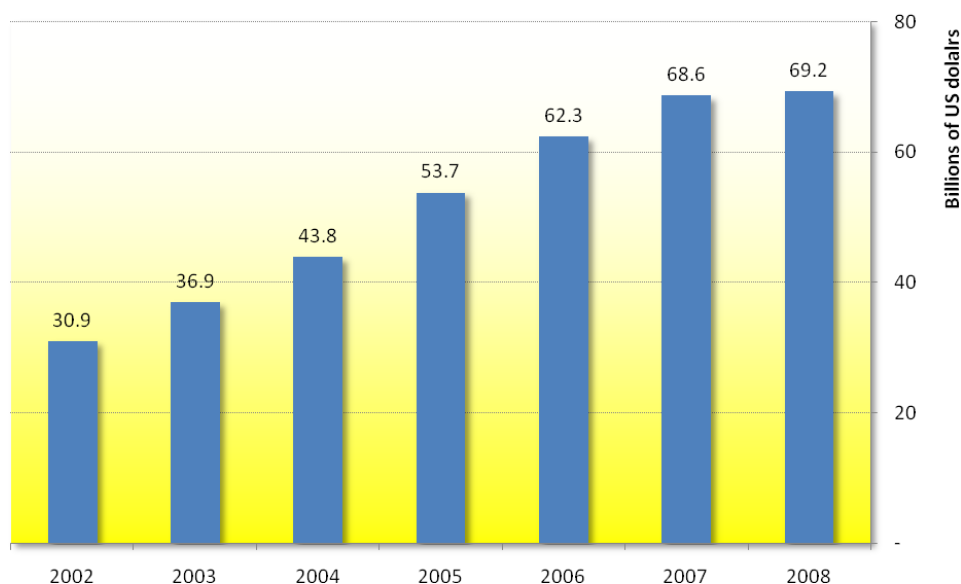


## Introduction

Worldwide remittances to Latin America and the Caribbean (LAC) reached \$69.2 billion in 2008, an increase of just under one percent over 2007.<sup>1</sup> Despite a series of challenges confronting migrant workers and their families in 2008, remittance senders proved to be remarkably resilient. Once relegated to the 'errors and omissions' column in balance of payments statistics, estimates of remittances to the region grew at double-digit rates for most of the last decade. This rapid growth, in part due to the improving ability of central banks to measure the flows, slowed considerably in 2007 and remained virtually flat at 0.9% in 2008. The true impact of this decline in growth, however, is more complex than ever before, as families, communities and economies throughout the region are impacted in fundamentally different ways.

The global financial crisis has brought with it a new set of challenges confronting migrant workers and the contributions they make to their family members back home. Given the recessions plaguing major destination countries such as the United States, Spain and Japan, remittances to the LAC region will decrease in 2009, marking the first downturn since the Inter-American Development Bank (IDB) began tracking these flows in the year 2000. This document accompanies the "2008 Map of Remittances to Latin America and the Caribbean", produced by Multilateral Investment Fund (MIF) of the IDB. The document provides an overview of significant trends affecting remittances and their impact on families, communities and national economies throughout the region.

