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A Remaining Piece of the COVID-19 Puzzle: Saudi Arabia’s Remittances Account

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Instant Insight

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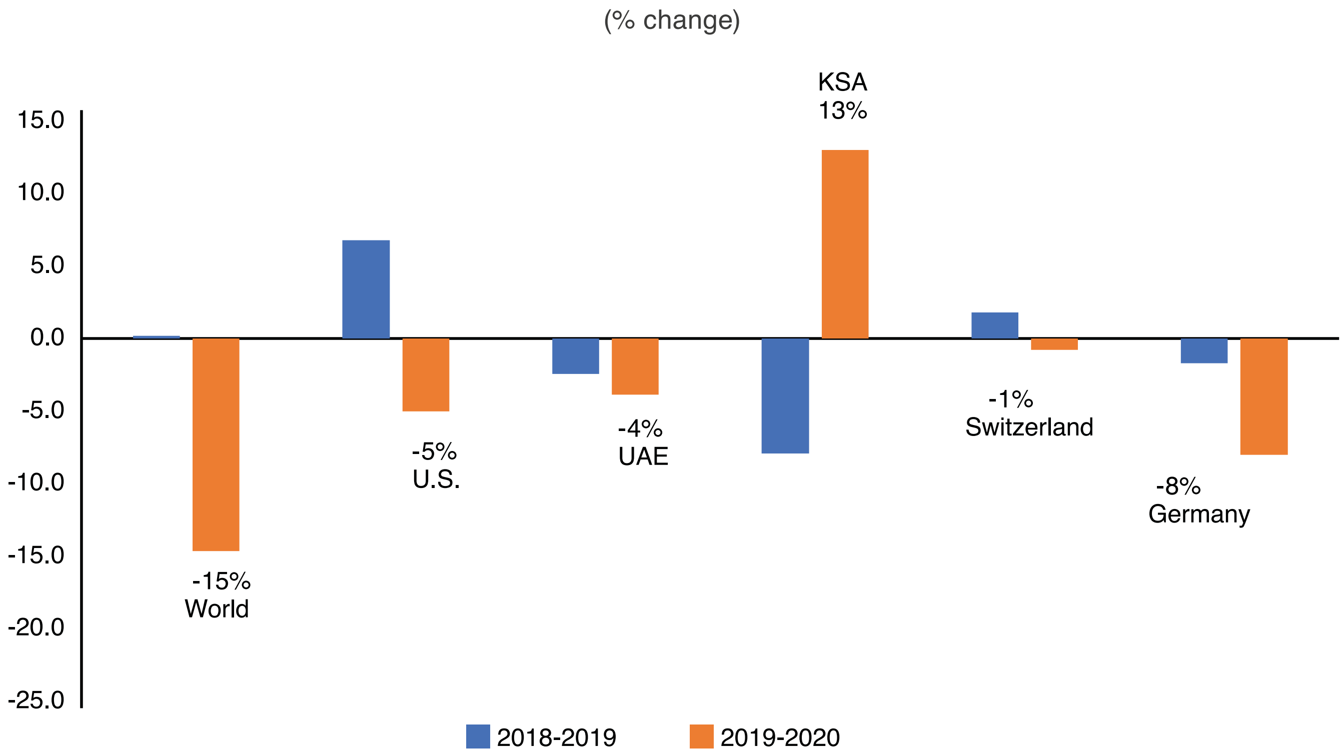
It has been two years since the beginning of COVID-19, a one-of-a-kind crisis in recent history. The global economy was disrupted entirely in a few months and most economies faced shutdowns. While many disruptions can be explained, especially the economic disruptions, parts of the puzzle remain unanswered. In this instant insight, we examine the exceptional behavioral shift and trend break in remittance outflows from Saudi Arabia, which ranks in the top-five countries for remittance outflows globally.

