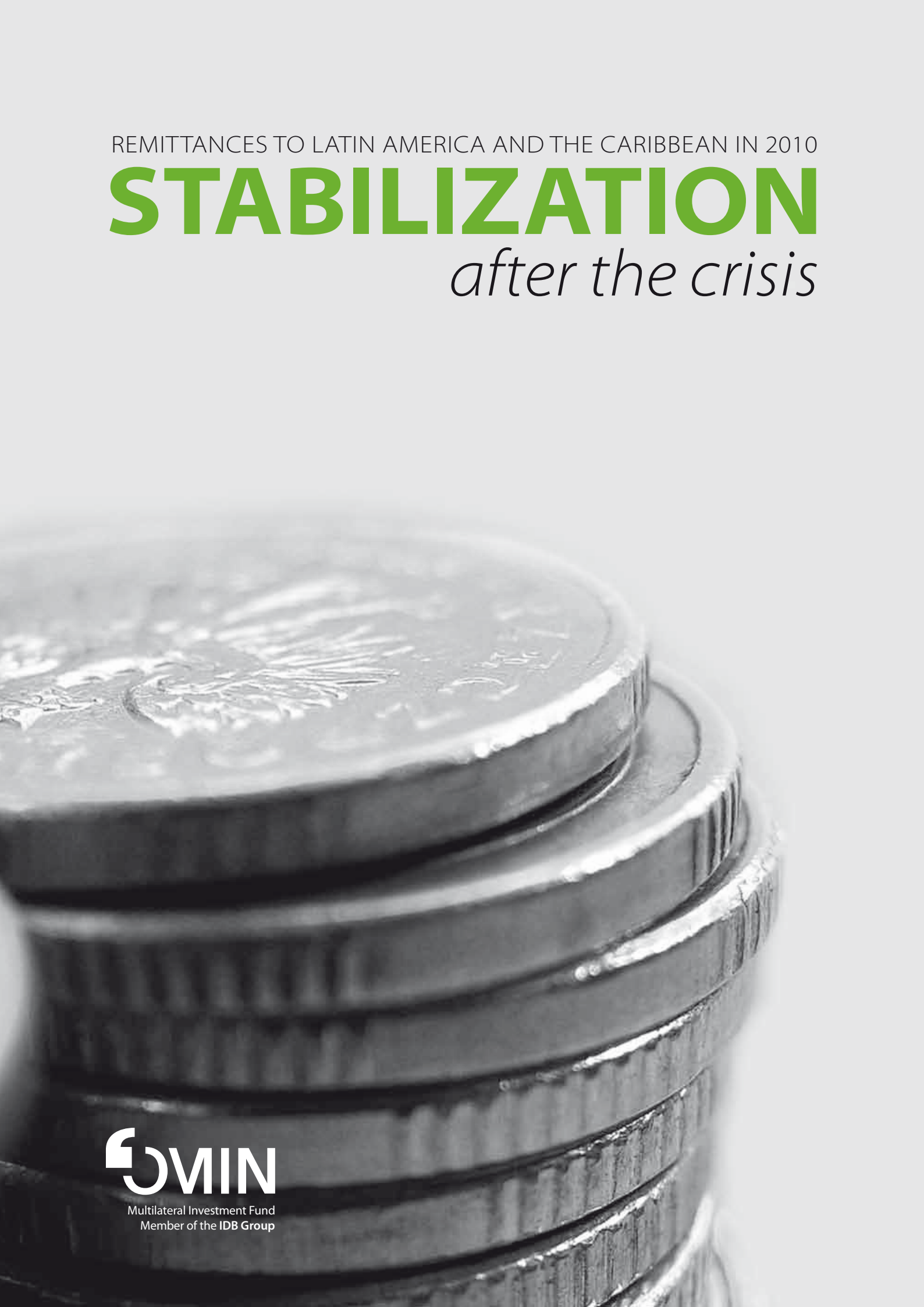
REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN IN 2010

STABILIZATION

after the crisis



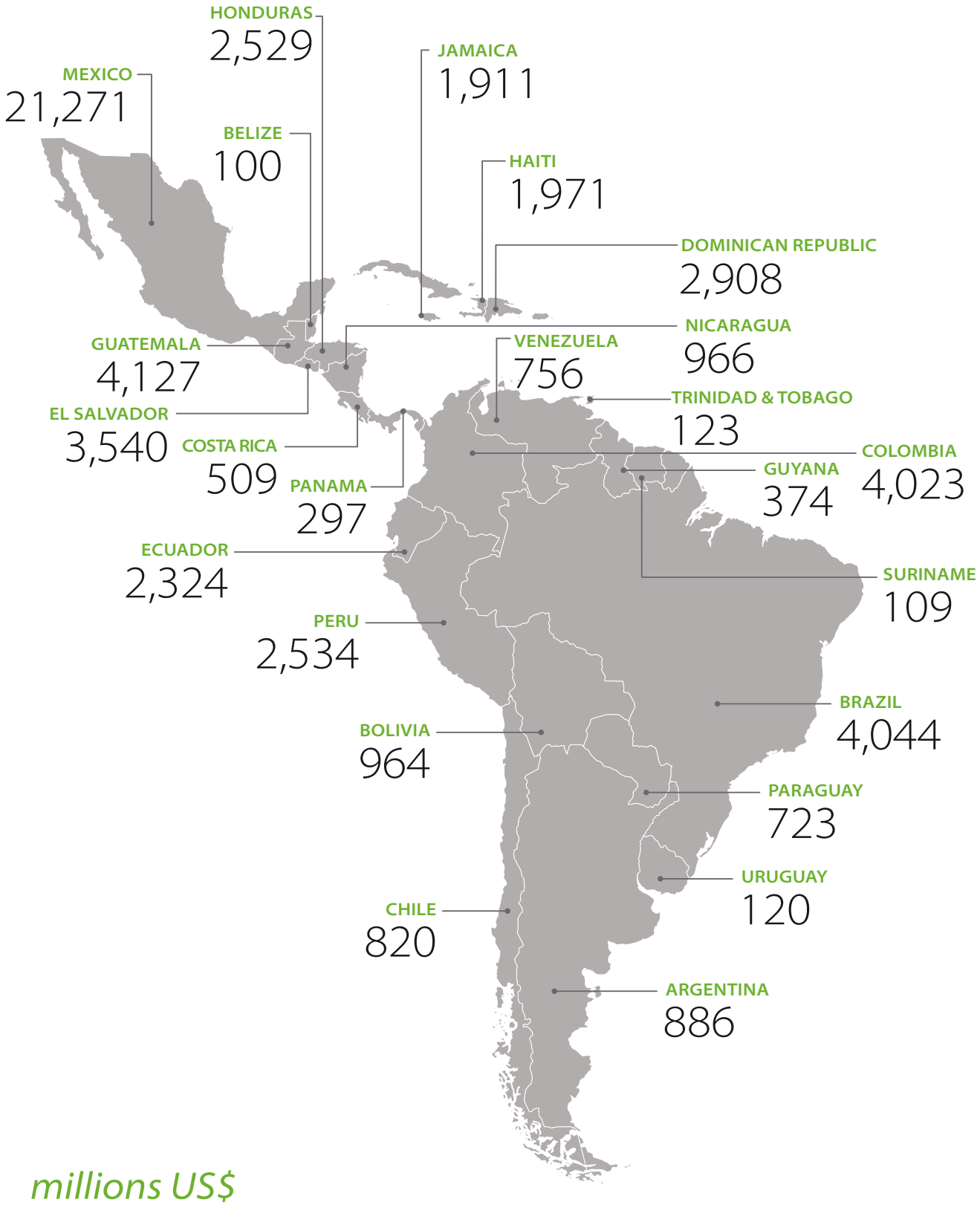
Multilateral Investment Fund
Member of the **IDB Group**

2010

REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN

TOTAL:

US$ 58.9 *billion*


HONDURAS
2,529
JAMAICA
1,911
MEXICO
21,271
BELIZE
100
HAITI
1,971
DOMINICAN REPUBLIC
2,908
NICARAGUA
966
GUATEMALA
4,127
VENEZUELA
756
TRINIDAD & TOBAGO
123
EL SALVADOR
3,540
COSTA RICA
509
COLOMBIA
4,023
GUYANA
374
PANAMA
297
ECUADOR
2,324
SURINAME
109
PERU
2,534
BRAZIL
4,044
BOLIVIA
964
PARAGUAY
723
URUGUAY
120
CHILE
820
ARGENTINA
886
millions US$