## Annual Remittances to Latin America and the Caribbean

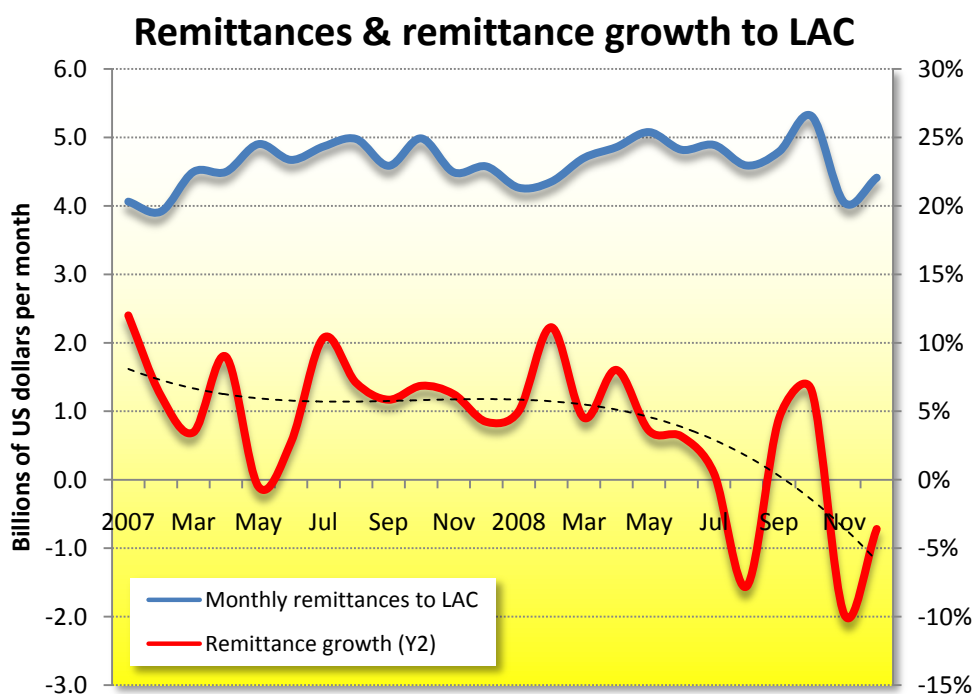


<sup>1</sup> Due to a significant revision of the Mexican central bank's estimates of remittances to Mexico 2002-2008, the MIF has increased its previous estimates accordingly.

## 2008: Remittances grew, but barely

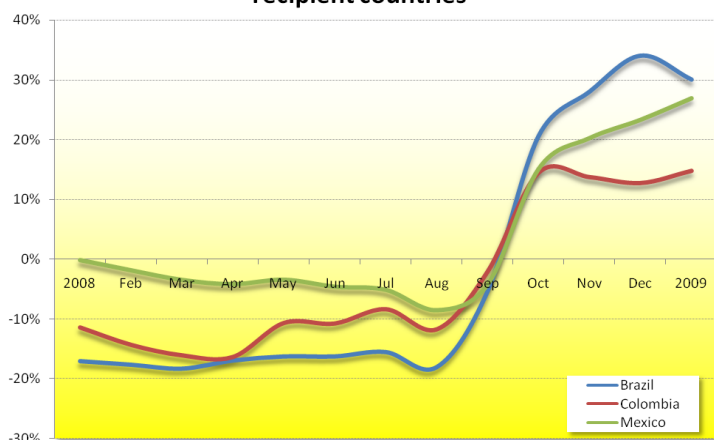
Remittance growth averaged six percent year-on-year during 2007 and remained steady throughout the first half of 2008. A report published by the MIF in October of 2008 revealed for the first time that the purchasing power of remittances had declined during that year. Against the backdrop of a negative immigration climate, two economic factors negatively impacted the contribution remittances were making to family incomes; rising fuel and food inflation, and the appreciation of local currencies against the dollar. These developments eroded both the sender's disposable income and increased the need of their families back home. South American countries with a significant number of migrants in Europe, however, also experienced a positive impulse from a strengthening of the euro between January and July.

After virtually zero growth in the third quarter, remittances declined for the first time in the fourth quarter of 2008. Taken in isolation, this decline in the number of dollars received would have a negative impact on remittance recipients throughout the region. Though the decline in dollars is negative from a balance of payments standpoint, it does not reflect the effect on the purchasing power of remittance recipients.