The economic crisis caused by the pandemic led to a sudden drop in the volume of remittances and the annual growth rate of remittance outflows worldwide. According to World Bank data, remittance outflows decreased globally by about 15% in 2020 year-on-year, following the COVID-19-induced economic crisis (IMF 2021). The top-five remitting countries, the United States (U.S.), the United Arab Emirates (UAE), Saudi Arabia (KSA), Switzerland, and Germany drove the observed change in global remittances. As shown in Figure 1, four of the five top remitting countries recorded a decline in their remittance outflows during the pandemic. However, Saudi Arabia was an exception. Despite the global crisis, its 2020 balance of payments recorded a 13% increase in remittances compared with 2019 (SAMA 2020).

Figure 1. Remittance outflows from major hosting countries.



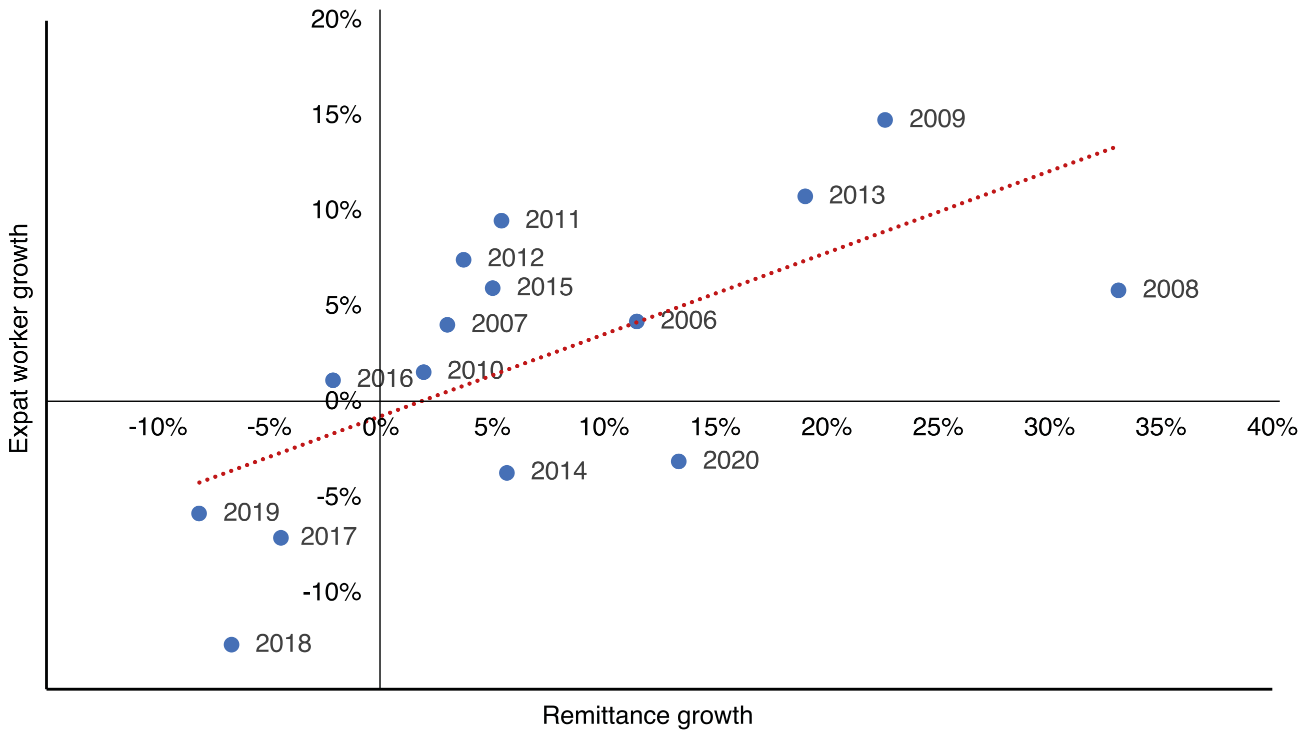
Source: The World Bank (2021a).

Unexpected Situation

Increased remittance outflows from Saudi Arabia during the pandemic was not only an exception to the other top remitting countries, but it was an exception to the history of remittances from Saudi Arabia itself. In the early 1970s, Saudi Arabia became a major destination for migrant workers, becoming one of the most significant sources of remittance income in South Asia (Nassem 2007; Javid et. al. 2012). Revenues from oil exports helped Saudi Arabia begin a series of developmental projects which resulted in a considerable increase in the demand for foreign workers. Therefore, in Figure 2, we can observe a strong correlation between the number of expatriate workers and remittance outflows during the last decade.

