

Remittances to Latin America and the Caribbean in 2009

The impact of the global financial crisis



MULTILATERAL
INVESTMENT
FUND

Remittances to Latin America and the Caribbean in 2009

Millions \$US

Total \$58.8 Billion



Remittance flows to countries in Latin America and the Caribbean (LAC) in 2009 were not immune to the impact of the global financial crisis. The economic slowdown has affected employment and migrant income in remittance sending countries, resulting in a 15% decline in remittance receipts compared to 2008. However, when adjusted for inflation, remittances in local currency terms have in some cases increased since the onset of the crisis. In addition, analysis of data from the last quarter of 2009 point to a possible stabilization of flows in 2010.

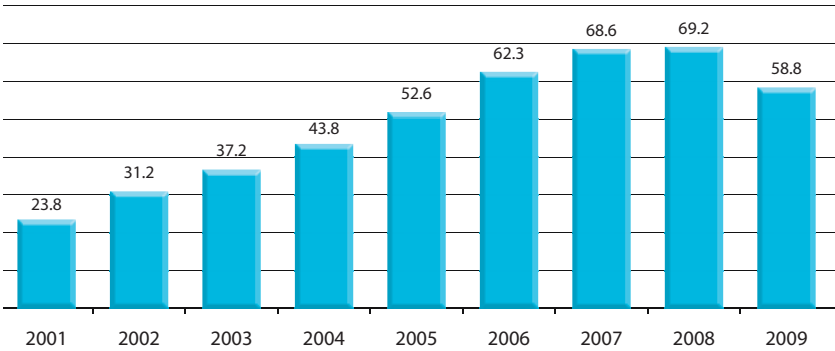


REMITTANCES IN 2009

In 2009 remittance flows to Latin America and the Caribbean (LAC) declined as a result of the impact of the global financial crisis on countries in which migrants from the region live and work. The recessions in major remittance-sending countries such as the United States, Spain, and Japan had a strong impact on the employment and income of remittance senders, and, as a result, the annual accumulated volume of remittances to LAC dropped substantially, reaching \$US 58.8 billion at the end of the year.

In 2009, for the first time on record, and after a long period of consistent growth, the volume of remittances to the region was less than the amount sent the year before. Between 2002 and 2008, the average annual growth in volume of remittances sent to Latin America was 17%, although the flows began to slow down in mid-2006, and reached only 1% in 2008. The limited growth in 2008 was largely a result of the global financial crisis, which began in the third quarter of that year. The crisis had a strong impact on remittances in the rest of 2008 and into 2009, resulting in a negative annual growth rate of -15% in 2009. This slowing trend was particularly intense in the second and third quarters of that year, when the rate of decline reached -17%. Since then, however, some signs of recovery have begun to appear, with the final months of 2009 showing a lesser decline than in earlier months, signaling a possible stabilization in the flows.

Figure 1: Remittances to Latin America and the Caribbean, in billions of US dollars 2001-2009



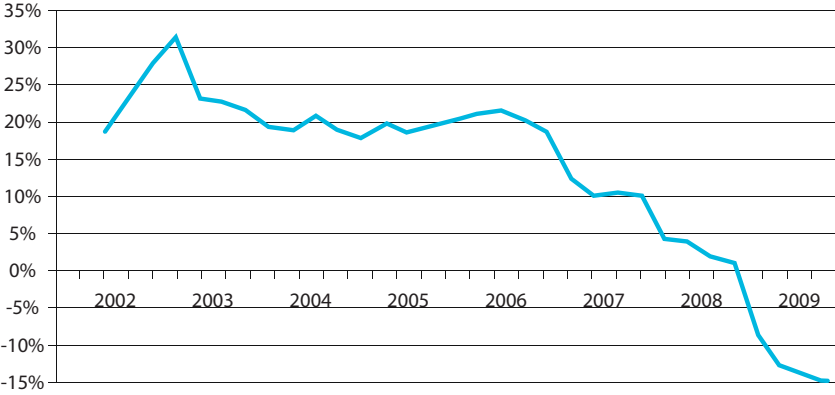
Source: Author's estimates based on FOMIN data

According to an August 2009 FOMIN survey of LAC migrants, the economic crisis had an important dampening impact on migrants' income, prompting them to decrease the frequency of their transfers from an average of 15.3 times per year in 2008 to 12 times per year in 2009. Official Central Bank data confirms this general trend, indicating that the number of transactions received in the region fell by 8-9% in 2009 in comparison to 2008.