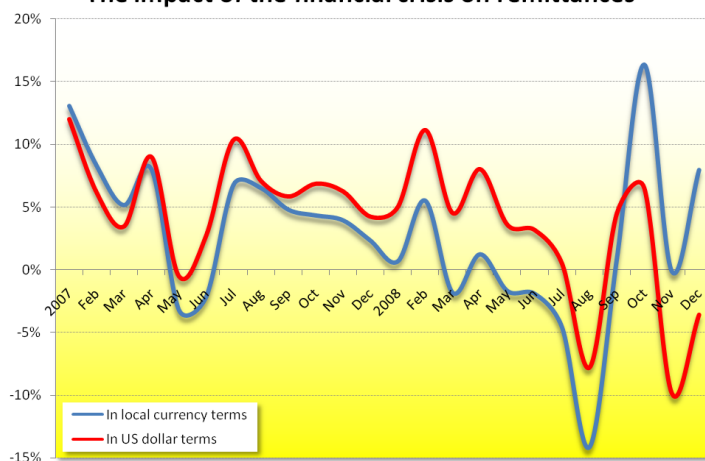


The flight to quality that accompanied the onset of the financial crisis resulted in a rapid appreciation of the dollar against the region's major currencies, with the dollar trading at 15-35% higher levels than at the same time in 2007. In the case of the Brazilian real, one dollar purchased 23% more of the Brazilian currency within the space of one month. Financially savvy migrant workers seized this opportunity, responding by sending significantly more money home than at the same time in 2007. In September/October of 2008 remittances to Colombia surged 18%, while remittances to Mexico and Brazil rose 11% above the previous year's levels. Despite the fact that growth subsequently resumed its declining trend, from last year's evidence it is clear that remittances are responsive to exchange rate fluctuations. Migrant ability to increase the remittances sent implies that there is either disposable income or savings to tap, or an ability to borrow in order to take advantage of improved exchange rates.

**Dollar appreciation against top 3 remittance recipient countries**



**The impact of the financial crisis on remittances**



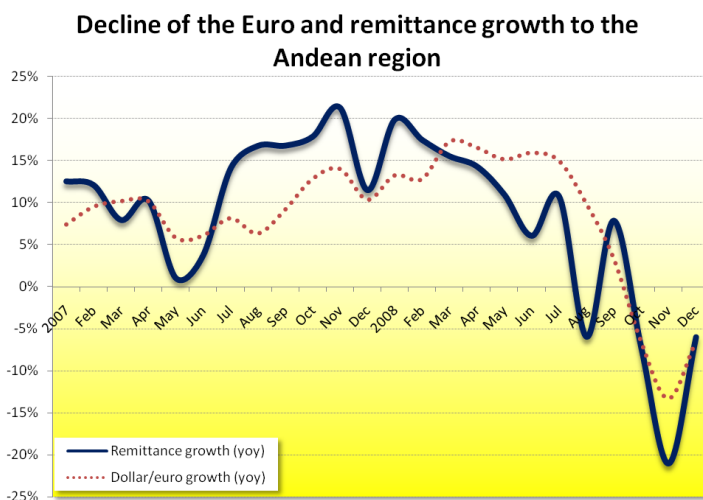
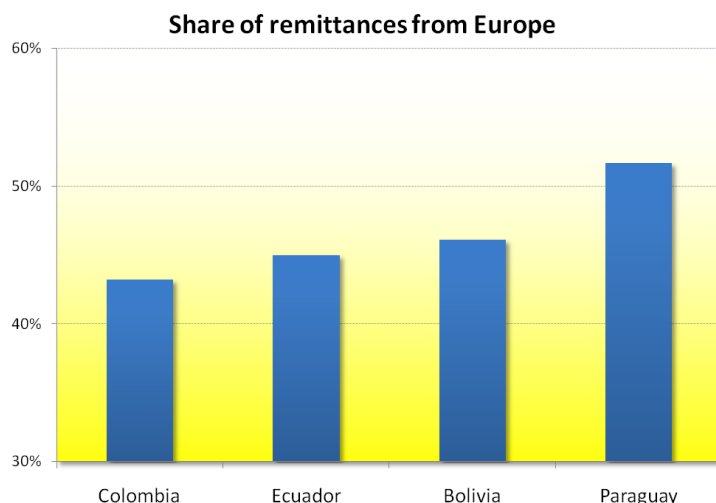
As the graphs above illustrate, the sudden increase in the value of the dollar with respect to the currencies of Mexico, Brazil and Colombia, the three largest recipient nations, had a lasting impact. While the number of dollars sent continued to decline after the spike, the value of those dollars in local currency terms increased by a larger amount. The graph on the right illustrates this situation in which the impact on the balance of payments at the national level is negative, while the appreciation of the dollar actually increased the purchasing power of remittance recipients in these countries.

The three major remittance recipient countries, **Mexico, Brazil and Colombia**, account for just over 45% of total remittances to the region. Their exchange rate regimes, however, are not typical for most of the region's nations. Differences in exchange rate regimes, and also in the origins of remittances, result in very different implications for the each of the region's nations.