Figure 2. Remittance outflows vs. expatriate worker growth in Saudi Arabia.

(% change 2005-2020)

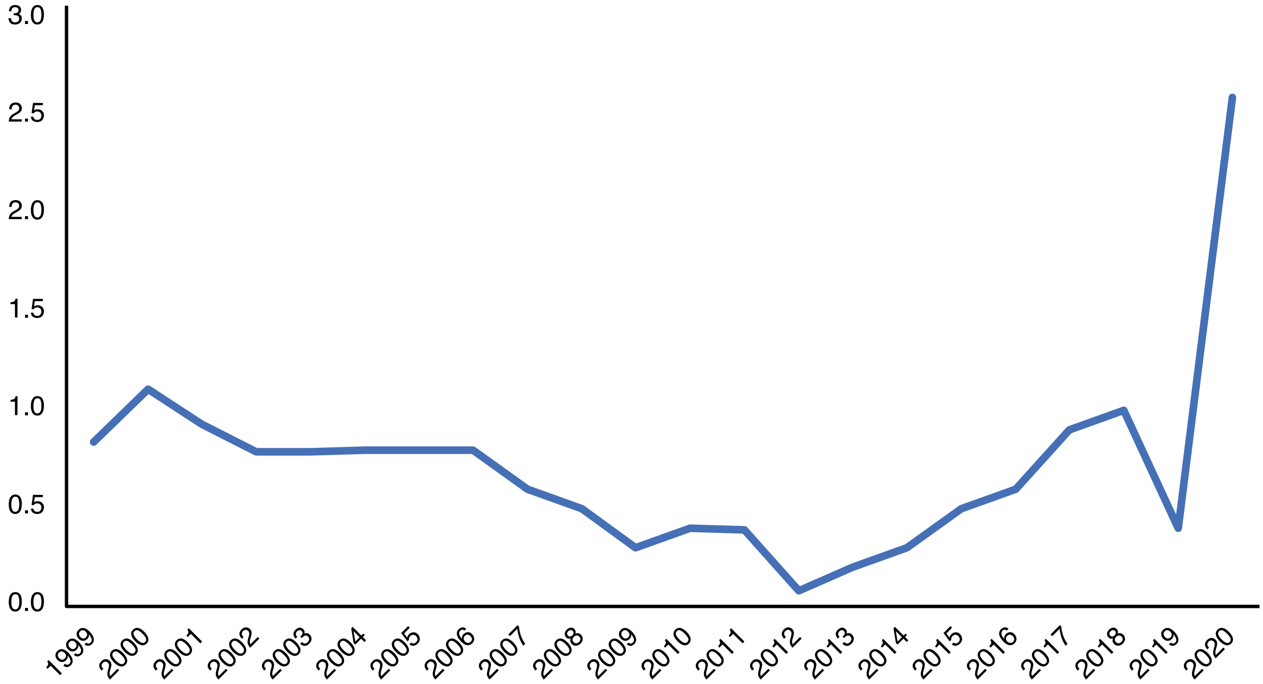


Souce: SAMA (2020).

As the graph shows, both remittance outflows and expatriate worker growth increased until 2015, when annual remittance outflows reached their peak. This was followed by a gradual decline between 2015 and 2019 by about 20%, which was consistent with the decline in the number of expatriate workers by 22.3% during the same period. Surprisingly, this correlation was broken in 2020, with the outflow of remittances increasing by 13.4% in 2020 despite the decline in the number of expatriate workers in the country.

In 2020, a halt in the arrival of new workers in Saudi Arabia because of travel restrictions resulted in a 60% decrease in expatriate work visa issuance (Salama 2021). Therefore, fewer remittance outflows from Saudi Arabia were expected. A large share of migrant workers in Saudi Arabia work as unskilled laborers, with 18% in construction and 15% in wholesale and retail economic activities (GaStat 2021). This segment of the foreign labor force was severely affected during the lockdown, with job losses or lower incomes. The unemployment rate for foreign workers increased sharply to 2.6%, far above the historical average for the last ten years (see Figure 3).