Available data on the average amount sent in each transfer, however, show a less predictable trend. Migrants sent less money per transaction during the first two quarters of the year, but this began to shift during the second half of the year. Indeed, by the fourth quarter of 2009, transaction values had either rebounded to 2008 levels, or, in the case of some flows from the U.S., had surpassed 2008 levels by up to 5%. However, this rebound was not universal; at the end of the year, remittances from Europe, especially Spain, showed average transaction values that were 6% lower than 2008.

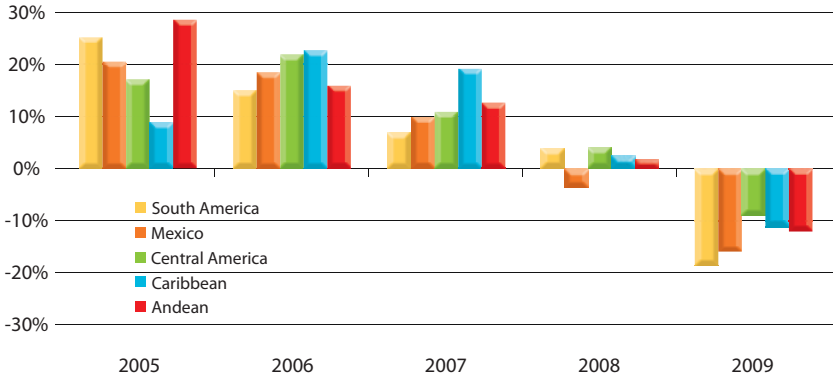
The phasing of the crisis and its impact on the overall volume is evident across the sub-regions of Latin America and the Caribbean. As a result of its dependence on flows from the United States, remittances received by Mexico were hardest hit in 2009, where annual growth reached -16%. Meanwhile Central American countries reported lower levels of the decline in remittances last year, reaching -9%, largely due to diversification in the origin of remittances and strong intra-regional migration that fuel "south-south" remittances. Remittances to the Caribbean, South America (except Brazil), and the Andean countries, which come from several source countries, fell at a rate of between 11% and 12%. In the case of Brazil, the rate of decline was higher, and exceeded 20%, partly due to an increase in the number of migrants who, encouraged by the increased growth rate of Brazil's GDP, job losses abroad, and in some cases the non-renewal of their visas in Japan, decided to return home.

Figure 2: 2001-2009 Remittances to Latin America and the Caribbean (YoY Growth)



Source: Author's calculations based on FOMIN data

Figure 3: 2009 Remittances to Latin America and the Caribbean (YoY Growth)



Source: Author's estimates based on FOMIN data

The country from which the remittance is sent plays an important role in defining the different rates of decline in different countries of the region. The three economies that provide the largest proportion of remittances to the region are the United States, Europe (especially Spain), and Japan; different countries in Latin America and the Caribbean receive varying amounts of flows from each. The economic crisis affected these various sending countries at different times and, as a result, the impact on migrant income and volume sent from these countries varied accordingly.

