

The widespread impacts of remittance flows

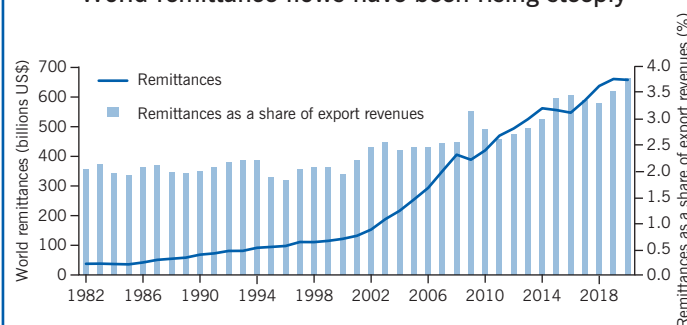
Remittances have the potential to lift developing economies

Keywords: remittances, consumption smoothing, remittance policy, developing economies

ELEVATOR PITCH

Remittances have risen spectacularly in absolute terms and in relation to traditional sources of foreign exchange, such as export revenues. Remittances can improve the well-being of family members left behind and boost growth rates of receiving economies. They can also create a culture of dependency, lowering labor force participation in recipient nations, promoting conspicuous consumption, and accelerating environmental degradation. A more thorough understanding of their impacts can help formulate policies that enable developing economies to harness the most out of these monetary inflows.

World remittance flows have been rising steeply



Source: Authors' own compilation based on data from the World Development Indicators. Online at: <https://databank.worldbank.org/source/world-development-indicators>

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KEY FINDINGS

Pros

- ⊕ Remittances can increase the well-being of receiving households by smoothing consumption and improving living conditions.
- ⊕ Remittances can facilitate the accumulation of human capital, promoting healthier life styles, access to healthcare, and greater educational attainment.
- ⊕ Remittances can ease the credit constraints of unbanked households in poor rural areas, facilitate asset accumulation and business investments, promote financial literacy, and reduce poverty.

Cons

- ⊖ Remittances can reduce labor supply and create a culture of dependency that inhibits economic growth and raises inequality.
- ⊖ Remittances can increase the consumption of non-tradable goods, raise their prices, appreciate the real exchange rate, and decrease exports, thus damaging the remittance-receiving country's competitiveness in world markets.
- ⊖ Remittances can have negative impacts on the environment and promote some types of criminal activity.

AUTHOR'S MAIN MESSAGE

Remittance flows have the potential to greatly improve the livelihoods of receiving households by smoothing their consumption and enabling investments back home. They can facilitate economic stability, improve creditworthiness, and attract investments to promote economic growth and reduce poverty rates for recipient nations. Data limitations need to be overcome in order to best assess the impacts of remittances and to design policies that facilitate the transmission and productive use of inflows. Policy recommendations range from easing capital controls to reforming immigration policy.