



News

Remember Remittances

Remittances have been the largest source of external finance flows to developing countries ex-China



James Syme



Paul Wimborne



Ada Chan

04 Jun 2024

The development processes in emerging markets are significantly funded by money flowing in from exports, or, more precisely, from the provision of goods and services to the rest of the world. That includes physical goods, from crude oil to semiconductors; it includes services such as software, tourism and call centres; it also can be thought to include remittances from citizens working overseas. We have written previously about the importance of remittances to Mexico (March 2024: trade exports USD 50.8bn, remittances USD 5.0bn), but the publication of the World Migration Report 2024 [<https://worldmigrationreport.iom.int/>] allows a review into the wider role of remittances to emerging markets.

Since 2015, remittances have been the largest source of external finance flows to developing countries ex-China. In 2023, remittance flows to developing countries are estimated to have increased by 3.8% to reach USD 669 bn. Remittances have been about three times the volume of official development aid and are now larger than foreign direct investment (FDI) flows. In general, it is the poorer developing countries for whom migration and remittances are most important. The three countries with the highest remittances to GDP are Tajikistan (51%), Samoa (44%) and Lebanon (36%), but none of those have equity markets suitable for investment.

Within the group of investable emerging markets, these capital flows can also be important. In 2023, the top five developing countries for receiving remittance inflows were India (USD 125 bn, 3.4% of GDP), Mexico (USD 67 bn, 3.7% of GDP), China (USD 50 bn), the Philippines (USD 40 bn, 9.2% of GDP), and Egypt (USD 24 bn, 6.1% of GDP). Given that, for example, India and the Philippines are expected to run current account deficits this year of 1.2% and 2.5% of GDP respectively, these

remittances are extremely important.

Remittances are also generally very stable, offsetting the economic volatility that these countries often display. For example, in the covid-hit year of 2020, the worst month of remittances was down 13.7% on the 2019 average, whereas the worst month of exports was down 52.8%. Because remittances are effectively determined in the currency of the host nation, weakness in emerging market currencies increases the local currency value of remittances, also providing support in difficult times.

An interesting fact from the report is about the cost of sending remittances. Despite a UN Sustainable Development Goal target to reduce the cost of a typical remittance transaction to 3% of the transfer, costs remain in the region of 5-6%. Although that is a significant friction for consumers, 5-6% of USD 669bn is a huge revenue source for emerging market banks, while the quest to lower those fees is a powerful opportunity for new players in emerging market financial services.

One group of emerging markets that have a very different profile are the countries in the Arabian Gulf. For 2022, the latest year available, the remittance outflows for Saudi Arabia, the UAE, Qatar and Kuwait totalled over USD 110bn and are in turn material to lower-income countries in South Asia and the Middle East (Egypt alone receives over USD 8bn of remittances a year from each of Saudi Arabia and the UAE). These differences are a reminder of the diversity of income levels, development models and growth drivers within emerging markets, and yet more evidence for a top-down, country driven approach to emerging market equity investing.

Disclaimer

Professional investors only. This is a marketing communication. Please refer to the fund prospectus and to the KIID / KID before making any final investment decisions. The investment promoted concerns the acquisition of shares in a fund or the investment strategy and not the underlying assets. Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. The information in this article does not constitute, or form part of, any offer to sell or issue, or any solicitation of an offer to purchase or subscribe for any funds or strategies described in this article; nor shall this article, or any part of it, or the fact of its distribution form the basis of, or be relied on, in connection with any contract.

Related Articles

Double Dollar

The dollar is stronger than it's been in 20 years. What's the impact on emerging markets?

[Read More](#)

09 May 2024

Strong Economies, Falling Rates

Rates in Mexico and Brazil are coming down. Despite cautious guidance, we believe further cuts will be ahead of consensus

[Read More](#)

15 April 2024

Another Look at Emerging Markets

As investors move away from China, we look at some interesting alternatives

[Read More](#)

19 March 2024

Legal

This website is issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: Level 3, 1 St James's Market, London SW1Y 4AH. Registered in England and Wales under No: 2176004. Issued in the European Union by JOHCM Funds (Ireland) Limited which is authorised by the Central Bank of Ireland. Registered office: Riverside One, Sir John Rogerson's Quay, Dublin 2, Ireland. J O Hambro is a registered trademark owned by and used under licence from Barnham Broom Holdings Limited. JOHCM® is owned by J O Hambro Capital Management Limited. Telephone calls may be recorded.

© 2022 J O Hambro Capital Management Limited. All rights reserved.