Figure 3. Unemployment rate of foreign workers in Saudi Arabia (1999-2020).



Source: GaStat (2020).

Moreover, migrants' real income was negatively impacted by the value-added tax increase in July 2020. Intuitively, migrant workers should have less money at their disposal to remit to their home countries.

Thus, the question remains, What are the possible reasons behind the increase in remittances in 2020?

Potential Explanations

The World Bank predicted that global remittances to low- and middle-income countries (LMIC) would drop by 20% from their 2019 level. However, LMIC remittances stayed steady during the crisis. Instead of decreasing from $548 billion down to $445 billion as predicted, global remittances decreased slightly to $540 billion, only $8 billion less than their 2019 level (World Bank 2021).

This unexpected situation is best understood if we dive into the structure of Saudi remittance outflows. Most recipient countries of Saudi remittances are low- and middle-income countries (World Bank 2021). Given that, and according to an International Monetary Fund IMF report (IMF 2020), remittance inflows to low-income countries tend to be countercyclical, increasing during economic crises in the recipient countries as migrants support their families by remitting more of their savings.

Another potential explanation for the increased remittances is the rise in non-Saudi wages, which increased year-on-year by 8.2% in the fourth quarter of 2020. This increase was higher than the inflation rate of 3.44% for the same period, which was driven mainly by the increase in the value-added tax (VAT) rate (GaStat

2020). This disparity between real wage increases and inflation may explain why the increase in VAT did not cause a severe impact on expatriate real income.

Moreover, the lockdown measures in Saudi Arabia and the consequent subdued demand pushed households to cut their consumption by 6.4% (GaStat 2020), which may have been the case for migrants as well. In addition, the decrease in the cost of transferring money from Saudi Arabia in 2020 compared with 2019 (World Bank 2022) might also have encouraged migrants to consume less and thus save (remit) more to their home countries.

Additionally, the layoffs of foreign workers, as companies responded to lower revenues from the lockdown to lower their operational costs, might have instigated foreign workers to transfer all their settlement payments and any savings back to their home countries.

Besides these factors, remittance accounting has also changed to reflect the data that are more systematically reported in balance of payment (BOP) statistics. The change in flows from cash to international bank transfers, and from informal to formal channels, has altered how remittances are valued. In the pre-COVID-19 era, expatriates would frequently travel and visit their families and spend money in their home countries. This would not have been accounted for in the BOP as remittances under normal times were typically in cash. As a result, a chunk of total remittances would have been classified in other BOP components.

Conclusion

In this instant insight, we attempt to explain why, out of the top-five remitting countries, only Saudi Arabia experienced an increase in remittance outflows during the pandemic. Saudi Arabia recorded a unique and unpredicted increase in remittances in 2020, despite a collapse in oil prices and an economic slowdown. This contrasted with other countries where remittance outflows fell during the same period. It also contrasted with the historical co-movement between the number of expatriate workers in Saudi Arabia and its remittance outflows. This unexpected increase in remittances can be explained mainly by the LMIC's countercyclical demand of remittance inflows, rising non-Saudi wages, increased savings due to the subdued demand and reduced costs of remittance transactions, and the transformation from informal to formal remittance channels. These are among the possible culprits behind the increase. Lastly, the layoffs of foreign workers, as companies responded to lower revenues from the lockdown to lower their operational costs, might have instigated foreign workers to transfer all their settlement payments and any savings back to their home countries. However, to put things into perspective, it is worth noting that the remittances accounted for only 4% of gross demostic product (GDP) in 2020, which is consistent with the historical average of the last decade.

The behavior of remittances in times of crisis opens a new avenue for future research to investigate countries that are home to many expatriates. The World Bank's "Migration and Development Brief" released in November 2021 estimated that remittances grew by a robust 7.3% to reach $589 billion in 2021 (World Bank 2021c).

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