The currencies of **Central America** are largely dollarized or pegged to the dollar. With both trade ties and remittance flows largely dependent on the US, El Salvador and Honduras, and, to a lesser extent, Nicaragua and Guatemala have protected themselves against exchange rate volatility. As a result, however, remittance recipients in these countries have not benefited from the appreciation in the dollar. In the last quarter of 2008, Remittances to Central America remained 4% below their Q4 2007 levels in local currency terms.

In **South America**, particularly in the Andean region and Paraguay, a second dynamic is at play. These countries receive a significant proportion of their remittances from Europe (principally from Spain). Having benefitted from the strengthening of the euro by 10% between its January 2008 low and July 2008 high, the euro lost 22% of its value between July and October. Despite a December rebound, the euro is currently trading just above its October levels. Should it remain at these levels, this will have negative implications for the value of remittances to the region in the coming months.

The case of Ecuador is illustrative of the negative side effects of both of the developments above. With a dollarized economy, Ecuadorian remittance recipients did not benefit from dollar appreciation. At the same time, 45% of remittances came from Europe in the first three quarters of 2008, and were negatively impacted by the fall of the euro. Remittances to Ecuador were down 22% in the fourth quarter. The significance of European remittances to the region is illustrated by the graphs on the following page. The first shows the exposure of five LAC countries to remittances from Europe. The second shows remittance growth declining by loosely the same order of magnitude as the year-on-year drop in the value of the euro.



## How does the financial crisis affect migration?

Results from the MIF's 2008 survey of 5,000 Latin American immigrants in the United States illustrate the importance of employment in driving migration. In the case of workers from Mexico, 56% of those interviewed in the US did not have full time employment before migrating. The vast majority of these workers obtained a job within one month of arriving in the United States. Due to the high costs and risks associated with migration to the United States, many migrate only when they know a job is waiting for them across the border.

When economic growth is rapid, labor force conditions tighten and wages rise, creating demand for foreign labor. The US construction sector boomed between 2003 and 2006, adding almost one million new jobs. This growing demand for labor in the US invariably attracted workers from Latin America. Simply by crossing the border their labor was worth 5½ times what they earned back home. The financial crisis, however, has resulted in disappearing jobs and diminishing incomes. As a result, fewer migrants are coming in to the United States. At the same time, increased border enforcement has made the journey more difficult and expensive for those lacking legal status.

The economic situation has also caused some immigrants to rethink whether they wish to 'tough it out' in their host nation, or return home. Despite reporting on individual cases, the overwhelming majority of migrants have not been inclined to do so, however. This could be the result of the high cost of going home, the high cost of a potential future return, issues related to immigration status, or a general belief that difficulties in host countries are less severe than the alternatives in home countries. Migrants who have been in host countries for longer periods of time will have formed attachments to their communities and may have locally born children or other family that has joined them abroad. This is especially the case of Latin Americans in the US, as their migration has a longer history, but also in Spain where migration is more recent. In fact, Spanish immigrants can receive significant monetary benefits from the government in exchange for a voluntary return to their home countries. Despite this generous offer, few immigrants have made use of the opportunity.

What determines the size of remittances from the United States to LAC, however, is not the 'flow' of migrant workers but the 'stock', or total number of immigrants sending money home. According to the Migration Policy Institute it is extremely difficult to say with certainty whether the flow of migrant workers is currently positive or negative.<sup>2</sup> Because the net effect on the stock of immigrants in the US is not significant, this is not likely to have a major effect on remittance flows in the near term.

<sup>2</sup> Papademetriou, Demitrios and Terrasas, Aaron, "[Immigrants and the current economic crisis](#)" Migration Policy Institute (Jan. 2009)

## To date, immigrants have remained adept at coping

US-based migrant workers sending money home have been under pressure for some time. The gradual slowdown in the US economy, negative immigration climate and mortgage crisis have all preceded the current crisis. Despite each of these challenges, however, remittance flows have continued to grow, even if at gradually declining rates.