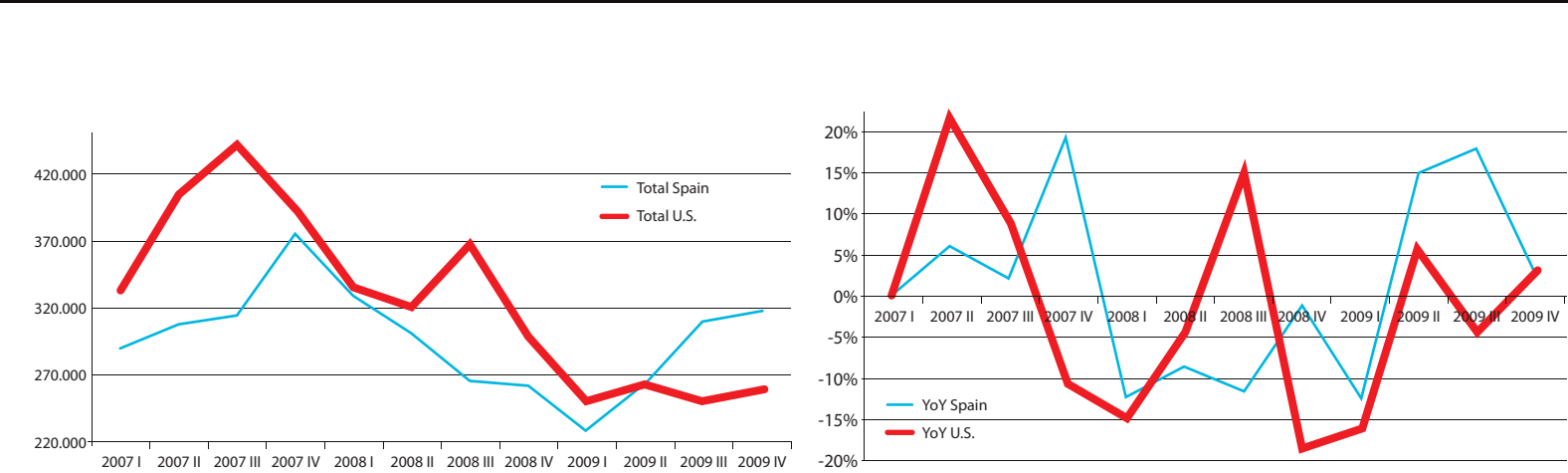
The deferred timing of the crisis in Spain with respect to the United States had an important impact on the remittances to countries such as Ecuador, which receives large amounts of remittances from both countries.

Figure 4 shows that, in the Ecuadorean case, the growth rate of remittances from Spain in 2009 was greater than that of remittances from the United States, moderating, somewhat, the amount of the total decline of remittances to Ecuador. The graph on the left-hand side of Figure 4 shows that remittances from the U.S. began to show negative growth in the third quarter of 2007, while remittances from Spain continued to increase until the beginning of 2008. Similarly, one can note a steady increase in remittances to Ecuador from Spain starting in 2009, and offsetting the diminished flows from the U.S. In this sense, the origin of the flow determined the amount and timing in the reduction of remittance receipts.

Other countries that receive their remittances largely from a single country were directly impacted by the recession in the sending country. Once such country is Mexico, which receives almost all its remittances from the United States. The U.S. was the first country to feel the impact of the economic crisis, and the subsequent decline in remittances to Mexico can be seen as early as the last quarter of 2008. Remittances to Mexico then dropped more compared to other countries, because there were few non-U.S. origin flows coming in to offset the decline in volume coming from the United States.



Figure 4: Remittances to Ecuador 2007-2009 (Thousands of US dollars, and YoY Growth)



Source: Author's calculations based on data from the Central Bank of Ecuador

THE EFFECT OF THE CRISIS

Year-over-year fluctuations of remittance flows are a result of different forces that must be analyzed separately. One is the trend of flows showing the direction of movements in the medium to long term, and another is the seasonal variation, which shows short-term movements that repeat every year.

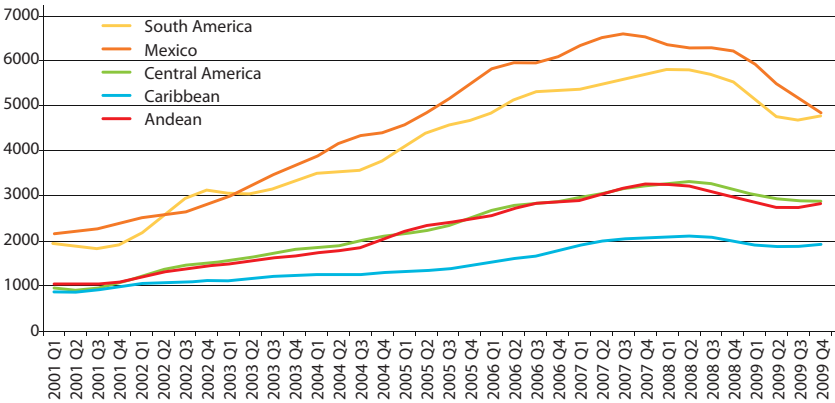
Only by looking beyond regional aggregate totals can the true picture of the remittance market be seen.

