (World Bank, 2020; World Bank and Knomad, 2020; UN Network on Migration, 2020; Asare et al, 2020).

Against this backdrop there emerged an interesting remittances puzzle: while the Bank's predictions seemed to materialise in many countries, remittances continued to increase in a few others, defying expectations. The trends in remittances in these latter countries were at odds with the global pattern of economic decline and massive job losses observed across the main global remittance corridors. Specifically, during the early stages of the pandemic, the value of remittances to countries such as Bangladesh, Pakistan, and Jamaica rose, and this was true even beyond the Commonwealth, in countries such as Mexico, Curacao, and Guatemala (World Bank, 2020).[1] In other countries, including Fiji, Vanuatu, and Tonga, remittances remained stable and if they declined, they declined by far less than was expected (Howes and Surandiran, 2020).

This remittances puzzle raises questions: why have some countries been able to sustain remittances increases or to stabilise remittances inflows contrary to expectations? Are remittances truly countercyclical?[2]

To provide some answers, this paper will first re-examine the importance of remittances to developing countries and will also look at the impact of the COVID-19 pandemic on remittances flows in 2020, both across the Commonwealth and beyond. It will then delve more deeply into cases in which countries have recorded unexpected increases to or stable remittances flows. From these experiences will be drawn some possible conclusions about the observed phenomena that seem to defy projections and also some perspectives on the countercyclical nature of remittances. These phenomena warrant further investigation for two main reasons: first, remittances support macroeconomic fundamentals in several developing countries, reflected as a high proportion of gross domestic product (GDP); and, second, vital lessons can be learned from those countries that have been able to sustain remittances flows during the COVID-19 pandemic. Finally, the paper outlines some policies that developing countries can adopt to help maintain the flow of remittances in the wake of a crisis.

2. Remittances: More than a crucial lifeline

The International Organization for Migration (IOM) estimates that remittances make up 60 per cent of family household income for recipient households (IOM, 2020a). These funds offer support for household consumption and protection against income shocks, thus helping to smooth consumption. Remittances also play a very important role in several of the United Nations' Sustainable Development Goals (SDGs)—poverty, income inequality, health, education, nutrition—in that, an estimated 75 per cent of remittances are spent on things such as food, school fees and medical expenses (Figure 2) (UN Network on Migration, 2020; Sayeh and Chami, 2020). Moreover, it is estimated that migrant incomes support 800 million relatives in low- and middle-income countries, and in a survey on household incomes, 22 per cent of the population in Latin America and the Caribbean reported that remittances are their only source of income (UN Network on Migration, 2020).

Remittances also offer macro-level benefits as a valuable source of foreign exchange reserves, helping to contain trade balances and widening the revenue base through increased consumption (Sayeh and Chami, 2020). With some of the remittances going towards asset purchases and investment, they are also an avenue to increase countries' capital stock, fostering increased investments and productivity. This is particularly true in cases whereby diaspora remittances are channelled into investment-related products such as diaspora bonds (Rillo and Levine, 2018). Furthermore, by increasing low-cost deposits, remittances can boost the development of a country's financial sector by enabling banks to offer more credit (Asare et al, 2020).

1 Remittances also increased to Aruba, Belgium, Bermuda, Brazil, Czech Republic Dominican Republic, Italy, Qatar, South Korea, Sweden and Venezuela.

2 That is, do remittances increase when a migrant worker's country of origin is in an economic downturn?

Figure 2. Key remittance statistics

Source: United Nations Network on Migration (2020); IOM, 2020

Most of the international remittances flow out of advanced OECD countries including the United States, United Kingdom, Germany, and Canada, with the Gulf States, including Saudi Arabia and the United Arab Emirates, the second and third largest senders globally respectively (see Figure 3).[3] Among the world's top ten remittances-receiving countries, India tops the list, with US$ 78.6 billion received in 2018, and China and Mexico follow (McCarthy, 2019).

'Remittances can boost a country's financial sector by enabling banks to offer more credit.'

Other Commonwealth countries in the top ten recipients include Nigeria (US$ 24.3 billion), Pakistan (US$ 21 billion), and Bangladesh

Box 1. Summary of factors affecting remittances during the COVID-19 pandemic

Economic factors: Employment fluctuations in 2020 negatively affected migrants' earnings.

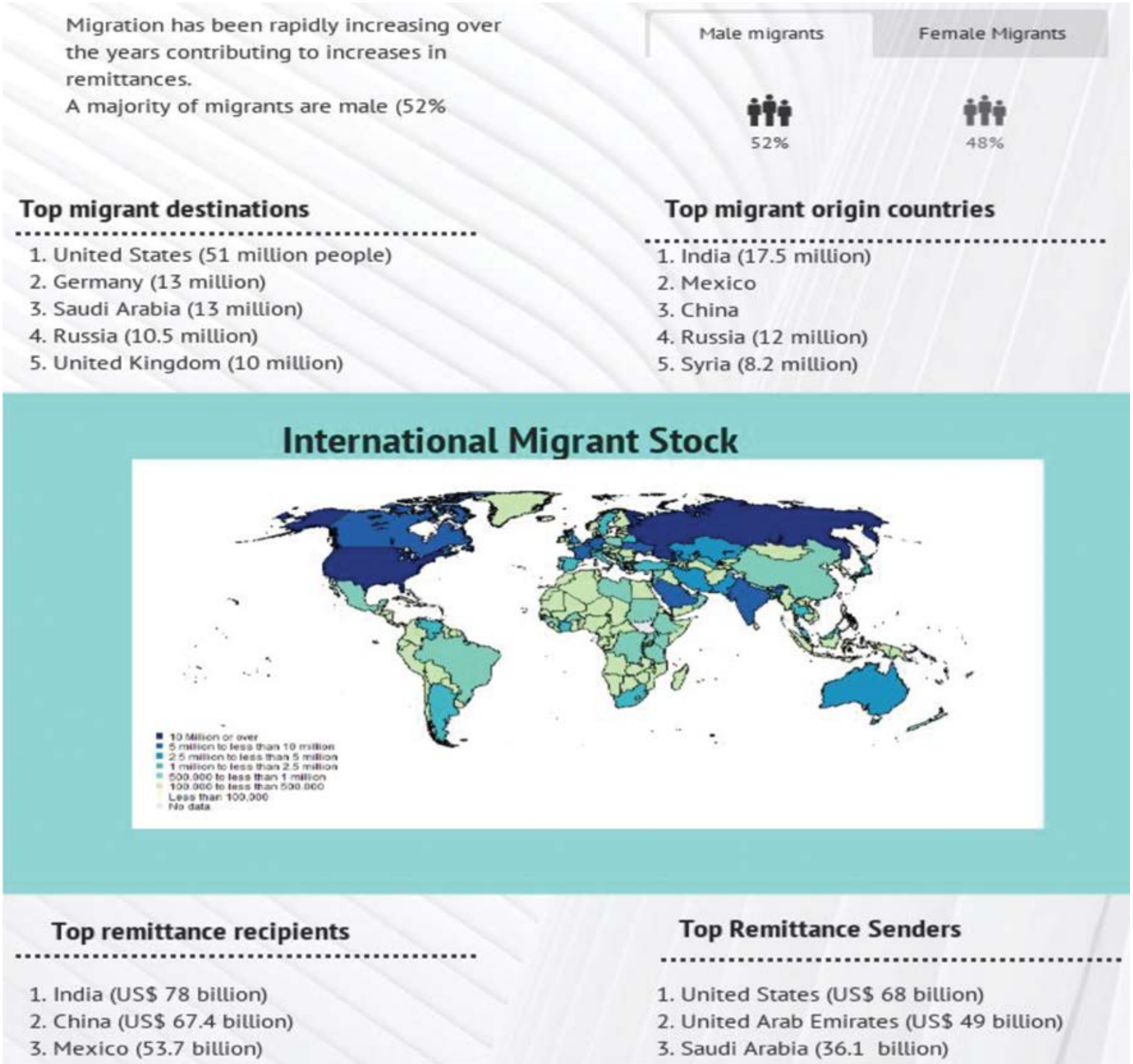
Migration driver: The disruption of travel and closure of borders were barriers to the entry of new workers.