Evidence from focus groups and surveys commissioned by the MIF and the Inter-American Dialogue suggest that immigrants are extremely capable of coping with adversity. These coping strategies include reducing the amount of money they spend on themselves, working longer hours or multiple jobs in the face of decreasing wages, shifting sectors because of declines in sectors such as manufacturing and construction, moving to areas with higher labor demand, and even dipping into their savings. MIF surveys show that Hispanic citizens, visa holders and the undocumented alike believe that the immigration climate is affecting their ability to remit. As a result, migrants, especially the undocumented, move from one state to another in response to local enforcement measures. Despite the cumulative effects of the economic, housing, and credit crises, it is only as a last resort that immigrants will return to their home countries. They will first exhaust all other options. Remittances are primarily a family obligation, and senders will do everything in their power to fulfill their obligation.

Migrant workers have proven resilient in the past; however, the current crisis raises important questions. Firstly, what will be the length and depth of the crisis on remittance senders. Secondly, what will be the consequences of the crisis on their ability to send money home. Thirdly, what will be the impact on families, local and national economies throughout the region. And finally, how long can migrants' coping mechanisms sustain remittance activity. In the coming months, the MIF will endeavor to answer some of these questions through new research.

## The impact of remittances on development

One of the most important coping mechanisms for both remittance senders and their families is to increase the share of income that goes to vital goods and services by tapping funds otherwise used for savings or investment. However, there is a limit to how far such a shift can compensate for reduced income. From a developmental perspective, the 20-40% of remittances that is used to save or invest is key to achieving a family's longer-term financial independence. As more money is used to purchase essentials for today, this comes at a price in terms of earning potential in the future.

Inevitably, aggregate remittance numbers do not necessarily reflect the diverse impacts the crisis is having in different regions within countries, or at the family level. While there may be a percentage decline in remittances to the country as a whole, the impact will be greatest for the families of those who are unable to continue sending money home at all. Remittances maintain millions of families above the poverty line throughout the region, a significant reduction in this flow during the coming year will reduce the effectiveness of remittances as an alleviator of poverty, subsequently raising demand on social services and family support networks.

Both migrant workers and their families are extremely important to their home economies through what are called the five T's: tourism, transportation, (nostalgic) trade, telecommunications and (remittance) transfers. These migrant activities create an important cross-border economic link that has effects on local economies, companies and the national economy as well. With migrant workers under pressure they will decrease spending on each of these activities, cutting remittances to family as a last resort.

## Capturing remittances

Amazingly, the economic contributions in both host and home countries were thought to be of minor economic significance little more than a decade ago. With the commissioning of a series of surveys in both remittance sending and recipient countries between 2001 and 2008, however, the MIF brought to light the vastness of these flows for the first time. As a result, the majority of the region's central banks now regularly monitor and report remittance flows. Despite the massive improvement in recording these flows, however, they have unique characteristics that can make them difficult to gauge. Not only are a significant portion of remittances carried across borders in the form of cash or goods, known as remittances 'in kind', but there is an ever-increasing range of transfer types and technologies available to send money home. Keeping track of each new development in the marketplace represents a significant challenge. For this reason, the MIF and the Center for Latin American Monetary Studies (CEMLA), the regional association of Latin American and Caribbean central banks, have initiated a joint project that aims to facilitate central bank measurement of remittance flows.

Different actors in the remittance market are currently analyzing the impact of the financial crisis on remittance flows, and they are not always reaching the same conclusions. The 2008 MIF survey of US senders showed that the percentage of migrant workers remitting had declined from approximately 75% in 2006 to 50% in 2008. A more recent survey conducted by the Pew Hispanic Center showed that this number was accurate in 2009 also.<sup>3</sup> Since the onset of the financial crisis, money transfer companies report that the overall level of remittances have not declined significantly. They identify a decrease in the dollar value of average transfers in some corridors, which is also compatible with the Pew results, but this has been compensated for through an increased number of transactions. Central bank data on remittances in January are more pessimistic on this point. Some industry experts believe the situation appears more negative than it is in actuality, due to a shift in how remittances are sent with the increased use of debit/credit cards, internet and account to account transfers.

Given this range of opinions, it is important to examine multiple sources of information. With downside risks clearly dominant (at least to the nominal growth of remittance flows in dollar terms), it is clear that there will be a decline in the overall level of remittance flows. The rapidly changing global economic landscape makes it impossible to give an accurate prediction of remittance developments for the year ahead. What is clear is that the degree of decline in remittances will be affected by the length and severity of the financial crisis and the ability of migrant workers, the sectors in which they work and the economies of their host countries to weather the storm. The MIF will continue to monitor and report regularly on these developments in the year ahead.