Remittance trends

Remittance data recorded a positive growth trend between 2001 and 2008, and turned negative from the third quarter of 2008 onwards. However, data disaggregated by quarter and by sub-region for remittances to South America, the Andean countries, the Caribbean, and Central America all show the beginnings of stabilization in 2009. This is somewhat obscured, however, when looking at the regional totals, since Mexico continues to show large declines and pulls the regional growth rate downward, as a result of its large share in the regional total.

The main reason for the downward trend in remittance flows to the region stems from the effects of the crisis on the labor market for migrants in host countries. The volume of remittances received is directly related to migrants' income levels, which in turn depend on employment and wage levels. Because most of the remittances to the region come from the U.S., examining the U.S. labor market in general and Latin American migrant workers there in particular can help us understand the behavior of remittances and the effects of the crisis on sending patterns during the past year.

Figure 5: 2001-2009 Trends in Remittances to Latin America and the Caribbean (Millions of US dollars)



Source: Author's calculations based on FOMIN estimates

The crisis in the U.S. resulted in job losses among migrants, who in many cases had no choice but to limit the remittances they sent home. In sending countries, sectors that traditionally relied heavily on migrant labor –e.g. construction and agriculture- tightened significantly, generating important job losses among Latin American workers. In many cases, sending levels dropped as migrants sought employment in other sectors like retail or services. As Figure 6 shows, during the first three quarters of 2009, employment levels among Latin American migrants in the U.S. suffered significant declines of an average of -3.71% per month. Similarly, migrant unemployment in the first three quarters of 2009 rose significantly, climbing as high as 13% in August. While FOMIN surveys have shown that up to 25% of unemployed migrants continued to send remittances, the loss of employment and resulting uncertainty led migrants to alter their spending habits significantly as many struggled to meet their families’ needs back home.

It is important to note, however, that as Figure 6 shows, data toward the end of 2009 appear to show the beginnings of a recovery, with much lower rates of decline in employment for December 2009 (-2.39%) and January 2010 (-0.45%). Unemployment growth rates in the U.S. also show a downward trend in the last months of the year.

For those migrants who remained employed, incomes did not appear to fluctuate significantly over the course of 2009. Even the shifts of migrant labor among different sectors of the economy did not appear to have had a significant effect on average salaries for Latin American workers over the course of the year. As Figure 7 shows, statistics indicate that weekly salaries remained relatively stable overall for Latin American migrants for 2009, showing only a 3% drop in the third quarter that was recovered by the end of the year.

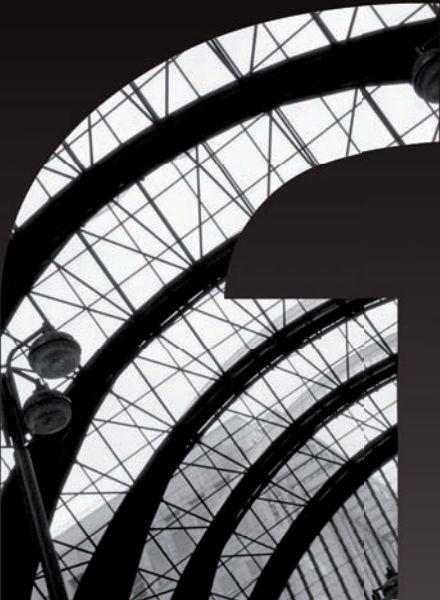
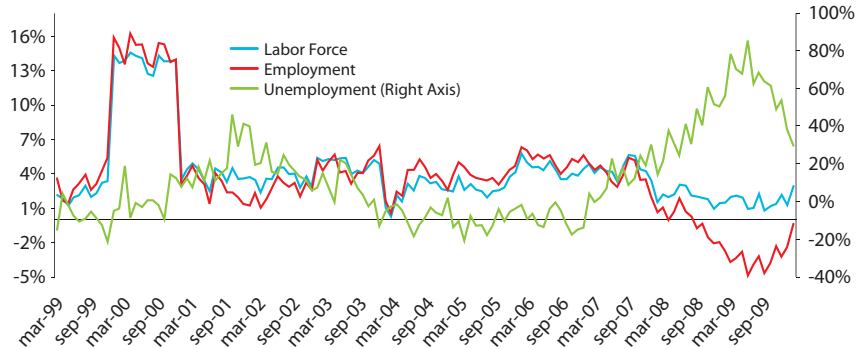
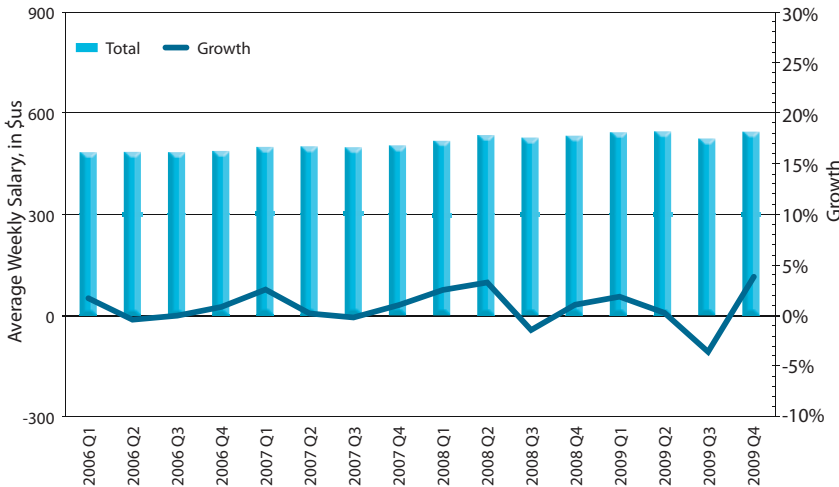