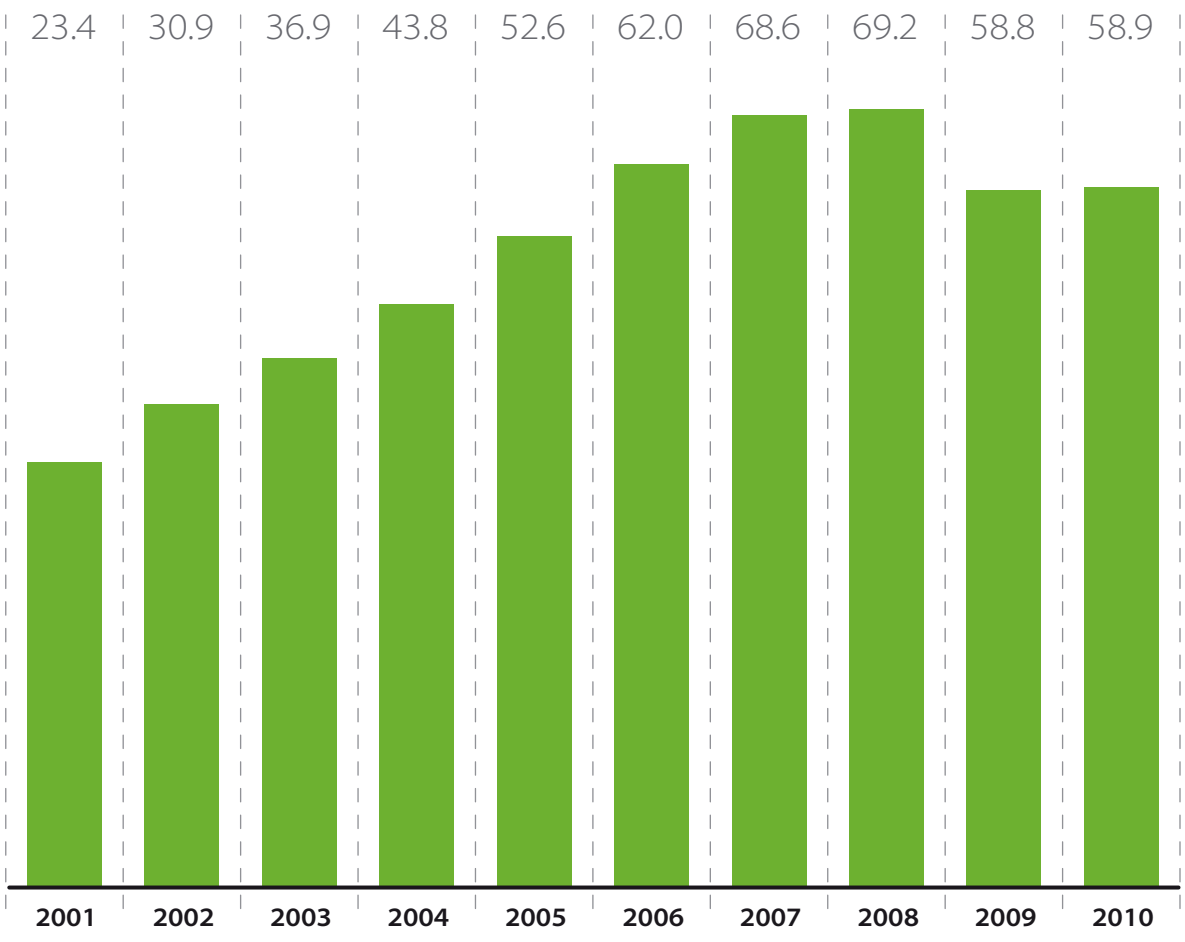
In 2010, remittance flows to Latin America and the Caribbean marked the end of the downward trend brought on by the 2008-2009 global financial and economic crisis. The overall regional volume of remittances sent home reached levels similar to the previous year with a slight increase of 0.2%. However, higher inflation rates and stronger local currencies in many countries resulted in an -8.7% drop in the value of these remittances, once received.

01 REMITTANCES IN 2010

In 2010, remittances to Latin America and the Caribbean (LAC) reached a level similar to the previous year, following stabilization in the labor markets of its major sending countries. Since the onset of the crisis in late 2008, rising unemployment rates and falling income levels among migrants in traditional host countries, mainly the U.S., Spain and Japan, had resulted in declines in the amount of remittances sent home. Although the downward trend persisted through the first months of 2010, remittances to LAC showed signs of positive growth starting in May. By the end of the year, these flows reached an annual volume of US$ 58.9 billion, representing a slight increase of 0.2% over the previous year.

FIGURE **01**

Remittances to Latin America and the Caribbean [2001-2010] *(billions of U.S. dollars)*

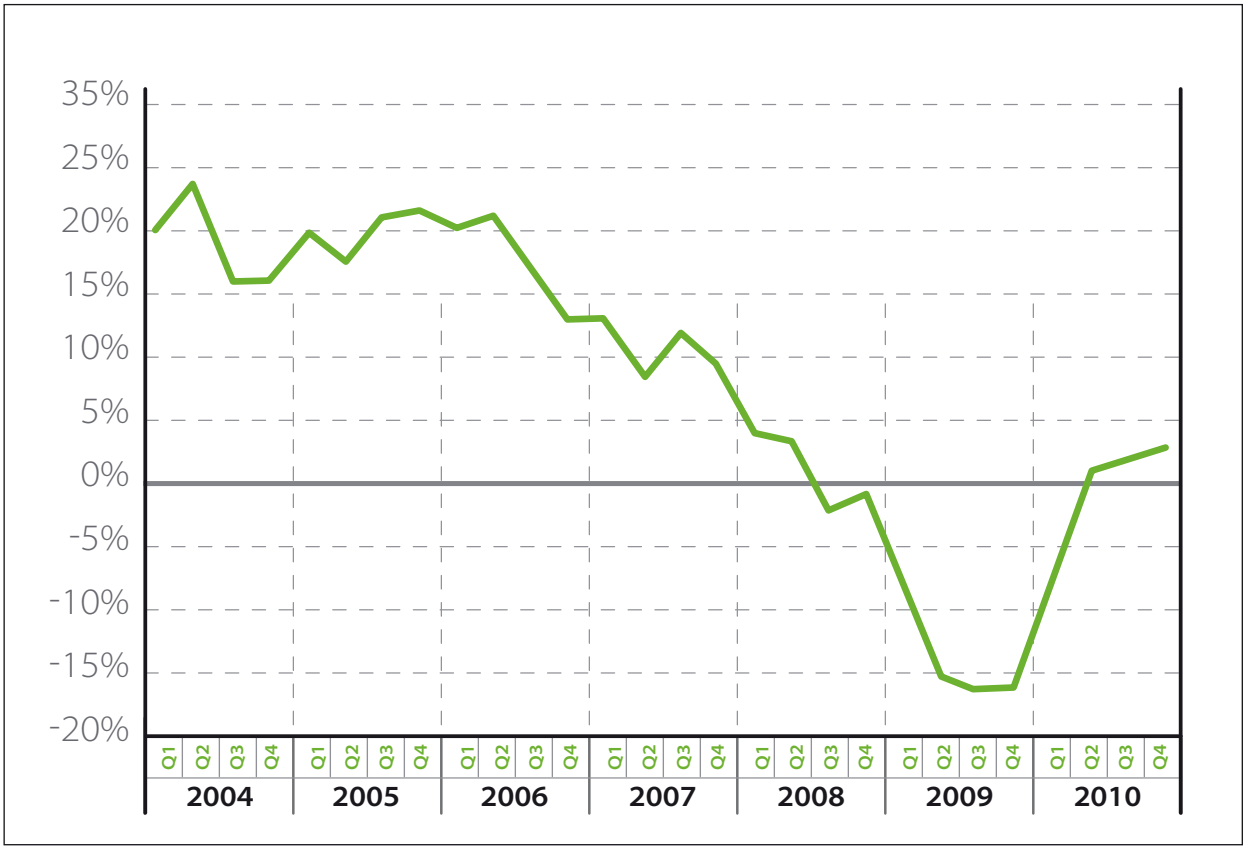


SOURCE: Author's estimate based on FOMIN data

Between 2002 and 2008, remittance flows to the region increased by an average of 17% each year, although the rate of growth began to slow down starting in 2006. More recently, as the global economic crisis began to impact migrant workers' jobs, remittances barely grew 1% in 2008, and then fell by a record -15% in 2009. During the last months of 2009 and in early 2010, the rate of decline began to soften and show signs of bottoming-out.[1] Remittances fell -7.2% in the first quarter of 2010, compared to the -17% drop recorded in the first quarter of the previous year. But from the second quarter on, positive growth rates were recorded, as shown in FIGURE **02**.