Disruption of remittance service providers: Some remittance service agents could not be accessed or were closed, for example in France.

Source: European Migration Network (2020)

3 See also McCarthy (2015).

Figure 3. Migration and remittance flows



Source: UNDESA (2019)

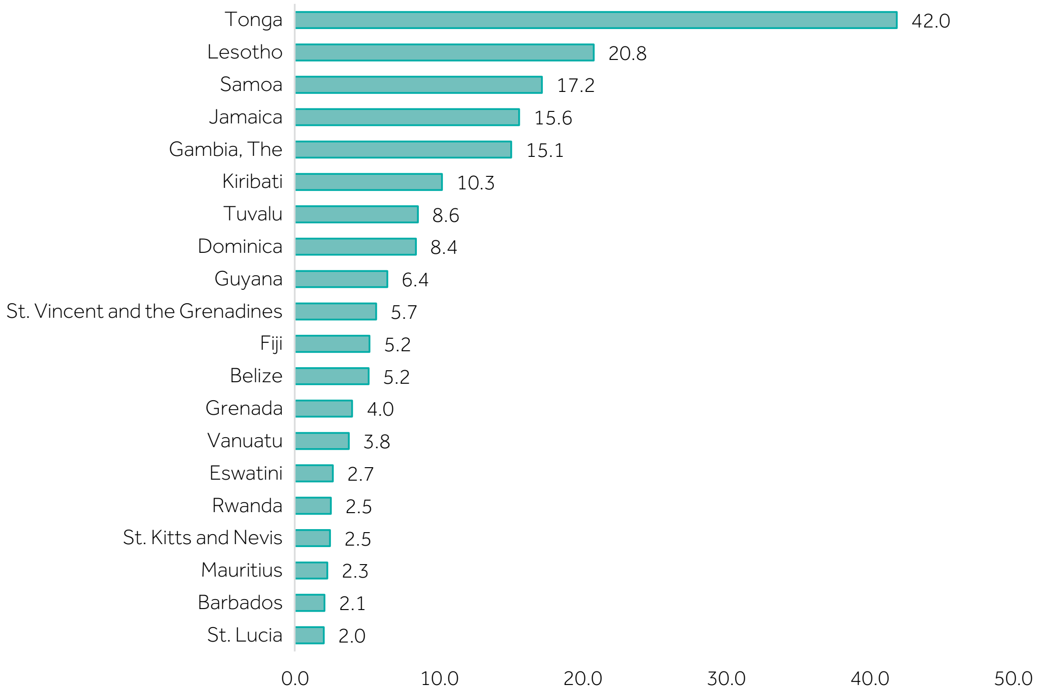
(US$ 15.5 billion). The countries that benefit the most from remittances include Commonwealth Small States (CWSS) such as Tonga, where remittances account for over 40 per cent of GDP (IOM, 2020a; UN Network on Migration, 2020). Other CWSS whose share of remittances as a proportion of GDP exceeds 15 per cent are Lesotho, Samoa, and Jamaica (see Figure 4). For these small states, any disruptions to remittances flows have potentially far-reaching consequences for economic stability.

3. The impact of COVID-19 on remittances

Employment effects and heightened restrictions

The lockdowns imposed in many remittance-sending countries such as the United States, United Kingdom, France, and Spain left many migrants unable to work, thus decimating their earnings. This echoes the consequence of the 2007/08 global financial crisis (GFC), during which increased unemployment in the United States reduced migrants' capacity to remit by 10 per cent (Orozco, 2020). It is estimated that

Figure 4. Remittances as a share of GDP for the Commonwealth Small States (2019, % GDP)



Source: World Development Indicators (2020c)

70 per cent of remittance flows to countries such as the Gambia are from countries that implemented lockdowns (France, Italy, Spain, the United Kingdom, and the United States), and hence the impact of COVID-19 was predicted to be dire (IOM, 2020a). The restrictions on movement mostly affected those employed in construction, hospitality, tourism, agribusiness, and home care.