Figure 6: Latin American Employment and Labor Force in the U.S., 1999-2009 (YoY Growth)



Source: Author's calculations based on BLS data

Figure 7: Weighted Average Weekly Salary of Latin American and Caribbean Workers in the U.S., 2000-2009 (Total Values and Growth Rate)



Source: Author's calculations based on BLS data

Seasonal variations

Some variations in remittance flows are seasonal and take place regularly each year. Migrants from different countries tend to send additional remittances on specific dates, depending on the customs of their home countries. Migrants either send remittances of higher value or conduct additional transactions during certain months of the year, sending more for special occasions such as Christmas, Mother's Day or Father's Day, which at an aggregate level create important fluctuations in overall remittance flows.

During 2009, migrants sent 15.3% less for these special occasions than in 2008. Mexican migrants traditionally send more additional or seasonal remittances in the second quarter of the year, but these were 19% lower in 2009 than they were in 2008. South American countries received 12.5% fewer seasonal remittances, with a reduction that is most evident in the third quarter. Central American and Caribbean countries showed drops in seasonal remittances especially during the last quarter of the year, though in the case of the Caribbean countries, these were offset by an increase in remittances sent in the third quarter.

Another indicator of the effect of the crisis on sending capacity for cyclical remittances is the number of trips home that some migrants make during holidays, usually 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 December 2008.

With declining incomes as a result of the crisis, migrants' resources in 2009 did not allow for additional remittances. They did not respond to special occasions and celebrations as they had in previous years, focusing instead on maintaining regular sending patterns.

Irregular variations

Other variations in remittance flows were recorded during 2009, relating to irregular factors, such as the exchange rates in the sending country and in the recipient country.

In the sending country: Official statistics generally quantify remittance flows in U.S. dollars. They are also generally either paid out in U.S. dollars or at the dollar's exchange rate in local currency. So when remittances are sent in another currency, for example in euros or in yen, the depreciation or appreciation of these currencies with respect to the dollar also has an effect on the recorded volume of remittances. For this reason, until mid-2008, while the euro's value appreciated with respect to the dollar, remittances quantified in dollars grew more rapidly. But once the dollar began to gain value against the euro, the dollar value of remittances sent in euros began to fall.