FIGURE **02**

Remittances to Latin America and the Caribbean [2004-2010] *(YoY Growth)*



SOURCE: Author's estimate based on FOMIN data

The accumulated annual growth rate in 2010 reached 0.2%, stabilizing at 2009 levels. During the first months of 2010, most countries still showed significant drops in monthly growth rates, receiving even less than the unusually low amounts recorded in early 2009. Positive growth rates across the region began to take hold from the second quarter onward, reaching a monthly increase of 3.2% in December 2010 with respect to the previous year.

1. Maldonado, R., Bajuk, N., Watson, G. "Remittances to Latin America and the Caribbean in 2009: The Effects of the Global Financial Crisis." Multilateral Investment Fund, Inter-American Development Bank. Washington D.C., 2010.

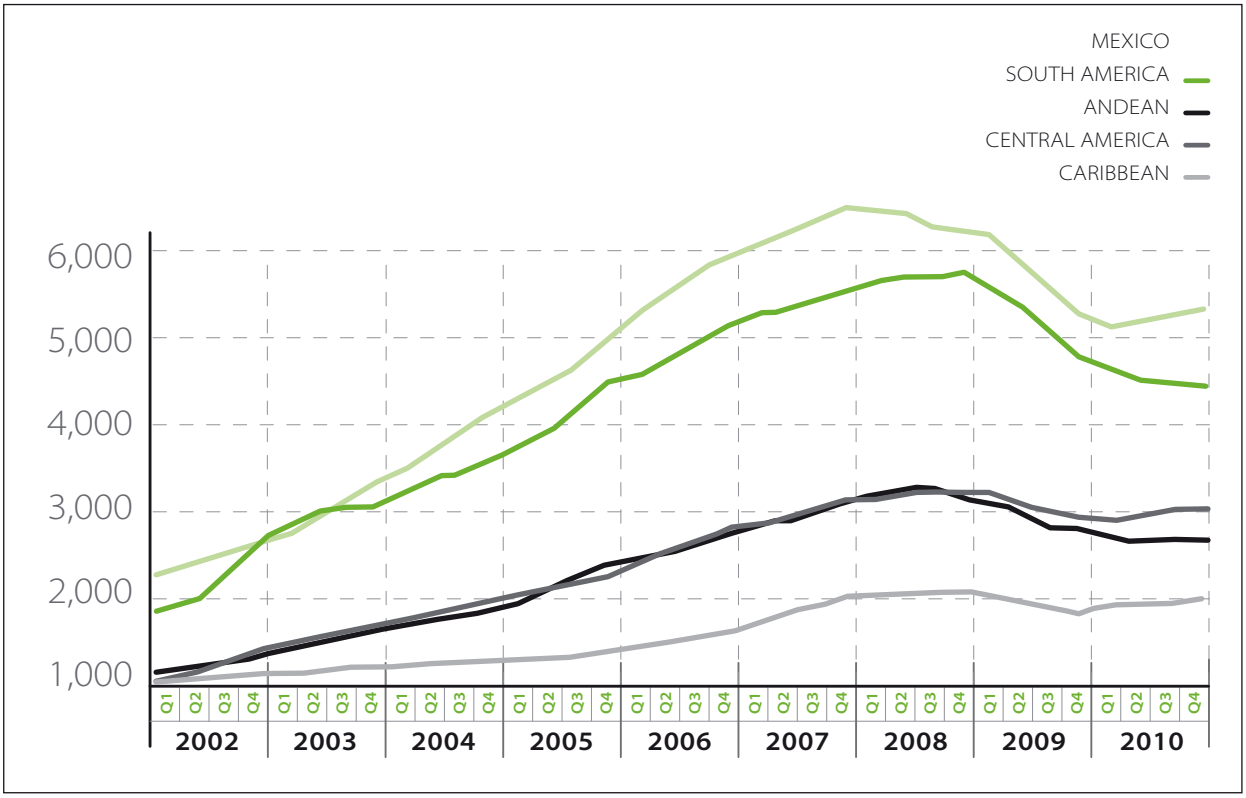
In 2010, migrants continued to struggle to regain sending levels of previous years. According to surveys conducted during the crisis in 2009, migrants in the United States had to reduce the number of times a year they sent remittances home, from an average of 15.3 annual transfers in 2008, to only 12 transfers in 2009. Also, the average amount of money that migrants were able to send home with each remittance had dropped between -8% and -9% in 2009. Available data for 2010 show that the frequency of sending remained similar to 2009, stable at about 12 transfers per year.[2] In 2010, the average amount per transaction dropped slightly between -0.6% and -0.1%, depending on the sub-region, although it increased during the second half of the year and regained the value recorded the previous year. The increase in the total volume of remittances, albeit slight, the dip in average transactions amounts, and the stable annual frequency of transfers could indicate that the number of migrants able to send money home increased slightly in 2010 compared to 2009.

The global economic crisis and its subsequent stabilization affected the sub-regional remittance flows of Latin America and the Caribbean in different ways. From the second quarter of 2010 onwards, data disaggregated by quarter and sub-region show signs of stabilization and even recovery in some cases through the end of the year, as seen in FIGURE **03**.

FIGURE **03**

Trends in Remittances to Latin America and the Caribbean [2002-2010]

(Millions of US dollars)



SOURCE: Author's estimate based on FOMIN data

2. Orozco, M. "Understanding the Continuing Effect of the Economic Crisis on Remittances to Latin America and the Caribbean", Multilateral Investment Fund, Inter-American Development Bank. Washington D.C., 2009.

In **Mexico**, remittance inflows continued to show a close link with the economic situation in the United States, from which almost all of its transfers are sent. Just as remittances to Mexico fell sharply in 2009 (-16%), affected by the drop in economic activity in the United States, these flows started to recover in 2010, in line with the increased stability in the U.S. economy, reaching a modest increase of 0.12% over 2009 levels.