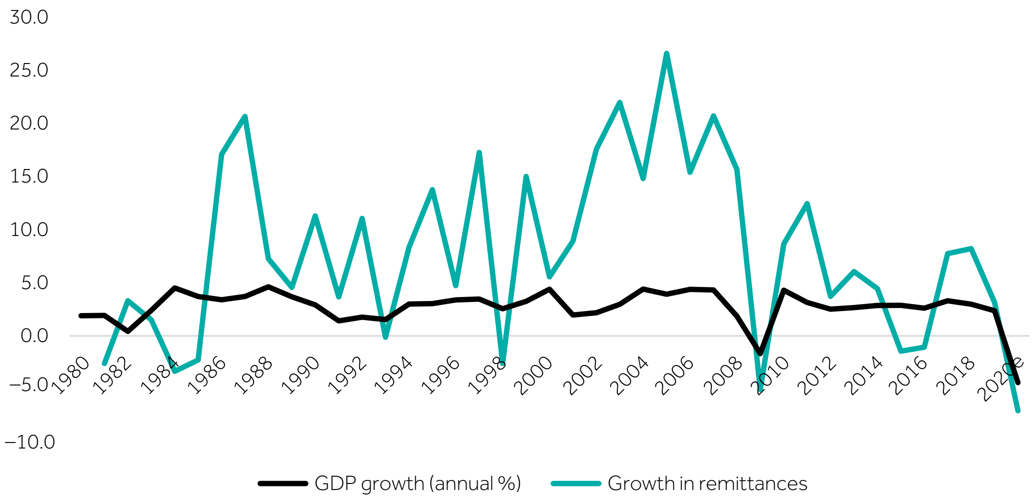
An estimated 80 per cent of remittances are sent physically (IOM, 2020a). As restrictions became commonplace and international travel was increasingly limited, sending money to family members became more difficult. More positively, this meant that migrants increasingly opted for official means of remitting money, such as money transfers facilitated by improving technology and mobile money services. But the difficulty of sending money was exacerbated by the fact that some remittance service providers were deemed to be 'non-essential' and forced to close under lockdown conditions.

Effect of COVID-19 on remittances

In total, it is estimated that 305 million people lost their jobs in 2020, equating to losses of US$ 3.5 trillion in global income (Kretchmer, 2020). This, combined with a decrease in global GDP of 4.4 per cent, caused remittances to decline globally by 7 per cent (see Figure 5). This decline was less marked than the 20 per cent forecast by the World Bank in 2020, perhaps offset by the increasing remittance flows in some countries, such as the 1 per cent regional increase in remittances in Latin America (Welsh, 2021).

With job losses among major migrant host nations, many low and middle-income countries have been negatively affected, with small states affected the most (see Figure 6). Yet even among these countries, and while the Caribbean and African small states saw large declines in remittances, remittances in the Pacific region did not decline as much—perhaps because migrants from the Pacific have been sending more in time of need, because they were unaffected by the

Figure 5. Trends in remittances and GDP growth rates (1980–2020)



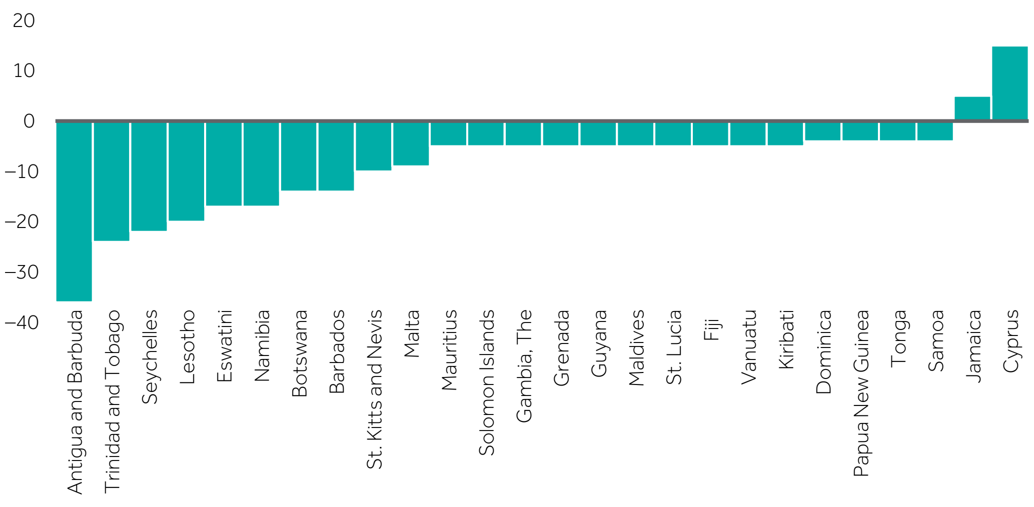
Source: World Bank (2020a). World Development Indicators (2020c)

economic crisis or because host governments took steps to mitigate the impact on workers (Howes and Surandiran, 2020). Small states such as Antigua and Barbuda, Trinidad and Seychelles, however, were grappling not only with decreasing remittances but also with lost tourism revenue. Amongst the small states, only Cyprus and Jamaica managed to defy the odds, experiencing increases in remittances relative to 2019.

The decrease in remittances is a cause for concern among policy-makers for several reasons.

- *Macro-fiscal losses* For starters, the ramifications of decreased remittances are more significant for those countries in which remittances make up a large proportion of GDP. This includes CWSS such as Tonga (40

Figure 6. Performance of remittances in CWSS (2020, % change)



Source: World Bank (2020a)

per cent), Lesotho (20 per cent), and Samoa (17 per cent). It is estimated that, for countries like these in which remittances contribute over 10 per cent of GDP, a 1 per cent decline in the migrant host country's GDP could lead directly to a 1 per cent decrease in recipient countries' GDP (Sayeh and Chami, 2020). Furthermore, often lauded as being less prone to fraud and corruption than other forms of financing, remittances provide a valuable source of funding for development to help meet shortfalls. Remittance inflows feed into public funding via taxes imposed on remittance service providers and through increased household consumption of products subject to value-added tax (VAT). The projected decline in remittances and hence of revenue could therefore strain public finances. This is significant for low-income countries with limited fiscal space or middle-income countries with insufficient access to development finance.

- *External, monetary and financial sector losses* Reduced remittance inflows will also likely exert pressure on countries paying for imports and foreign debt services, with loss of foreign exchange activity in banks causing them to tighten credit conditions. In low- and middle-income countries in which increased exports cannot compensate for foreign exchange losses, decreasing remittance inflows could also exert downward pressure on exchange rates (European Migration Network, 2020).
- *Development losses* A fall in remittances has the potential to reverse development progress among less-developed countries (LDCs) because the reduced investment will result in reduced productive capacity (Asare et al, 2020). In turn, this may further undermine efforts to reduce poverty: it is argued that an estimated 10 per cent increase in remittances can lead to a 3.5 per cent decrease in the proportion of people living in poverty (Rillo and Levine, 2018). The challenges introduced by the COVID-19 pandemic could therefore potentially reverse the progress that has been made, with implications for the achievement of the SDGs.

