

Remittances: boon or bane?

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CONCERNS are often expressed about the expanding role of workers' remittances in the economy. They typically focus on the perceived risks of brain drain, excessive consumption, import leakage, exchange-rate overvaluation and the possibility of Dutch Disease. In contrast, empirical evidence shows that remittances contribute substantially to socioeconomic development. A stable source of external inflows, they help build foreign-exchange buffers, reduce dependence on external borrowing, support financial sector deepening and enhance macroeconomic stability by easing pressure on the current account. They play a critical role in poverty reduction, narrowing income inequalities and strengthening human capital by financing education, healthcare and housing. In times of economic stress, they are vital lifelines for households.

There's also evidence of skill upgrading among those preparing to migrate and among returnees, resulting in brain gain effects. Studies show that overseas job opportunities have encouraged the Philippines to train more nurses and India to produce more computer scientists, actually increasing the stock of skilled workers at home.

Misconceptions about remittances largely stem from the way workers' remittances are treated statistically and methodologically under WTO's General Agreement on Trade in Services and IMF's Balance of Payments (BOP) framework. GATS classifies services according to the service provider's nationality. Under Mode 4, a service supplier is considered foreign, irrespective of the duration of stay abroad. But the IMF defines workers' services on a residency basis. If an individual lives abroad for over a year, he/she is treated as the host country's resident, and transactions between residents are excluded from exports of services in the current account, being recorded, instead, under secondary income.

BOP treatment also creates inconsistencies with System of National Accounts, under which gross national savings consist of: a) gross domestic savings — household, corporate and public-sector savings; b) net transfers from abroad. In FY2025, Pakistan's gross national savings amounted to 14.1 per cent of

GDP, and gross domestic savings only 6.3pc. With net foreign savings positive, reflected in a current-account surplus of 0.5pc of GDP, a substantial share of domestic investment was effectively financed by savings of overseas Pakistanis. Recognising this gap, a UN technical subgroup on the movement of persons is working to integrate BOP services accounts with remittances for a more complete representation of workers' services.

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Conceptually, Pakistan's labour market can be segmented in the same way as goods markets — one serving international and the other domestic demand. If labour services exports are added to other service exports using the GATS framework, our total export of goods and services would amount to around \$79 billion rather than \$41bn under the IMF's definition, without altering the overall current-account balance.

It is useful to examine the main concerns regarding remittances more closely. First, the issue of brain drain. Pakistan adds nearly two million new entrants to its labour force each year; around half migrate. Available data indicates that only 2.6pc of the 832,000 migrants are highly qualified and 5.3pc highly skilled. Despite this outflow, unemployment and underemployment continue to rise. Graduate unemployment is estimated to range between 23 and 33pc. If labour supply were genuinely shrinking, real wages should have increased. Instead, studies over the past decade show a decline in real wages across all categories, with the sharpest among degree holders. Notably, during Covid, when migration slowed, real wages showed upward movement.

Given Pakistan's large youth population, absorbing new labour force entrants domestically is increasingly difficult under current growth trends. In contrast, aging economies such as Japan, Korea and Germany face rising dependency ratios and labour shortages. So, it's natural for labour-surplus countries to supply manpower to labour-deficient economies. Our policy response should focus on negotiating country-specific labour agreements and aligning training programmes with overseas demand. This requires investment in technical, vocational, language, and lifestyle skills besides work discipline and ethics. International accreditation from recognised institutions such as City & Guilds should be pursued and professionals encouraged to qualify through international exams in engineering, medicine, IT, accountancy and architecture.

Second, evidence doesn't support concerns that remittance-receiving households indulge in excessive consumption and stimulate imports. Surveys

and field observations show that recipients invest in better education for their children, improved nutrition, immunisation, and healthcare; switch to cleaner cooking fuels; upgrade housing conditions; and improve access to electricity and potable water. These changes lead to better social indicators, reduced poverty, and narrower income differentials. Districts such as Jhelum, Chakwal, and Rawalpindi — major sources of overseas workers — now rank high in literacy, school enrolment, and poverty reduction. Food expenditure accounts for about 40pc of total household spending, while a significant share of remittances goes towards housing improvements, farmland, real estate and consumer durables. Many returnees from GCC countries use their capital and skills to establish small businesses, contributing to domestic economic activity.

Third, remittances are often blamed for exchange-rate appreciation through the Dutch Disease effect. However, Dutch Disease arises from unearned rents or windfall gains from natural resources rather than incomes earned through labour services' export. Evidence doesn't support this concern. In FY2025, remittances increased by 22pc, yet the exchange rate was stable and foreign-exchange reserves increased. Similarly, Bangladesh has not experienced a sustained loss of export competitiveness despite rising remittance inflows. Exchange-rate appreciation occurs primarily when reserve accumulation is not sterilised, leading to the monetary base's expansion.

Finally, studies indicate that remittances do not have a significant or sustained impact on domestic inflation. The outcome depends largely on country-specific economic structures. Gains in small-scale agriculture and livestock can expand supply and offset demand pressures. As households rise above the poverty line, increased consumption is directed primarily at domestically produced goods — meat, milk, poultry, fruit, vegetables — rather than imports.

In Pakistan, import demand is driven mainly by structural and policy-induced constraints rather than remittance inflows. These include deindustrialisation; failure to develop base industries that supply raw materials to downstream sectors; inefficient allocation of natural gas towards domestic consumption instead of industrial use; excessive protection through high tariffs; inability to save nearly \$10bn annually by substituting imports of food and cotton; overregulation and excessive taxation; and underinvestment in agricultural research and development.

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