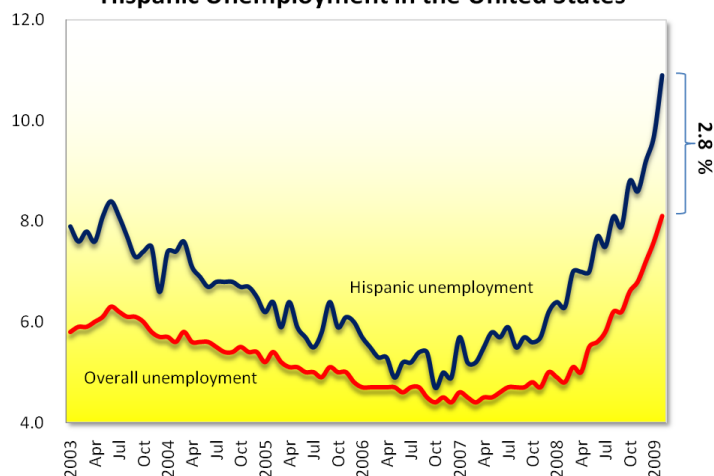
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<sup>3</sup> Lopez, Livingston and Kochhar, "[Hispanics and the economic downturn](#)" Pew Hispanic Center (Jan. 9, 2009)

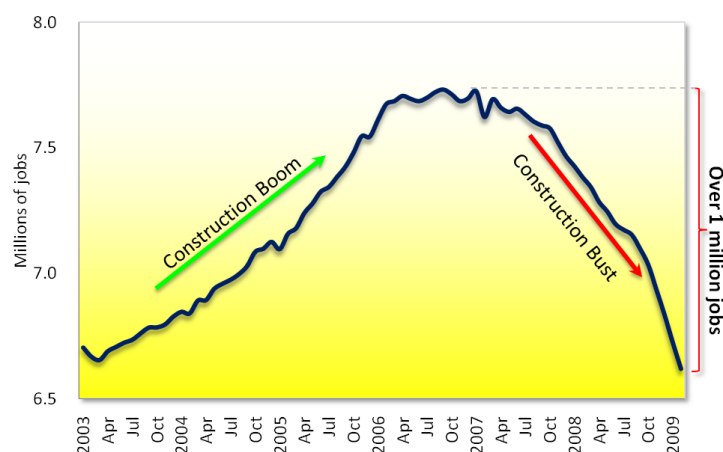
## Remittances to the region in the year ahead

With food, fuel and commodity prices below their 2008 peaks, the threat of inflation reducing sender incomes while increasing family need has subsided. The financial crisis has also reversed the slow decline in the value of the dollar, currently to the benefit of recipients in countries with flexible exchange rates. The challenges that accompany the crisis, however, are significant. As of January of 2009 unemployment in **Spain** has risen rapidly to 14.8%, in the **United States** the rate is 8.1% for the population as a whole and 10.9% amongst Hispanics. The margin between Hispanic and general unemployment has grown significantly to 2.8%. The US construction sector, which employed 17% of Hispanics according to the MIF's 2008 survey, has shed all the jobs created between 2003 and the top of the construction boom in 2006. The Spanish construction sector has experience a similar collapse, but in a far shorter period of time. In **Japan**, lay-offs in immigrant rich industries have followed a decline in export orders. None of these indicators is expected to show improvement in the near term.

Hispanic Unemployment in the United States



Job Development in the US Construction Sector



Despite the bleak picture, however, remittances have not declined as rapidly as other financial flows. The fact that remittances are not as sensitive to market dynamics but are responsive to family need will insure their relative robustness, even in trying times. Furthermore, unlike tourism and exports, remittances tend to have a greater impact on the local economy as tourism and exports often rely more heavily on foreign inputs. The stability of remittances in turbulent times will also act as a buffer against adverse shocks to the balance of payments at the aggregate level. Given the downside risks, remittances will decline in dollar terms during the year ahead. They will, however, decline less than export revenues, tourism, FDI or speculative flows.