4. The remittances puzzle

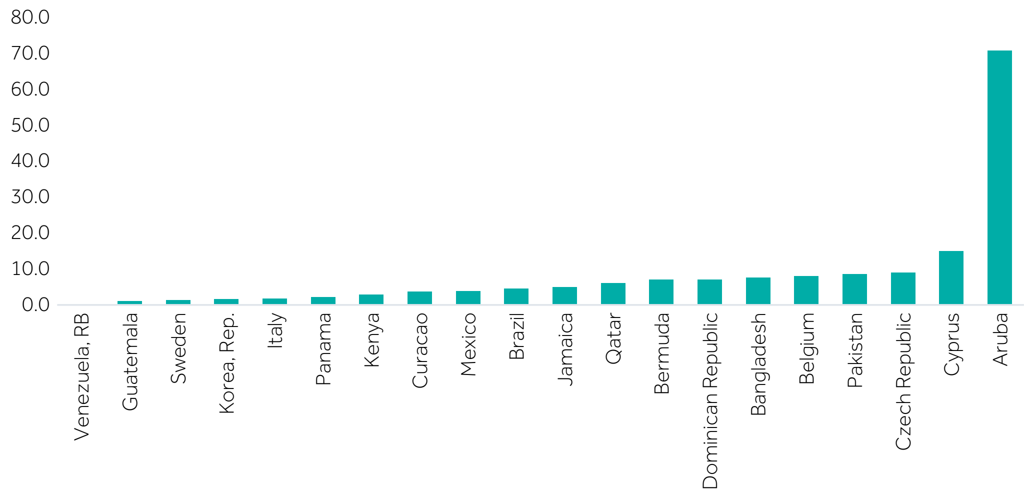
Between March and May 2020, remittances were on the decline in most countries owing to migrant host countries' lockdowns and job losses. Countries that suffered major annual losses include Kuwait (81 per cent), Macao (69 per cent), and Chile (54 per cent). In the Commonwealth regions, small states suffering large losses included Antigua (36 per cent), Trinidad (24 per cent), and Seychelles (21 per cent) (World Bank, 2020). After that initial slump, however, some countries including Jamaica, Kenya, Cyprus, Pakistan, and Bangladesh experienced *increases* in remittances (see Figure 7) (Lopez-Calvo, 2020; World Bank and Knomad, 2020). Perhaps most outstanding is the increase recorded in Aruba, at almost 80 per cent.

Several remittances service providers (RSPs) recorded similar trends, with Western Union reporting a 6 per cent increase in transactions in the third quarter of 2020 compared to the same period the previous year and Moneygram, a 10 per cent growth in international transactions between July and September 2020 (Djankov and Sarsenbayev, 2020). In some countries where cash transfers have remained steady, such as Vietnam and the Philippines, remittances remained relatively stable (Caron and Tiongson, 2020). To understand how some countries have managed to buck the downward trend, sustaining or even increasing remittance inflows despite a global economic contraction, we must examine each on a case-by-case basis.

Pakistan and Bangladesh

By the end of 2020, remittances to Pakistan had increased by 25 per cent year-on-year, with more than US$ 14 million received (Stone, 2021). In June alone, Pakistan experienced a 36.5 per cent jump in remittances inflows, marking a record high relative to July of previous years. Similarly, Bangladesh registered a record increase in remittances between July

Figure 7. Countries with increases in remittances (October 2020, % change)



Source: World Bank (2020a)

and September (UN Network on Migration, 2020), spurring analysts to declare the 'Hajj effect' – that is, the consequence of decreased spending on Hajj pilgrimages to Mecca during the pandemic period (World Bank and Knomad, 2020). While 2019 saw more than 1.8 million people making the pilgrimage to Mecca, in 2020 only 1,000 people were permitted to make the trip. According to migration experts, this effect contributed to Bangladesh's 53 per cent year-on-year increase in remittances (Migration Data Portal, 2020). India—a neighbouring country with a relatively small Muslim population (14 per cent), unlike Pakistan and Bangladesh, where Muslims make up over 90 per cent of the total population—experienced a 10 per cent *decline* in remittances (Stone, 2021).

Apart from the seasonal effects of negligible numbers of pilgrimages to Mecca, analysts have also suggested that the remittance boom in Pakistan may have been the result of workers returning home when they were laid off in migrant host countries, such as Saudi Arabia (Stone, 2021; Caron and Tiongson, 2020). Increased demand for workers in e-commerce and other sectors that became more essential than ever during the pandemic period is a trend observed in Gulf countries that may also have contributed to increased remittances to Pakistan (Stone, 2021).

Jamaica

The pattern of remittances in Jamaica echoes that which emerged during the GFC when remittances initially declined but eventually increased. In June 2020 alone, remittances were up 42 per cent compared to June 2019 (CARICOM, 2020). The remittances flowing into Jamaica picked up as some eligible migrant workers obtained government support in their host countries, enabling them to continue sending money home. Between April and September 2020, the country witnessed a 30 per cent increase in remittances (a total of US$ 1.141 billion) when compared to that period in 2019. Disaggregated data shows a 39.5 per cent increase registered in remittance-sending companies and a 6.2 per cent rise in other remittances (Pate, 2020). Remittances to Jamaica, like those to many other countries, are driven by altruism, among other factors. The behaviour of migrants in Jamaica is supported by historical evidence on remittance flows captured during natural disasters such as floods and hurricanes (Ramocan, 2010).

Kenya

While many countries faced initial declines in the early months of 2020, Kenya saw marked increases in remittances as source countries entered lockdowns. It is estimated that, by March

2020 alone, remittances to Kenya had increased by 4.3 per cent—that is, from US$ 2,722 million in March 2019 to US$ 2,838 million in March 2020 (Okoth, 2020). By end of December 2020, remittances had jumped by 11 per cent and, in December alone, they reached a historic high at US$ 299 million (Reuters, 2021).

> *'The M-Pesa allows Kenyans to remit through its mobile money platform.'*

The sustained flow of remittances to Kenya could also be due to technological innovations like the international money transfers made possible by the M-Pesa international money transfers could have helped Kenyans to overcome some of the pandemic-related barriers (ILO, 2015). For example, Kenyan banks made it easier to send money through traditional platforms such as Western Union and non-traditional platforms using mobile money. Kenya's M-Pesa, in particular, allows Kenyans to remit through its mobile money platform in countries in which that platform is available.

5. Unravelling the remittances puzzle

The resilience and stability of remittances across these country case studies point towards several factors beyond the macroeconomic performance of a migrant's host country as drivers of remittances flows. One such factor may be resumed activity in host countries managing to inhibit the spread and impact of the virus. Other potential explanations of the remittance trends in some countries include the following.

