

Introduction:

Dollar East Exchange Company is starting a Home Remittance Reports section on its website. This is the first report in this series and sheds light on the International and Pakistan's Remittance Market as of 2011 year end.

International Remittance Market:

United Nations estimates the number of migrants worldwide has increased from about 75 Million to 200 Million in last four decades and more than 30 Million of them are South Asians.

According to the reports of World Bank, the biggest chunk of foreign remittances will go to India in 2011 estimated to be around USD 58 Billion. China is not far behind with estimated remittance to be USD 57 Billion. A total of USD 351 Billion in foreign remittances will be received by developing countries in the year 2011.

In all worldwide remittances, including those to high income countries, will reach USD 406 Billion in the calendar year 2011. Other large recipients include Mexico, Philippines, Pakistan, Bangladesh, Nigeria, Vietnam, Egypt and Lebanon according to various reports.

Although economic slowdown is worsening employment prospects for migrant workers in high income countries, global remittances are still expected to stay on an upward trajectory with forecast to reach USD 515 Billion by 2014. USD 441 Billion will flow to developing countries of this amount.

Hans Timmer, The director of the bank's Development Prospects Group said, *"Despite the global economic crisis that has impacted private capital flows, remittance flows to developing countries have remained resilient, posting and estimated growth of 8 percent in 2011. Remittance flows to all developing regions have grown this year for the first time"*.

This growth in remittance can be attributed to high oil prices providing cushion for remittances to Central Asia from Russia and to South and East Asia from the Gulf Cooperation Council Countries. Also a depreciation of currencies of some large migrant exporting countries including the likes of India, Pakistan, and Bangladesh etc created incentives for remittances as goods and services in these countries became cheaper in USD terms.

Remittance flows to four of the six World Bank designated developing regions grew faster than expected, by 11 percent to Eastern Europe and Central Asia, 10.1 percent to South Asia, 7.6 percent to East Asia and the Pacific and 7.4 percent to Sub-Saharan Africa, regardless of the difficult economic conditions in Europe and other destinations such as for African migrants.

In contrast, Remittance flows to Latin America and the Caribbean, at 7 percent, was lower than expected. This hindrance in growth was due to weak US economy while the Middle East region was affected by the unrest and Civil Conflict resulting from "Arab Spring". Middle East region enjoyed only 2.6 percent growth in stark contradiction to growth rates witnessed by the other developing regions.

According to the report by the World Bank, it is expected to witness growth in remittance flows going forward, by 7.3 percent in 2012, 7.9 percent in 2013 and 8.4 percent in 2014.

Pakistan Remittance Market:

Home Remittances to Pakistan have steadily increased over the last decade. With the only dip in Remittances coming in 2004 when the annual figures were USD 3.945 Billion as compared to USD 3.965 Billion in the previous year. According to forecasts Pakistan will receive its highest Remittance in 2011 which is estimated to be around USD 12.190 Billion. Home Remittances to Pakistan accounts for 4.8% share of Pakistan's GDP.

| Migrant Remittance Inflows (USD Million) | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Pakistan | 1,075 | 1,461 | 3,554 | 3,964 | 3,945 | 4,280 | 5,121 | 5,998 | 7,039 | 8,717 | 9,690 |

PKR devalued continuously from the beginning of the FY12. By midway of FY12 PKR depreciated approximately 4.65%. PKR was 86.05 against USD at the start of FY12 and closed at 90 on 31 December, 2011.

The major factors contributing to the devaluation of PKR are currency smuggling from Pakistan to Afghanistan. A war torn country like Afghanistan possesses a large appetite for foreign exchange and hence encouragement of smuggling of USD occurs.

Depreciation of PKR can also be laid on the increase in import payments while the export income stayed low. Also USD rose against major currencies in Europe due to better US employment figures in the last quarter of Year 2011 and intensification of European debt which opened low risk US based securities as an alternative to investors.

Greece, Portugal, Italy, Spain all stayed in line for filing bankruptcy while France is also in murky waters as far as financial stability is concerned. In wake of this entire scenario, Euro slid 1.1% against the PKR while GBP stayed steady against PKR during Nov. Japanese Yen appreciate by 2.7% closing at 1.14.

Foreign Exchange Reserve fell steadily to USD 16.7 Billion including USD 12.9 billion with State Bank of Pakistan and USD 3.8 Billion with commercial banks. Total Overseas remittances for the 5 months of FY12 added up to USD 5.2 Billion and increase of 18.3% over the same period last year. Home Remittances during Nov amounted to USD 924.9 Million.

Although State Bank released USD in the local market to stabilize PKR but still the USD appreciated against PKR in the long run due to aforementioned reasons. It is noteworthy to mention here that approximately oil import in Pakistan is USD 16 Billion annually and roughly 75% of this payment is met through Worker Remittance.