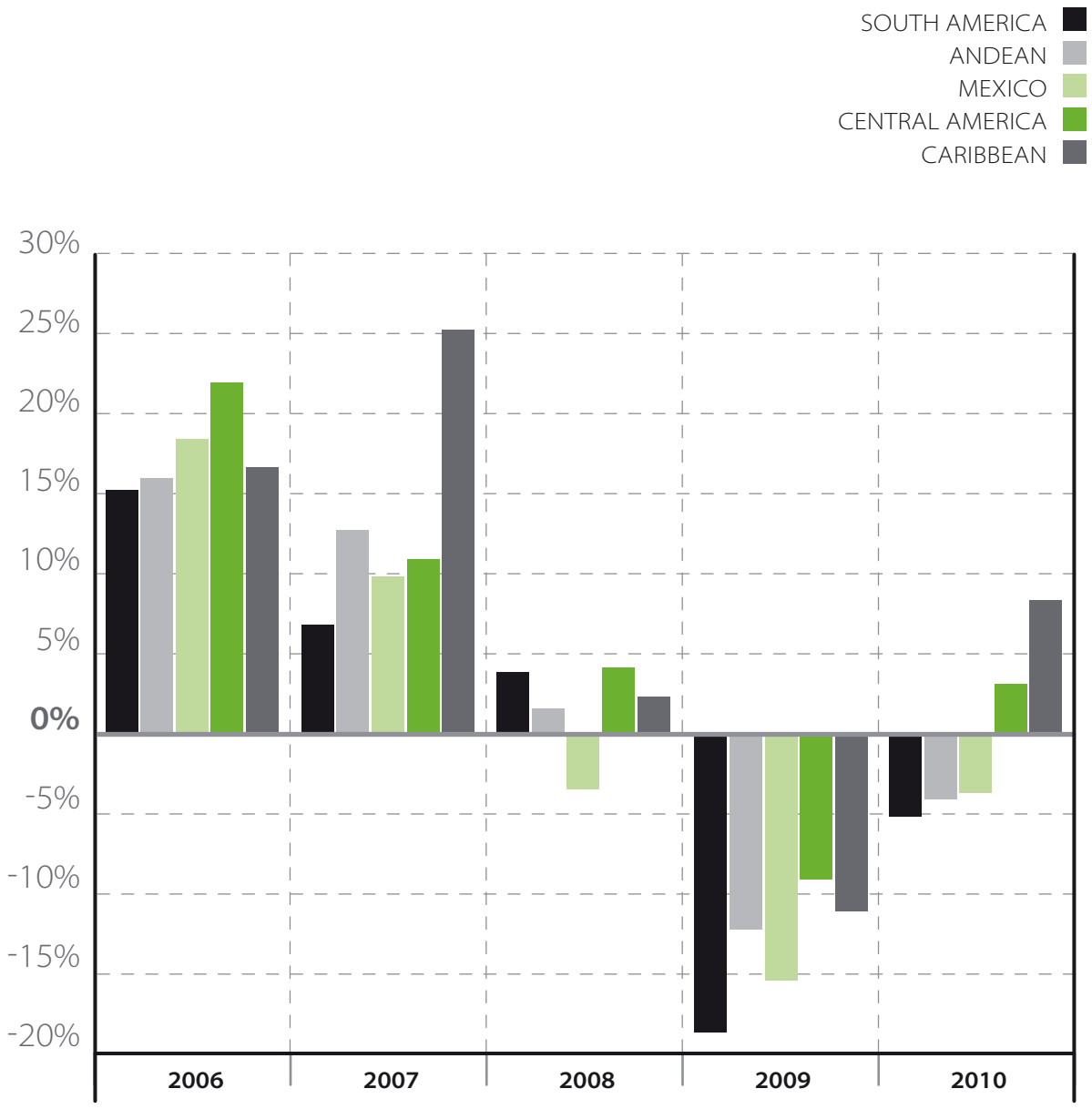
Remittances to **Central America** showed a faster recovery with an increase of 3.1% compared to 2009. The increasing proportion of remittances received from other Latin American countries, which were less impacted by the crisis, helped to some degree to offset the drop in remittances coming from Central American migrants in the U.S., and allowed for a greater recovery during 2010.

In the **Andean** region and in other countries of **South America**, remittances fell at rates of -4.1% and -5.3% respectively. In these sub-regions, a significant proportion of remittances are sent from Spain and Japan, countries whose economies have been slow to stabilize after the 2008-2009 crisis.

In contrast, remittances to the **Caribbean** showed a higher growth rate than the Latin America region of 8.3% over 2009 levels. Much of this increase can be attributed to the remittance corridors to Haiti and Jamaica. In Haiti, the devastation following the earthquake in Port-au-Prince in January 2010 elicited an extraordinary response from migrants, who sharply increased the amount of remittances sent home. Jamaican migrants, on the other hand, who benefit from sharing the language of the countries where they live –United States, United Kingdom and Canada–, were likely more easily reintegrated into higher income generating sectors after the crisis.

FIGURE **04**

Remittances to Latin America and the Caribbean [2006 - 2010] *(YoY Growth)*



SOURCE: Author's estimate based on FOMIN data

02

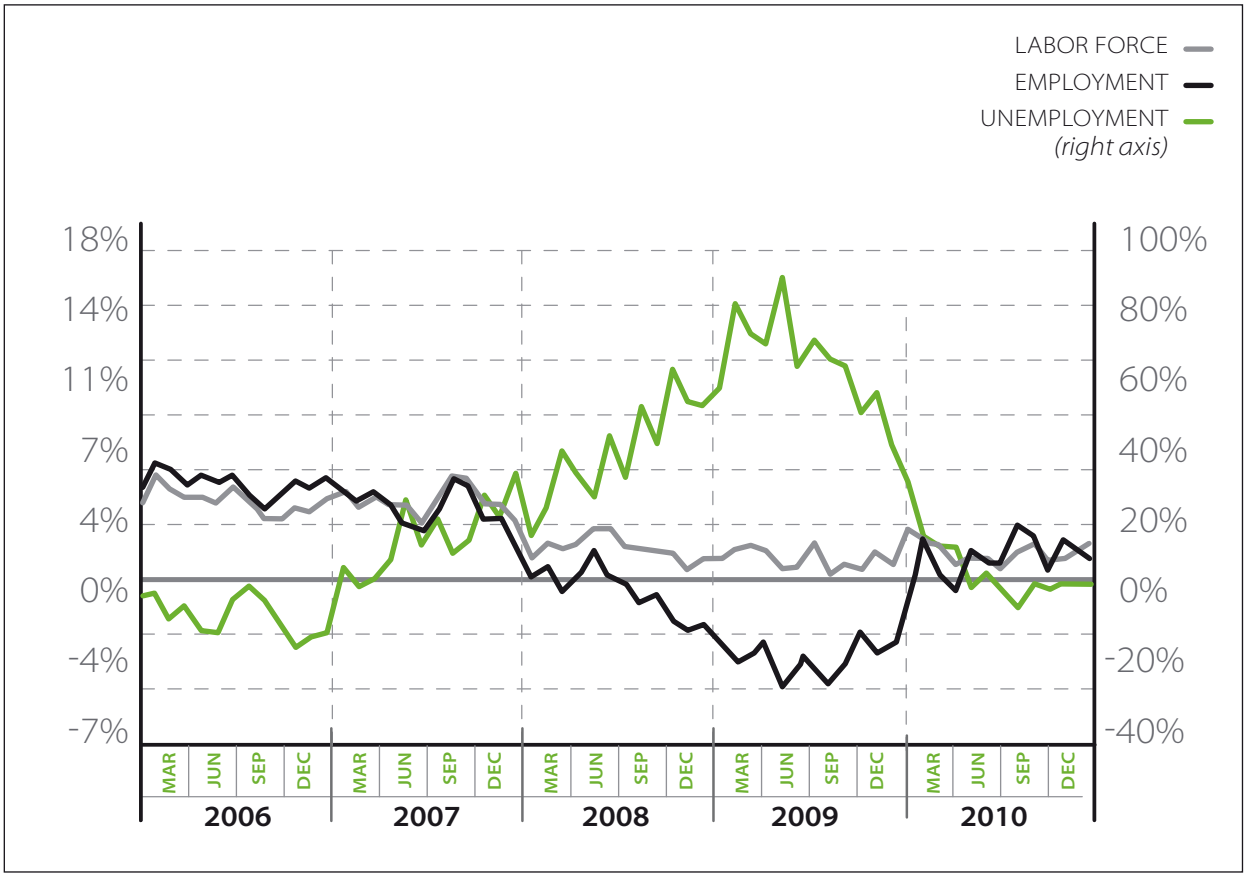
SENDING COUNTRIES' EFFECTS ON REMITTANCE FLOWS

The economic performance of remittance sending countries affects migrants´ ability to secure employment and generate income. As such, it is one of the key factors that determine the volume of remittances sent in a given year. Migrant salaries, employment and unemployment rates in host countries are therefore some of the indicators that best explain the sending patterns of remittances to the region.

United States. Labor market data in the United States illustrates the economic reality facing the majority of Latin American migrants abroad. Unlike 2009, a year of labor market turmoil where employment rates for Latin American migrants dropped -3.7% a month on average, in 2010 the employment rate for Latin American migrants in the United States showed an overall increase of 1.7%, higher among male workers (2.0%) than among female workers (1.2%). Nevertheless, while the change in trend was significant, the growth rate was still not enough to make up for the jobs lost over the course of 2009.