- *The nature of the work of migrants* Some migrant workers were able to maintain their employment during the pandemic because they were employed in key roles such as nursing and care work (Lopez-Calvo, 2020). The European Commission has shown that migrant workers in Europe are as likely as resident nationals to be employed as key workers and, further, that they are a vital source of labour supply in skilled jobs critical to European healthcare systems (Reuschkap and Ozguzel, 2020). As such, an estimated 13 per cent of workers in essential jobs in the European Union are migrants and, for some such sectors, migrant workers account for a third of all such workers (Foresti, 2020; Caron and Tiongson, 2020). In the United States, 30 per cent of doctors and 27 per cent of farmworkers were born outside of the country; in Australia, the same is true of 54 per cent of doctors and 35 per cent of nurses (Foresti, 2020).
- *Migrants tapping into alternative income sources* In cases where migrants lost their jobs, those with savings may have drawn on these. It has been suggested that migrants had prepared for a crisis and had saved more since the GFC, with a 30 per cent increase in savings since a decade previously (Welsh, 2021). Additionally, some of those migrants that lost their jobs were eligible for income support measures such as the furlough schemes adopted in the United Kingdom. In Italy and Portugal, reforms were implemented to enable undocumented workers to access services, while France, Spain, and Germany opened sectors of their economy to migrants that had previously been closed (Caron and Tiongson, 2020). As a consequence, despite experiencing job losses and decreased earnings, migrants are still driven by altruism to send money home whatever their circumstances, with studies showing a positive correlation between altruism and remittances (Shimada, 2011). Indeed, for many, the motivation to migrate is to provide for family members; hence, by sending remittances, migrant workers derive utility from their acts of kindness (Tchouassi and Sikod, 2010).
- *Governments incentives aiming to attract remittances* In some countries, government incentives acted as pull factors helping to

attract remittances. One example is Pakistan, where incentives—including reducing withholding taxes on bank transfers—were put in place to encourage sending money through official bank channels (UN Network on Migration, 2020). Stone (2021) has posited that there is a possibility that cross-border payments of goods and services may even have been reclassified as remittances to take advantage of these tax incentives.

- *The diversion of remittances to formal channels* Another explanation of the sustained and improving remittances inflows in some countries may simply be that the funds were no longer delivered through informal (unrecorded) hand-carrying channels but diverted to formal (recorded) means (Caron and Tiongson, 2020). This is a consequence of decreased travel back home (World Bank and Knomad, 2020). This is said to be true of Bangladesh, where barriers to the informal means of sending money (known as Hundu) meant increased use of more formal methods and likely increased recording of remittances (*Dhaka Tribune*, 2021).

'Remittances have performed better than they did during the global financial crisis.'

In sum, the decline in remittances during the COVID-19 pandemic has been less severe than initially predicted. Remittances have performed better than they did during the GFC, likely for several reasons:

- the practical landscape has changed, with more mobile apps available compared to 2009;
- unemployment during the pandemic lockdowns was less marked, with US employment falling less steeply than during the GFC (Welsh, 2021); and
- migrants may have saved more, allowing them to sustain their remittances—or at least not to decrease them dramatically—this time around (Welsh, 2021).

6. The countercyclical nature of remittances

The resilience of remittances calls into question the idea of remittances as countercyclical. Remittances are often motivated by altruism and family ties, with some migrants moving to other parts of the world specifically so that they can better support their dependants. For this reason, it has been suggested that remittances tend to be countercyclical with the remittance-receiving countries' economic performance—that is, remittances rise when a home country's situation worsens (Lopez-Calvo, 2020). This is the basic premise of the *smoothing hypothesis*, which posits that remittances are countercyclical with income in a worker's country of origin (the receiving country), while procyclical to income in the migrant's host country (the sending country) (Frankel, 2009).

This hypothesis may help to explain the COVID-19 remittances puzzle whereby some countries are experiencing historic increases in remittance flows. Lessons can be learned from times of disasters and crises in which remittances were shown to be stable or even countercyclical, including Mexico after the 1995 Latin American financial crisis (Mohapatra and Ratha, 2010) and, in the Asian region, Thailand and the Philippines, where inflows were also found to be countercyclical after the 1997 Asian crash (Mohapatra and Ratha, 2010).

Evidence of the countercyclical nature of remittances during the GFC is, however, mixed. Remittances were found to be countercyclical in emerging markets, where they continued growing at 6 per cent, while capital flows decreased by 14 per cent (Rillo and Levine, 2018). Overall, performance varied across regions, with Latin America and the Caribbean witnessing a 6.1 per cent decrease in 2009, while inflows to South Asia increased, inflows to Pakistan increased by 23.9 per cent and inflows to Bangladesh increased by 13.2 per cent (Mohapatra and

Ratha, 2010). In sub-Saharan Africa, Nigeria, Kenya and Uganda also witnessed increases—or at least smaller declines in remittances than had been expected. Remittances were also found to be resilient during the 2014 Ebola pandemic (UN Network on Migration, 2020). With such mixed evidence, it is hard to conclude whether or not remittances are countercyclical.

More recently, Mexican immigrants in the United States during the COVID-19 pandemic have been spurred in the face of adversity by a weak peso, which offered strong incentives to send money home (see Box 2) (World Bank and Knomad, 2020). Likewise, the depreciation of the Pakistan rupee against the US dollar may have spurred remittances to Pakistan (Stone, 2021).

In sub-Saharan Africa, Kenya is the only country in which remittances are proving to be countercyclical during the COVID-19 pandemic (World Bank and Knomad, 2020). This is evidenced by the fact that remittances increased in 2020, while the Kenyan economy contracted for the first time in five years (Reuters, 2021). Whether remittances are countercyclical depends solely on the motive to send money home. Rillo and Levine (2018) argue that if remittances are considered a type of investment from which senders expect to reap benefits, they tend to be *procyclical*. In such cases, remittances are driven by positive macroeconomic fundamentals, or pull factors, just as are other types of capital inflow. If remittances are driven by family ties and patriotism, however, remittances tend to be *countercyclical*, with origin countries' income a factor that contributed to remittances being more stable compared to private capital flows, foreign direct investment (FDI) and overseas development aid (ODA) (see Figure 8).