The negative outlook for remittances from traditional sending countries, and the relative resilience of the region in the face of the financial crisis to date, will lead to continuing growth in the importance of intra-regional migration. The resulting remittances have been growing over the past two years as a result of the region's impressive recent growth, and are likely to continue to grow in the year ahead.



## Conclusions

After years of double digit increases in remittances, massive growth has ceased. In dollar terms, 2009 will see the first ever annual decline in remittances as the flows change in concert with a new global economic reality. Hard economic times impact families and migrants alike, challenging the countercyclical nature of remittances and migrants' ability to adapt. In the past, however, migrant workers have been able to cope with negative shocks far better than most had predicted. Remittance flows, by their very nature, reflect a profound family obligation that makes them more robust than other kinds of capital flows, and more essential to recipient families.

With seven countries receiving upwards of 12% of the GDP from their immigrants abroad, **remittances are as essential to the health of recipient country economies as they are to the families that receive them.** Foreign direct investment and revenues from exports and tourism are likely to remain under pressure in the year ahead, increasing the importance of this vital flow.

**Remittances are a key poverty reduction tool**, as more than 60% of remittances are used to purchase daily necessities such as food, clothing and shelter. The remainder of the money is saved, invested in housing, small businesses, healthcare or education. Though the current challenges facing remittance senders and their families will impact the balance between how much is spent on daily necessities and how much can be invested in their futures, the market for financial services remains largely untapped. MIF surveys have shown that only 30-50% of remittance recipients have access to a bank account, the first step towards the kinds of financial services most take for granted. The MIF has focused its efforts on expanding access to finance to those who have traditionally been underserved, and working with the financial sector to offer a greater range of financial products such as microcredit, insurance and remittance-backed mortgages.

The financial crisis has redefined the importance of the factors influencing the flow of remittances to Latin America and the Caribbean. Exchange rates, and rate fluctuations, are playing a much more significant role in determining the effect of remittances in the countries that receive them. In order to accurately assess the implications of declining remittances, it is increasingly important to distinguish between remittance receiving countries that maintain floating exchange rates as opposed to those in dollarized countries or those with fixed exchange rates. Furthermore, these differences will also mean that the implications for remittance recipients may be quite different from those on the current accounts on their nations.

As the spike in remittance sending resulting from exchange rate fluctuations illustrates, migrant workers are extremely well informed. This is also the case regarding the labor market in destination countries, most migrant workers in fact have a job waiting for them before they travel abroad. As jobs become less plentiful in the US, Europe and Japan, those considering working abroad are likely to seek employment closer to home, reinforcing the trend towards greater intra-regional remittances and reducing dependence on traditional remittance sending nations.

Fundamentally, migration is the result of developmental imbalance: people move when the expected future benefits outweigh the financial costs and personal sacrifices associated with migration. Remittances make an important contribution to alleviating the developmental imbalances that lie at the heart of why millions seek a better life abroad. As long as developed economies need migrant labor, immigrants will continue to migrate. As a result, when the global economy recovers, remittance flows will do the same.



This document is an overview of remittance flows to Latin America and the Caribbean in 2008 and an analysis of current trends in remittance flows to the region, with a special focus on the impact of the financial crisis. The document accompanies the “2008 Map of Remittances to Latin America and the Caribbean”, which is produced annually by the IDB. The document is also a follow-up to the October 2008 release entitled “IDB estimates of 2008 remittance flows to Latin America and the Caribbean”. Links to the relevant documents in the series can be found below:

March 16 <sup>th</sup> 2009	<a href="#">Press release</a>	<a href="#">Remittances in Times of Financial Instability</a>
		<a href="#">2008 Map of Remittances to LAC</a>
		<a href="#">Website including historical data</a>
October 1 <sup>st</sup> 2008	<a href="#">Press release</a>	<a href="#">IDB Estimates of 2008 Remittance Flows to Latin America and the Caribbean</a>
April 30 <sup>th</sup> 2008	<a href="#">Press release</a>	<a href="#">The Changing Pattern of Remittances</a>
		<a href="#">Presentation of survey results</a>
March 11 <sup>th</sup> 2008	<a href="#">Press release</a>	<a href="#">2007 Map of Remittances to LAC</a>

Suggested citation:

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