FIGURE **05**

Latin American Employment and Labor Force in the US [2006-2010] *(YoY Growth)*



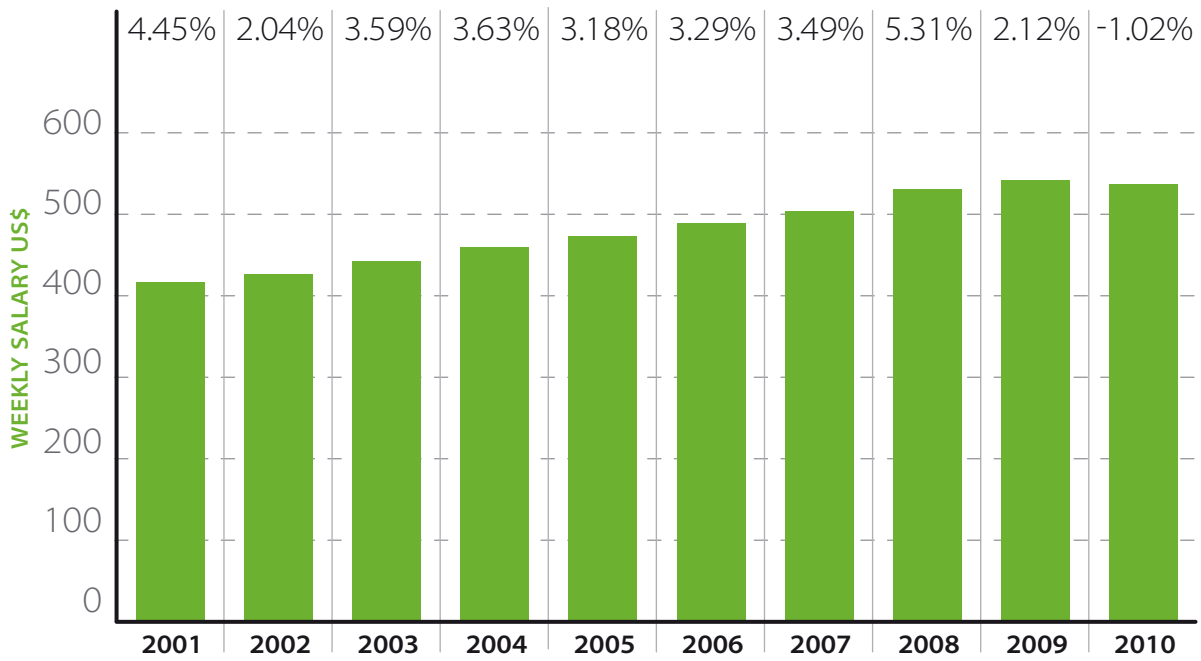
SOURCE: Author's calculations based on BLS data

The unemployment rate for Latin American migrants in the United States improved significantly starting from the second half of 2009, recording much lower rates in 2010 than the previous year. During the last four months of 2010, the unemployment rate remained close to zero. At the same time, growth in the migrant workforce remained marginal, rising from 1.5% in 2009 to 1.7% in 2010, making it easier for migrants who had recently lost their jobs to be rehired.

Overall, employment prospects for migrants in the United States seem positive for 2011, since the data towards the end of 2010 show positive job growth rates, which in November and December 2010 reached an average of 1.94%.

FIGURE **06**

Weighted Average of Weekly Salaries of Latin American and Caribbean Workers in the US [2001-2010] *(Total Values and Growth Rate)*



SOURCE: Author's calculations based on BLS data

While the outlook for migrants´ employment situation appears positive, migrant incomes in the United States suffered a decline in 2010. In 2009, those migrants who kept their jobs had weekly incomes that had not varied significantly on average from the previous year. However, in 2010, despite greater economic stability and modest growth in employment rates, average weekly salaries for migrant workers in the U.S. show a -1% decline. With this reduction in disposable income among migrants, fewer resources were available to send money home. In sum, while the number of migrants that found jobs in the United States was higher in 2010 than in 2009, but those jobs generated less revenue. These two opposing forces - employment growth and declining wages among migrants in the U.S.- seem to have offset each other, since the total volume of remittances increased only slightly.

In terms of total earnings of migrant workers employed in the U.S, 2010 data shows earnings to have grown with respect to the previous year of 1.7%, with a greater increase among female migrant workers (2.4%) than among male migrant workers (1.3%.) However, given migrants´ economic vulnerability after several months of uncertainty and deferred expenses, the increase in earnings did not translate into an increase in remittances. To weather the uncertainty of the crisis, many migrants needed to reduce their expenditures, tap their savings, and take out loans or advances, often while continuing to send money to their families back home. For many migrants, the increased earnings in 2010 may have been directed toward covering expenses and debts incurred during the previous year, before increasing the amount of remittances sent home.

TABLE **01**

United States. Total Earnings of Migrant Workers [2007-2010] *(Total Values and Growth Rate)*

	TOTAL EARNINGS			PERCENT CHANGE		
YEAR	**TOTAL**	**MEN**	**WOMEN**	**TOTAL**	**MEN**	**WOMEN**
2007	738 279	481 771	256 508			
2008	762 121	491 232	270 888	3.2	2.0	5.6
2009	723 049	456 068	266 981	-5.1	-7.2	-1.4
2010	735 244	461 913	273 431	1.7	1.3	2.4

SOURCE: Author's calculations based on data from Current Population Survey, U.S. Census Bureau

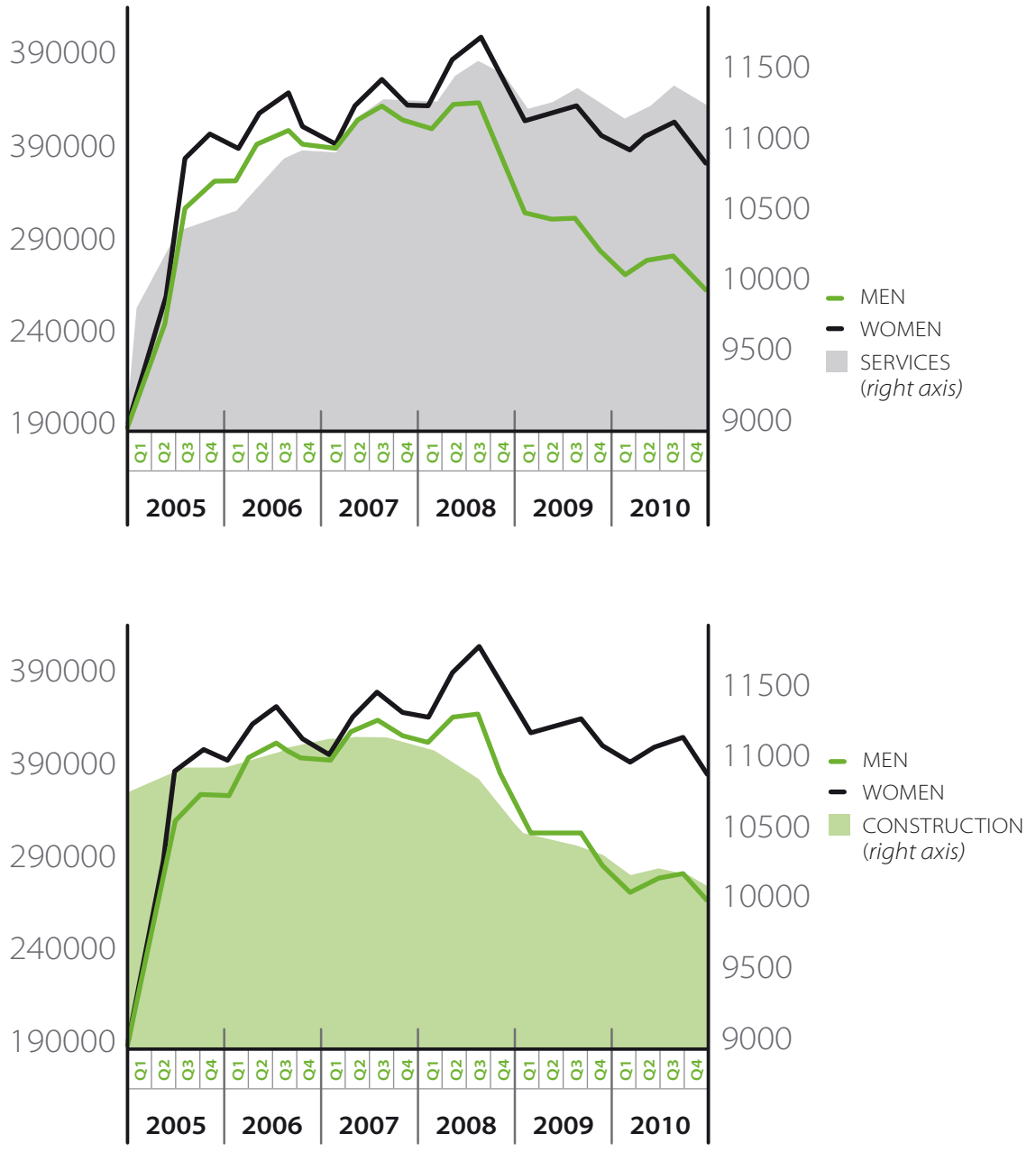
Spain. Spain's importance as a remittance sending country to LAC has been growing in recent years. In many countries of South America particularly the Andean region, it is the second largest country of origin of these flows. In Ecuador, official sources report that remittances from Europe have now become the primary source of remittances, exceeding those received from the United States.