Family ties and altruism aside, the stability of remittances during crises has also been supported by simplified methods of remitting funds globally—a factor that has contributed to remittances exceeding FDI and ODA in countries such as India, the world's largest recipient of remittances (Barne and Pirlea, 2019). In this context, if remittances are to be countercyclical, several factors must be in play, including the type of employment taken up by migrants and efforts by the country and international

Box 2. A tale of two countries: The case of Mexico and El Salvador

Mexico and El Salvador add an interesting dimension to the COVID-19 remittances puzzle: while Mexico experienced a dramatic increase in remittances amid a historic lockdown in the United States, remittances in El Salvador declined in line with initial predictions. *Why?*

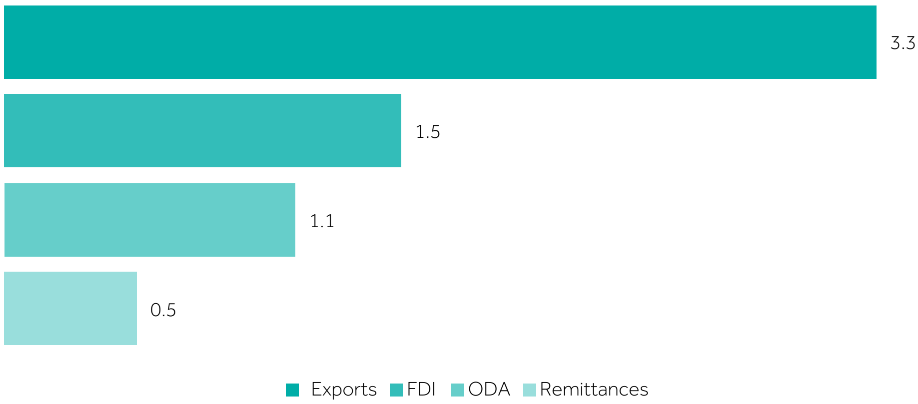
First, it has been suggested that the surge in remittances in Mexico followed depreciation of the peso against the US dollar, spurring migrants to take advantage of investors preferring a stronger dollar. By contrast, El Salvador is a fully dollarised economy, thus eliminating the substitution effect.

Exchange-rate depreciations have, however, been common in Mexican history, including during the 1994 Mexican crash and the GFC, and the fact that the depreciation of the peso during the GFC was not partnered with an increase in remittances calls the exchange-rate argument into question.

One possible explanation is the comparative global reach of the economic effects of the two most recent crises. While exchange rates depreciated both during the COVID-19 pandemic and the GFC, the economic effect of the GFC was devastating to the United States, while Mexico continued to perform well. As such, remittances may have declined to compensate for income differentials.

Sources: Mandelman and Vilan (2020); World Bank and Knomad (2020)

Figure 8. The volatility of financial inflows (1980–2018, coefficient of variation)



Source: European Migration Network (2020)

community to increase flows and reduce the costs of remittances.

7. How to keep remittances rolling

The continued inflow of remittances to low-income countries is necessary now, more than ever, when countries are facing dwindling development finance and limited fiscal space in a context of ever-growing needs. Those countries experiencing decreased remittances need to take action to promote remittances; those that have not experienced decreased inflows need to enact policies to keep remittances flowing. Recognising the contribution that remittances play in many low-income countries, the United Kingdom and Switzerland drew up a 'call to action' (CtA) to keep remittances flowing (World Bank and Knomad, 2020). The World Bank, the United Nations Development Programme (UNDP), the United Nations Conference on Trade and Development (UNCTAD), the IOM and the Global Knowledge Partnership on Migration and Development (Knomad) supported the CtA, and provided guidelines for money service providers (MSPs), regulators and national governments.

The CtA set out several steps that countries must take to keep remittances flowing.

Deeming remittance service providers as essential

The CtA urged governments to deem MSPs as essential business and to establish economic support measures that will benefit migrants and remittance service providers. In some countries, lockdowns led to the closure of remittance service providers because they were deemed to be non-essential, thereby narrowing a very important channel in the context of limited travel options. This had a disproportionate impact on women, who comprise the majority of the unbanked (UN Network on Migration, 2020).

To counter these problems, countries such as Zimbabwe allowed money transfer agents to open three times a week (IOM, 2020a). Jamaican money transfer organisation JN Money Services lobbied the government to reclassify MSPs as essential, helping the company to remain functional and remittances to keep flowing (Rose, 2021). Partnered with appropriate social distancing and safety measures, remittance services remaining open is vital.

Reducing the costs of remittances

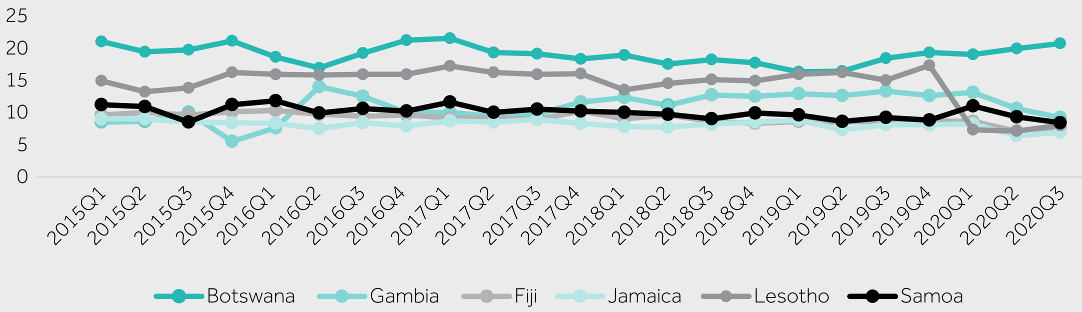
Another major way of promoting remittance flows is to reduce the costs of sending money. The World Bank estimates (2021) that cutting the price of sending money by at least 5 percentage points can save up to US$ 16 billion a year (World Bank, 2021). Moreover, reducing the costs of sending remittances is set out in SDG 10.c, 'By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent'.[4]

4 See https://sdgs.un.org/goals/goal10

Box 3. The rising costs of remittances

- South Asia has the lowest cost of receiving money with an average cost of 4.88 percent. SSA is the most expensive region to send money with average costs at 8.19 percent.
- The Global average cost of remittances decreased from 6.75 percent in Q3 of 2020 to 6.51 percent in Q4 2020.
- Banks are the most expensive type of service provider. Mobile money is the least expensive mode.
- Overall costs of remittances have been decreasing since 2015 and decreased further in 2020.

Remittances prices in selected CWSS (2015–2020)



Source: World Bank, 2020b; World Development Indicators (2020c)

To put this into effect, countries could consider reducing taxes on senders and recipients. This approach was adopted in Pakistan, where, in a bid to increase remittance flows, the government reduced withholding taxes on bank transfers (Stone, 2021). Tax credit schemes could also be used to scale down the costs of sending remittances. As it stands, African MSPs are the costliest, while Asian MSPs are the least costly (FSD Africa, 2017; World Bank, 2020) (see Box 3).

