# How the Oil Price Decline Might Affect Remittances from GCC

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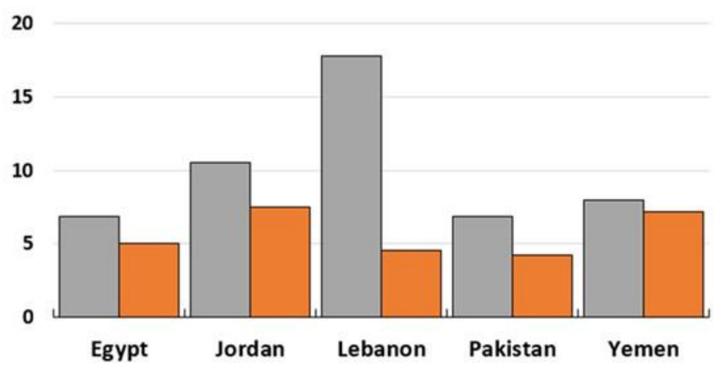
What would lower oil prices imply for remittance flows from the GCC to other countries in the region? What are the key channels for these effects? And how quickly would they materialize?

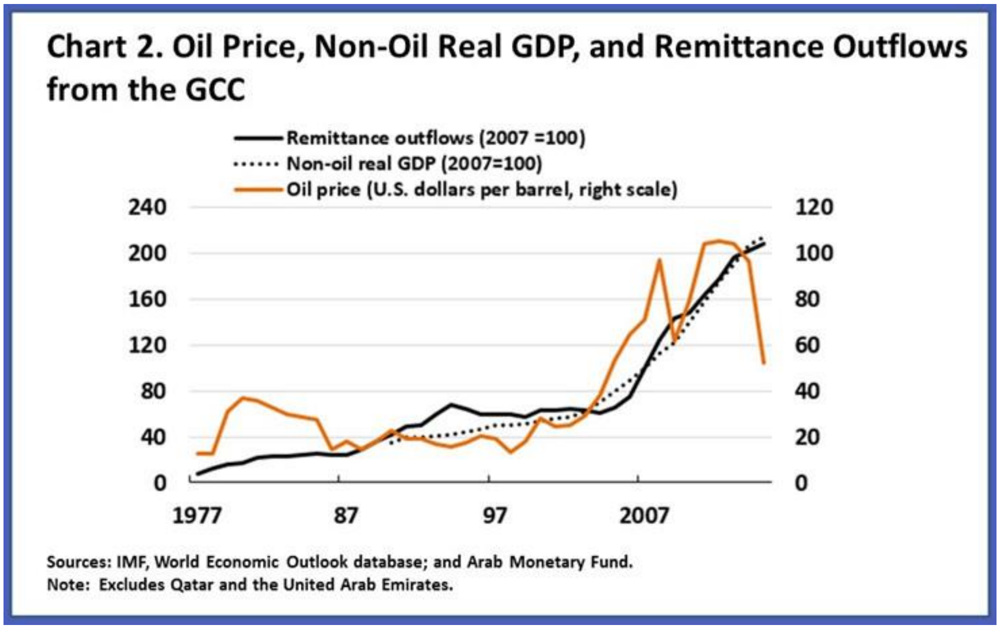
The oil price decline is likely to have a range of important economic spillovers, including on remittances from the Gulf Cooperation Council (GCC). This is an issue of great importance since the Gulf region is one of the largest sources of remittances in the world. In 2014, some 29 million foreign workers sent home more than $100 billion in remittances. About one-third was sent to Egypt, Jordan, Lebanon, Pakistan, and Yemen. These countries are highly dependent on remittances from the GCC, which account for between 4 and 7 ½ percent of GDP in these countries (Chart 1).

**Chart 1. Remittances to Mashreq, Pakistan, and Yemen**
*(percent of GDP)*




Sources: IMF, World Economic Outlook database; and World Bank, World Development Indicators database.

Most migrant workers in the GCC are employed in the non-oil sector, largely in construction and wholesale and retail trade. Following tepid growth during most of the 1990s, remittance flows from the GCC accelerated at the turn of the century, in tandem with a rapid rise in oil prices and non-oil GDP in the GCC (Chart 2).




Historically, remittance flows to the Mashreq, Pakistan, and Yemen have been much less volatile than oil prices. Remittances to these countries declined only modestly (some 3 percent on average) during historically significant drops in the price of oil (30 percent on average in 1986, 1991, 1998, 2001, and 2009). Moreover, remittances recovered quickly, in line with oil price rebounds. This is mainly because GCC countries had accumulated large buffers, which allowed them to maintain their fiscal spending and support the non-oil economy activity.

In the GCC, non-oil GDP is a key determinant of remittance outflows, while oil GDP is a significant driver of non-oil GDP. Based on historical trends, a 1 percent decline in real non-oil GDP in the GCC is estimated to reduce remittance outflows by ½–¾ percent annually.

In the near term, the impact of lower oil prices is estimated to be modest because real non-oil GDP growth tends to decline only moderately (to about 3.8 percent per year in 2015–16, well below the 5.9 percent in 2012–14).

Over the medium term, the impact will depend on the pace of fiscal adjustment in the GCC in response to lower oil prices. Government services and construction are the components of non-oil GDP most strongly associated with remittance outflows. A sharp decline in the growth of spending in these categories, or the introduction of a special tax on remittances—as has been proposed in the GCC—could have a significant impact on remittance flows to the oil importing countries in the region.

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