Spanish labor market data document more than 600,000 American and Caribbean migrants living and working in Spain. Approximately 88% are from South America, over three-quarters coming from the Andean region. According to official sources, the 2010 breakdown by nationality of LAC migrants working in Spain remains similar to previous years: 26% are from Ecuador, 17% from Colombia, 13% from Bolivia and 11% from Peru. Although in the past the number of Central American migrants in Spain has never been significant (about 1%), in 2010 the number of Honduran and Nicaraguan migrants showed an increase of 35% over the last year, now representing 2.4% of the total LAC migrant population.

While the proportion of remittances to LAC that come from Spain is increasing in significance, the slow recovery of the Spanish economy dampened the amount sent in 2010. Remittance flows from Spain showed sharp declines during the first half of 2010 of -22% lower than the same period last year. In the last six months, however, the rates of decline improved, with a drop of only -1% with respect to the same period the previous year, signaling a stabilization of the labor market for LAC migrants in Spain.

FIGURE **07**

Employment by Industry and Gender, Latin American and Caribbean Migrants in Spain [2005-2010]



SOURCE: Author's calculations based on data from the Spanish Ministry of Labor and Immigration

The economic downturn in Spain affected certain segments of the migrant workforce more than others. Approximately 44% of the Latin American migrant population in Spain are men, largely employed in construction, and 56% are women, often working in other services, especially health care and services related to tourism. As Figure 7 shows, job losses among migrant men were

greater than for female migrants in Spain, especially those hired to care for the sick, elderly, and children. Women employed in these sectors likely faced less competition for those jobs compared to men employed in the construction sector who compete for jobs with migrants from other regions. In this regard, the decline in employment in the construction sector in December 2010 reached -15%, while other service sectors showed employment levels similar to those of 2009, with even a slight increase 0.1%. In terms of country of origin, job losses among migrants working in Spain seem to have been concentrated among South Americans, with migrant workers from the Andean region and from other South American countries showing drops in employment of -6.6% and -5.5% respectively, while other regions did not record significant changes.

03 RECIPIENT COUNTRIES' EFFECTS ON REMITTANCE FLOWS

Some of the variations in the remittance flows recorded in 2010 are explained by factors that originate in the recipient countries. While the migrant determines the amount and frequency of the transfers, this decision is made taking into account factors that are specific to his or her country of origin. These include: changes in the value of the remittance, once received, the level of economic growth of the home country, unexpected events such as natural disasters, and important dates in the home country that motivate the sending of additional remittances (seasonal variations.)

Value of the remittance received. As seen in previous years, when conducting their transfers, migrants often take into account the value of the remittance to the family member back home once it is received, since the main motivation for sending the remittances is to cover the cost of the recipient´s needs. The value of these remittances to the recipient in terms of purchasing power can vary depending on the exchange rate between the local currency and U.S. dollar, and the rate of inflation in the home country.

During 2010, the value of almost all the currencies in the region strengthened in dollar terms, by 4.4% on average.[3] As shown in the third column of TABLE **02**, the changes in value of the local currency represented a major disadvantage for migrants in 2010. In addition to facing the challenges of their own economic situation to maintain their incomes, migrants sent home transfers in dollars, euros, or yen that, in local currency terms, were not worth as much as the year before. So while in dollar terms remittance volumes show an increase in 2010, in many countries the remittances expressed in local currency show the opposite, a decrease compared to 2009.

Moreover, inflation rose in many countries in 2010, which also affected the purchasing power of recipient families. At the regional level, inflation increased over 4%, with cumulative rates at the sub-regional level showing more substantial increases in the Caribbean (7%), South America (4.6%) and the Andean countries (4,8%), than in Mexico (3.6%) and Central America (3.4%).[4]

Overall, adjusted for inflation and expressed in local currency terms, 2010 remittance flows to LAC show a drop of -8.7 % with respect to the previous year. As seen in the last column of TABLE **02**, the drop is concentrated even further in the Caribbean and in Mexico where inflation and the revaluation were higher, and to a lesser extent in Central America, the Andean region and most countries of South America where inflation was lower and local currencies either maintained their values, or in some cases lost value, against the dollar.

3. Calculated by weighting the changes in the value in local currency, proportionate to the country´s share in overall remittance flows at the regional and sub-regional level.

4. Regional and subregional inflation data were calculated by weighting the changes in the Consumer Price Index for each country proportionate to the country´s share in overall remittance flows at the regional level.

TABLE **02**

Remittances, Exchange Rate and Inflation *(Millions of Dollars and Annual Growth Rates)*

	GROWTH RATES [2009-2010] (1)			
	REMITTANCES 2010 (MILLIONS US$)	REMITTANCES US$	IN LOCAL CURRENCY	IN LOCAL CURRENCY AND ADJUSTED FOR INFLATION
SOUTH AMERICA	**17,677**	**-5.33%**	**-6.4%**	**-11.0%**
ARGENTINA	886	3.87%	7.7%	-2.5%
BRAZIL (2)	4,044	-14.79%	-22.3%	-26.1%
CHILE	820	8.47%	3.3%	0.8%
GUYANA	374	5.06%	5.1%	0.7%
PARAGUAY	723	4.63%	-0.1%	-4.5%
URUGUAY	120	3.45%	-9.5%	-15.1%
SURINAME	109	5.83%	5.8%	-1.0%
ANDEAN (3)	**10,601**	**-4.07%**	**-2.1%**	**-6.9%**
BOLIVIA	964	-5.76%	-5.8%	-8.1%
COLOMBIA	4,023	-2.69%	-12.5%	-14.4%
ECUADOR	2,324	-6.86%	-6.9%	-10.1%
PERU	2,534	-4.92%	-9.9%	-11.2%
VENEZUELA	756	3.14%	106.3%	64.2%
CENTRAL AMERICA	**12,066**	**3.13%**	**2.7%**	**-0.7%**
BELIZE	100	-0.30%	-0.3%	-1.2%
COSTA RICA	509	-4.86%	-11.6%	-16.4%
EL SALVADOR	3,540	2.15%	2.1%	1.0%
GUATEMALA	4,127	5.48%	4.1%	0.2%
HONDURAS	2,529	1.85%	1.9%	-2.7%
NICARAGUA	966	5.57%	9.5%	3.8%
PANAMA	297	2.06%	2.1%	-1.4%
CARIBBEAN (4)	**7,934**	**8.3%**	**-3.6%**	**-10.6%**
DOMINICAN REP.	2,908	4.23%	5.9%	-0.4%
HAITI	1,971	20.11%	19.5%	13.0%
JAMAICA	1,911	6.27%	6.8%	-5.2%
TRINIDAD & TOBAGO	123	6.03%	6.8%	-3.5%
MEXICO	**21,271**	**0.12%**	**-7.0%**	**-10.6%**
MEXICO	21,271	0.12%	-7.0%	-10.6%