Policy considerations for migrant's origin and host countries

Moving forward, conducive policy and regulatory environments will be needed to promote remittance inflows. This will enable enhanced competition, promote innovation and increase transparency in the declaration of transaction costs (UN Network on Migration, 2020). Furthermore, countries should seek to scale up efforts to raise financial literacy, particularly among women and other unbanked sectors. Raising awareness of the various options available will empower people to make informed choices. Migrant host countries can also scale up support to migrant workers by stabilising employment and employment retention and providing income to compensate for lost earnings. Where possible, host countries might offer relief packages and extend support to migrant workers (Sayeh and Chami, 2020).

Other efforts that could be implemented to sustain remittances include improving data collection methods and measurement utilising household surveys and creating strong institutional frameworks that foster accountability.

8. Technology and the growing role of mobile money

The CtA also urged the need to scale up digital remittance channels for migrants and their families. Over the past decade, the digital revolution has facilitated the ease with which we communicate and access information. Recent developments in financial technology (FinTech) have increased access to finance—that is, financial inclusion—in ways that few could have foreseen. Innovations such as central bank digital currencies, mobile money, e-wallets, and cryptocurrencies offer convenient and safe ways of making financial transactions. It is also posited that digitisation can help to reduce the barriers, risks, and costs associated with 'know your customer' (KYC) security (FSD Africa, 2017).

> *'Mobile money is a tool for poverty reduction and improved income equality.'*

The role of mobile money, in particular, has become more evident over the past couple of years. These transfers help to reduce risk and reduce the need for cash pick-up (UN Network on Migration, 2020). More importantly, mobile money is less costly than other modes of sending money and hence can foster increased remittances. Farooq et al. (2016) have argued that mobile money services are, on average, 50 per cent cheaper than global money transfer operators and that supports the digitisation of informal transfer flows. Moreover, the convenience of mobile money may spur increased remittances.

Beyond these benefits, mobile money is an avenue to help promote financial inclusion of the unbanked in remote areas. It can therefore be a tool for poverty reduction and improved income equality, with research showing that households with mobile money receive more remittances and remittances of higher value than do households without mobile money (Asare et al, 2020).

The rise of mobile money has been phenomenal. By 2017, it was available in two-thirds of low- and middle-income countries, with more than 1 billion people registered for the services in 2019 (Asare et al, 2020). Success stories have included Kenya's M-Pesa (see Box 4) and Bangladesh's bKash. These models have promoted easier ways of sending money to hard-to-reach areas. Analysts have shown that Bangladesh's bKash (operated by bank BRAC, MasterCard and Western Union) has enabled recipients to receive money and make payments for other services such as bills (Rillo and Levine, 2018).

The growing magnitude of mobile money in international money transfers is well illustrated by a 2018 Western Union report showing that 90 per cent of its transfers to Kenya were going through M-Pesa, with 19.5 million

Box 4. The M-Pesa success story

Kenya's M-Pesa is one of the most successful mobile money models to date. What grew from a need to send money from urban to rural dwellers in the mid-2000s has gone to become one of the most successful mobile money transfer systems. From its roots as a mobile money transfer service, the M-Pesa has expanded into several services. According to the International Labour Organization (ILO, 2020), M-Pesa's international money transfer (IMT) service allows anyone to send money to Kenya through several of Safaricom's partners (e.g Post-finance, World Remit and Western Union) to M-Pesa mobile phones in Kenya.

The product has also expanded to other countries, including Tanzania, Fiji, South Africa, India, Mozambique and Lesotho, and is playing a huge role in global money transfers.

In addition, by making it easier to send money and reaching millions of people in remote rural areas that may not be covered by traditional financial institutions, M-Pesa is contributing to the SDGs and particularly promoting women's financial inclusion.

Sources: ILO (2015); Kyule et al (2018) customers sending and receiving money from 19 African countries and beyond (Kyule et al, 2018). The efficient customer service and ongoing innovations provided by mobile money operators have fuelled their success, overtaking other methods of remitting funds.

With stay-at-home and social distancing measures still being implemented worldwide, the role of FinTech and other digital technology modes for remitting funds is self-evident. Adequate supportive digital infrastructure, coupled with conducive regulatory policies (an enabling environment), is vital to FinTech. Countries must also remove barriers to the successful adoption of FinTech tools, including establishing electronic identification systems that are needed to effectively register for mobile money and resolving security issues (Yalla and Philip, 2020).

In a bid to stimulate remittances during the pandemic, some countries (including Ghana, Zambia, and Kenya) implemented fee waivers for mobile money (UN Network on Migration, 2020). Other countries facing falling remittances could do the same. For example, when the Fiji government committed to making remittances cheaper through its M-PAiSA mobile money app by making it free of cost for two months (March and April 2020), this led to an increase in the use of digital channels by 68 per cent (Liljert and Payne, 2020). Pakistan also promoted official means of remitting money, introducing Roshan Digital Online Banking to facilitate remittances (Stone, 2021).

9. Enhancing diaspora engagement

As the COVID-19 pandemic continues to lay waste to many economies, remittances could prove vital in helping countries to rebuild their economies. At the start of the pandemic, diaspora communities from many countries came together to forge responses to support communities. Assistance provided included hospital supplies and helplines for families (IOM, 2021), as well as cash transfers such as those provided by the Rwanda Diaspora Association in Belgium and by the Gambian diaspora community (IOM, 2020b; IMF, 2020).

In the Caribbean, diaspora communities also organised donations for medical equipment and personal protective equipment (PPE) (Nurse, 2021). One example is the UK-based Barbados Cultural Organisation, which presented five charities with donations of more than £24,000 and contributed more than £100,000 for schools and medical equipment (King, 2021).

‘Remittances could prove vital in helping countries to rebuild their economies after the COVID-19 pandemic.’

In some cases, in-kind support was also provided, in the form of technical assistance. An example is the Pakistani Diaspora Health Initiative: a digital platform allowing the Pakistani diaspora to register to provide online consultations (IOM, 2021). Furthermore, in a bid to support education, Barbadian singer and entrepreneur Rihanna donated 4,000 computer devices to help sustain education outside the classroom during the pandemic (Nurse, 2021). The Jamaican diaspora similarly engaged in supporting education, including by sending laptops and tablets to family to facilitate digital learning (Rose, 2021).