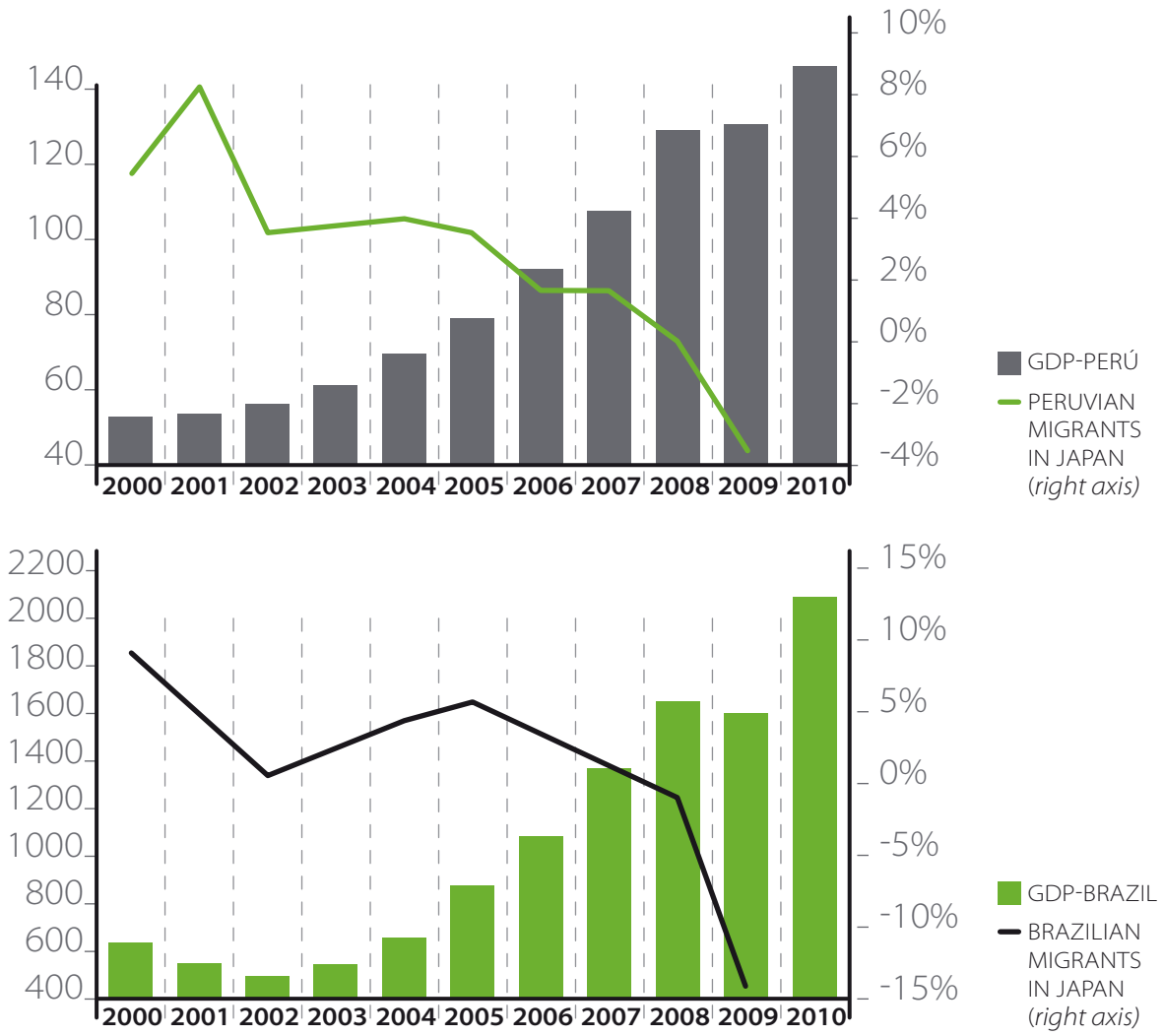
(1) *Data aggregated at the sub-regional level is calculated by weighting individual variations proportionate to the country´s share in overall remittance flows at the sub-regional level.*
(2) *Brazil data includes: Salário e ordenado (565),Manutenção de residentes (2076) y Transferências unilaterais de capital (1403)*
(3) *The five andean countries are also included in the South America category.*
(4) *Sub-regional data for the Caribbean aggregates data from other countries in the sub-region.*

SOURCE: Author's estimate based on data from Central Banks and FOMIN data

Economic growth of recipient countries. Increases in economic growth in recipient countries may have a dampening effect on the flow of remittances they receive. The economic performance of Brazil and Peru of recent years represent a disincentive to emigration. In addition, this growth might stimulate the return of migrants to their home countries, for example from Japan, one of the traditional destinations of these diasporas. As shown in FIGURE **08**, as the local GDP increased, not only were fewer migrants choosing to migrate to Japan, but migrants already living in Japan may have preferred to return home. The drop in the number of migrants would in turn account for part of the reduction in remittances to these countries.

FIGURE **08**

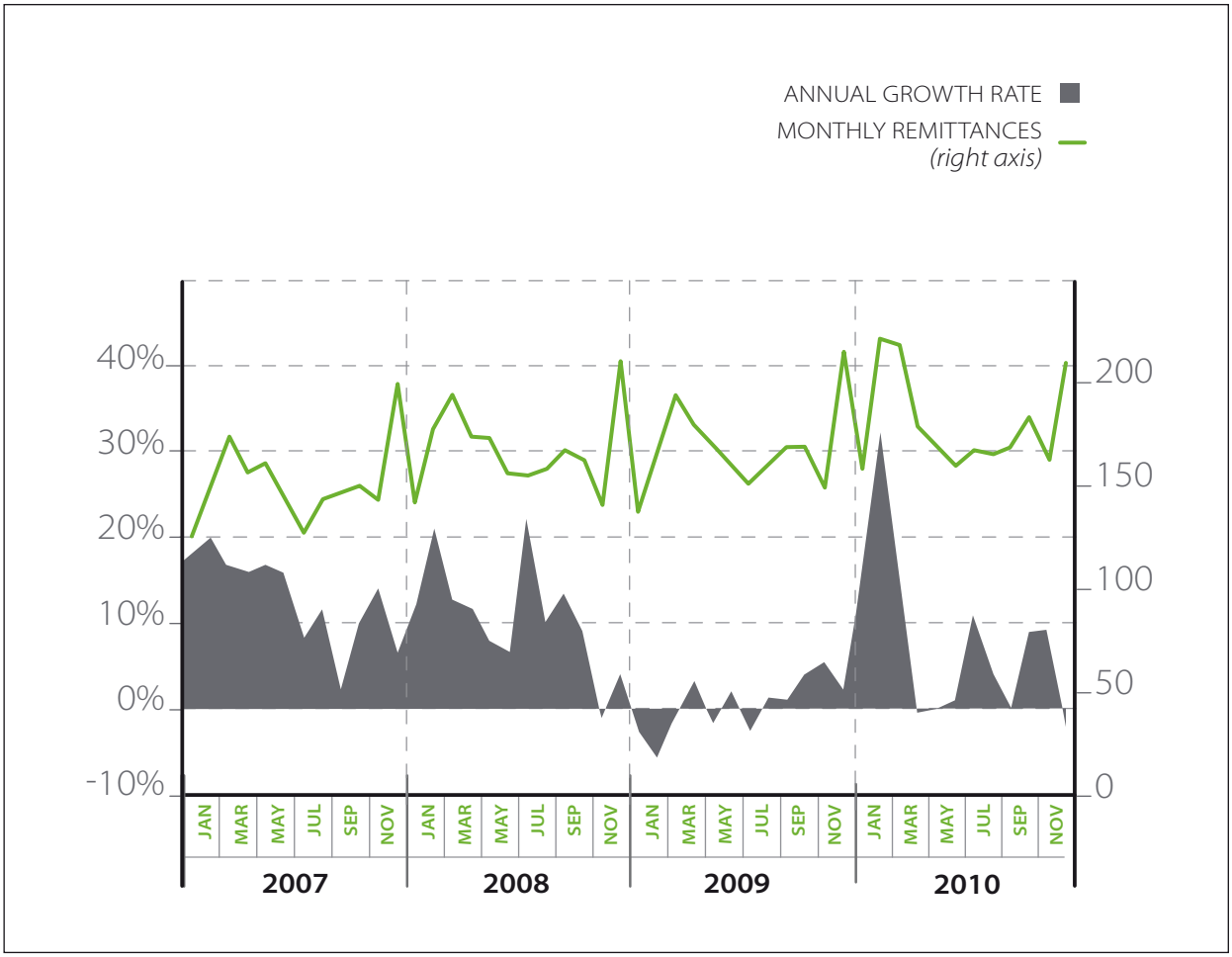
GDP and Migration to Japan from Peru and Brazil [2000-2010] *(billions of US dollars)*



SOURCE: Author's estimate based on data from the Central Banks of Peru and Brazil, and the Ministry of Justice of Japan

Response to unexpected events. When the recipient country encounters unexpected situations that have a sharp, adverse effect on income and consumption, such as after natural disasters, migrants often undertake additional efforts to send more remittances in order to offset the negative effects on the level of expenditure of their families. Such was the case after Hurricane Mitch in Honduras in the late 1990s, and in 2010 after the earthquakes that hit Chile and Haiti.

FIGURE **09**
Remittances to Haiti [2007-2010] *(Millions of Dollars and YoY Growth)*



SOURCE: Author's calculations based on data from the Central Bank of Haiti

After the devastation caused by the earthquake that struck Haiti on January 12th, 2010, Haitian migrants significantly increased amount of money they sent to Haiti. In February 2010, the month immediately after the earthquake, remittance transfers exceeded the amount sent the previous month by 40%, as shown in FIGURE **09**. The total received in February 2010 represented an unusual increase of 32% compared to the previous year, evidence of the great effort made by Haitian migrants abroad to help their family and friends in need.

Seasonal variations. Some changes in remittance flows are seasonal and occur regularly each year depending on the customs of each recipient country. Migrants either send remittances of

higher value or conduct additional transactions during certain months of the year, sending more for special occasions like Christmas, Mother's Day or the start of the school year, which in aggregate terms represent significant variations in overall remittance flows.

Since the onset of the economic crisis and with the ensuing economic uncertainty, some of these seasonal variations of additional remittances have been on the decline. During 2009, the customary additional remittances sent on special occasions fell -15% lower than those of 2008. In 2010 the downward trend of this type of additional remittances continued, showing a decrease of approximately -8% below those sent in 2009. At the sub-regional level, Mexican migrants, who traditionally tended to remit more during the second and last quarters of the year, sent -7% less than in 2009. Central American migrants also reduced the amount of additional remittances by -2% over the previous year, while South American countries, especially the Andean countries, received -15% less in additional remittances. Caribbean countries show no significant changes in receiving additional remittances, except in the case of Jamaica which recorded significant increases in flows, particularly in last part of the year.

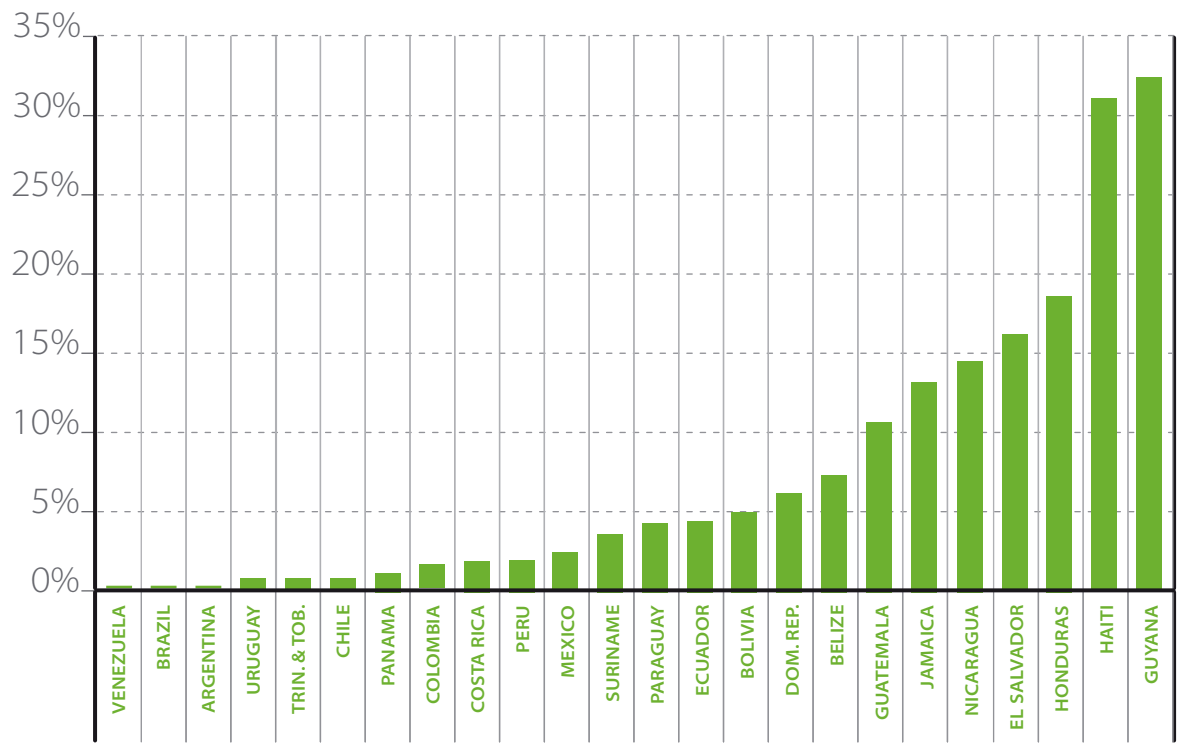
Another indicator of the effect of the crisis on sending capacity is the number of trips home that some migrants make, usually during the holidays at the end of the year. During these visits, migrants often hand-carry cash or in-kind remittances home to their family members. Given the border it shares with the principal destination country for almost all of its migrants, Mexico is the country that usually records the most visits of returning migrants at the end of the year. However, according to the Mexican National Institute of Migration, 12% fewer visiting migrants were recorded in December 2009 with respect to the previous year, and by December 2010, these trips were down another -1.6%, showing the economic difficulties that migrants face to conduct additional remittance transfers as in previous year.

04 CONCLUSIONS AND OUTLOOK FOR 2011

The flow of remittances to Latin America and the Caribbean in 2010 was marked by the slow recovery from the 2008-2009 global economic crisis. In 2009, after several years of positive growth, for the first time the total amount of remittances had fallen below the total received the previous year by -15%. In 2010, the trend was reversed with the return of positive growth in remittances to the region. Despite the modest increase, remittances in 2010 still represented more than 10% of GDP for several countries in the region: Guatemala, Jamaica, Nicaragua, El Salvador, Honduras, Haiti and Guyana.

FIGURE **10**

LAC Remittances as a Share of GDP 2010



SOURCE: Author's calculations based on FOMIN data/GDP estimates based on official country data

Remittances remain a vital source of income for millions of families in the region who depend on these flows to cover the cost of basic needs such as clothing, medicine or food. For many of these recipient families, 2010 was a year of increased economic vulnerability, since with stronger local currency values and rising inflation, the remittances they received did not reach the same value of the previous year.

The trend toward recovery in the remittances growth rates, particularly toward the end of 2010, appears to usher a period of growth for the next year, although it is unlikely that 2011 levels will match the volumes recorded before the crisis. The pace of growth in the future will be determined to a large extent by the economic performance of traditional sending countries for the Latin American and Caribbean countries; some of these countries are still facing challenges to restore economic growth of previous years. The economic outlook in the United States appears to present a more positive picture than other sending countries. The improved outlook in employment and unemployment rates and wage levels in the migrant labor market may in turn improve the earning capacity of Latin American and Caribbean migrants living and working in the main sending country of remittances to the region.

Both in periods of stability and crisis, remittances represent a vital source income for millions of families in the region. A full comprehension of these flows and the dynamics behind the variations specific to each of the different corridors are essential to reaching a better understanding of the needs of both migrant sendors and recipient families. Efforts to promote the awareness of remittance corridors can help inform the development of adequate public policies and innovative business models that can result in increased competitiveness, efficiency and market development, thus meeting the needs of many people in the region that benefit from these flows.

Small big pictures.

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