The Pacific region was among those less directly affected in terms of COVID-19 infections in 2020. Nonetheless, the Pacific diaspora has been rallying to provide relief efforts aiming to tackle some of the region’s major challenges. In early 2021, the Fijian diaspora in the United States provided some US$ 120,000 to support the Prime Minister’s National Disaster Relief and Rehabilitation Fund after Severe Tropical Cyclone Yasa (Fijian Government, 2021).

These are all examples indicative of various diasporas’ willingness to support countries of origin in times of adversity. There are therefore opportunities for multilateral partners to scale up diaspora engagement not only to support home countries in times of crisis but also leverage diaspora savings to facilitate profitable investments. The Commonwealth is committed to helping member states to benefit from remittances, and—at the time of writing—there are plans to roll out a diaspora investment project aimed at facilitating remittances and investments by leveraging the savings held by Commonwealth countries diaspora to support development in countries of origin. The project is expected to promote remittances to bridge development financing gaps and contribute to the SDGs.

10. Conclusion

For many low- and middle-income countries, remittances play an important role in supporting livelihoods back home. Beyond household-level benefits, remittances are a tool for macroeconomic stability, providing a vital source of foreign exchange reserves. Early predictions after the COVID-19 pandemic were of declines in remittances globally; while this was true of many countries, a few others across different regions proved to be resilient and stable. Migrants to those countries are still sending money home despite job losses—at least for now (Caron and Tiongson, 2020). This reflects the family ties and altruism that are known to drive remittances. Furthermore, that some migrant workers have remained employed or have been eligible for employment support schemes has helped to keep remittances flowing, making them countercyclical for some countries.

Going forward, worries remain that remittances could contract further since the key fundamentals that drive remittances—including GDP, oil prices, and employment—remain unstable. For example, in 2020, some 78,000 migrant workers from Bangladesh returned home permanently, and a survey of Mexican and Central American migrant workers found that 41 per cent had stopped sending money home, while over 80 per cent were sending reduced amounts (Caron and Tiongson, 2020). Sustained remittance inflows will depend on how quickly these conditions improve, which will depend on how quickly countries can reopen their economies—itself dependent on successful vaccine rollouts in the context of new strains of COVID-19.

Recovery on a global scale will likely be slow and likely tortuous. With economic recovery still uncertain, concerted efforts by both migrant host and origin countries are needed to ensure that remittances keep flowing and to safeguard them. Such efforts will include declaring remittance service providers to be essential, reducing transaction costs, providing a sound regulatory environment, and building sufficient infrastructure to support digital technologies.

Given the role they play not only in supporting economic development but also in the pursuit of several SDGs, as well as macroeconomic stability, keeping remittances flowing is imperative.

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Annex: Small States Quarterly Economic Review May 2021

(Analysis is based on available data from small states Central Banks.)

Small States Indicators

Exports (Goods)

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD M)	147.75	151.83	104.67	115.56	108.39	120.19	124.35	127.05	90.22	93.23	99.63

Imports (Goods)

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD M)	174.03	159.41	123.75	134.85	144.19	162.31	151.31	151.22	165.71	145.89	144.80

Total Revenue

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD M)	127.11	130.63	127.12	105.25	122.05	165.12	117.89	112.64	179.29	146.49	171.30

Total Expenditure

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD M)	173.80	174.08	173.70	174.65	197.29	187.37	178.23	170.55	209.53	205.91	209.71

Public Sector Debt

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD M)	1,764.23	1,765.89	1,849.21	1,846.15	1,865.44	1,906.26	1,920.59	1,920.64	2,011.73	2,013.09	2,144.49

Monetary Supply (M2)

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD 000')	2,521,747	2,661,248	2,644,783	2,730,968	2,667,401	2,700,663	2,720,816	2,754,616	2,794,224	2,822,240	2,870,115

Net Foreign Assets

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SS Average (USD M)	881.27	1114.07	1134.27	12218.02	1119.38	1153.31	1135.15	1128.27	1117.60	1109.42	1071.61

Visitor Arrival

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Small States Average	10,4793	52,202	294	446	2,263	13,323	19,775	12,815	18,771	13,081	21,738

Inflation

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Small States Average	1.78	1.58	0.99	1.00	1.17	1.22	1.37	1.36	1.45	1.46	1.73

Consumer Price Index

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Small States Average	108.67	115.82	110.94	111.21	112.16	111.26	111.88	112.89	111.98	112.10	113.41

Interest Rate

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Small States Average	2.19	2.18	2.14	2.05	2.01	2.07	1.98	1.82	1.85	1.77	1.86

International Indicators

Quarterly Growth

	Q1 2020 Growth	Q2 2020 Growth	Q3 2020 Growth	Q4 2020 Growth
US	–5%	31.4%	33.4%	4.3%
UK	–2.8%	–19.5%	16.9%	1.3%
Canada	–1.9%	–11.4%	8.9%	2.3%
Australia	–0.30%	–7.00%	3.40%	3.10%
New Zealand	–1.20%	–11%	13.90%	–1%
India	–23.90%	–7.30%	0.40%	0.40%

Source: Central Banks

Crude Oil Price

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Average Monthly Brent crude oil price (USD, barrel)	55.66	32.01	18.38	29.38	40.27	43.24	44.74	40.91	40.19	42.69	49.99

Source: Business Insider Markets, April 2021

US Federal Funds Rate

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Effective Federal Funds Rate	1.58%	0.65%	0.05%	0.05%	0.08%	0.09%	0.10%	0.09%	0.09%	0.09%	0.09%

Source: Federal Reserve Bank of New York

LIBOR Rate

Currency	Overnight	1 week	1 month	2 month	3 month	6 month	12 month
EUR	−0.59%	−0.58%	−0.58%	−0.55 %	−0.55%	−0.52%	−0.50%
USD	0.07%	0.08%	0.11 %	0.14%	0.20%	0.20 %	0.28 %
GBP	0.04%	0.04%	0.04 %	0.06%	0.09%	0.11 %	0.16 %

Source: ICE Benchmark Administration Limited (IBA)

Global Trade Flows

	2019	2020
World	19,014,680	17,582,919
G-20	14,598,151	13,561,263
Asia	6,774,044	6,680,007
Africa	471,009	375,341
Pacific Alliance	617,772	562,817
Caricom	15,519	12,615

Source: World Trade Organization

Global Growth

	2020	2021	2022
Global	−3.3	6	4.4
Europe	−6.6	4.4	3.8
Latin America and Caribbean	−7	4.6	3.1
Sub Saharan Africa	−1.9	3.4	4
Emerging and Developing Asia	−1	8.6	6

Source: World Economic Outlook, April 2021