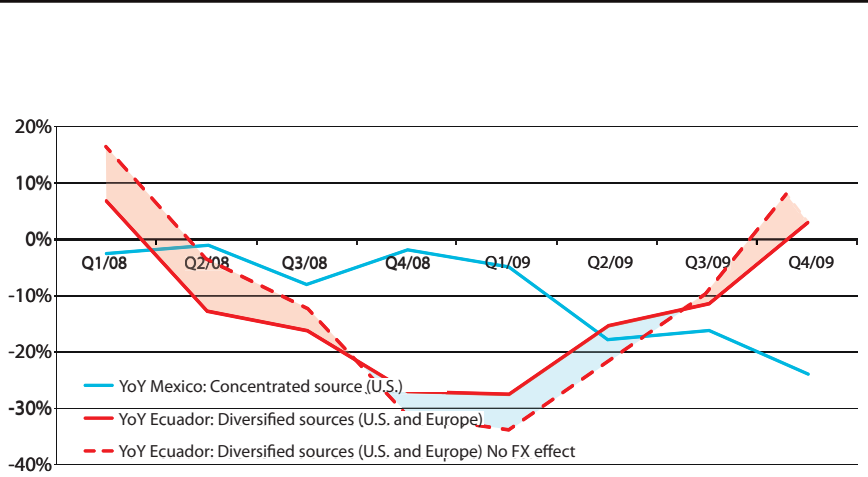
Figure 8 shows that countries that receive remittances sent both from migrants residing in the U.S. and in the euro-zone recorded greater declines starting at the end of 2008 through the first half of 2009, because of the decrease in dollar value of the remittances sent in euros. However, starting in the third quarter of 2009, the dollar-euro exchange rate shifted, and resulted in an increase in the dollar-value of remittances sent from the euro-zone, which in turn pulled up the overall recorded volume for these countries. On the other hand, when the origin of remittances is concentrated in the U.S., as in the Mexican case, there is no foreign exchange effect pulling the value of the remittances up or down as the transactions already originate in dollars.

In the recipient countries:

On the other hand, the variations in the exchange rate between the dollar and the local currency in the remittance receiving countries also had important effects on the remittances received. Migrants take advantage of increases in the value of the dollar with respect to local currencies, sending more when the exchange spread stretches the value of their remittances further. These sending patterns are not related to the global crisis but rather to significant, temporary exchange rate fluctuations. However, the strengthening of the dollar in recipient countries, which in the past did not appear to have an effect on remittance flows, is proving to have a significant effect. In light of their diminished sending capacity as a result of the crisis, migrants are reducing the volume of dollars they send, taking advantage of the increased value in local currency terms of their remittances, while still covering their family's needs.

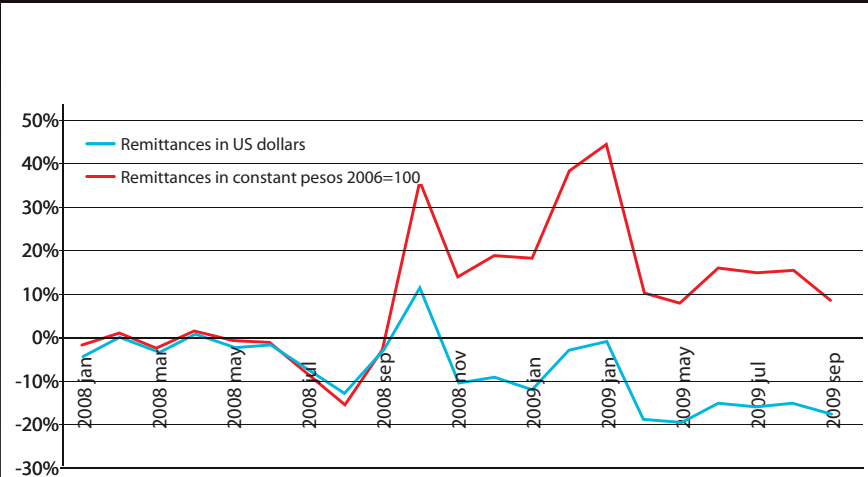
As figure 9 shows for Mexico, despite the negative growth of remittances in dollar terms, those remittances, adjusted for inflation and expressed in local currency terms, show positive growth rates since the onset of the financial crisis in September 2008. While migrants have been sending fewer dollars home overall, the local purchasing power of those remittances has been increasing since the end of 2008 and has remained stable overall through the end of 2009. The decline of 2009 remittances as a result of the crisis might call into question the stabilizing and counter-cyclical effect of remittances observed in previous years. However, this decline is related to a global crisis, unrelated to the local economic cycle of the remittance receiving countries. On the contrary, remittances still prove to continue to have a stabilizing effect on local economic cycle in remittance receiving countries.

**Figure 8: Foreign Exchange Effect
on YoY Remittance Growth
In Ecuador and Mexico**



Source: Author's calculations based on official central bank data

**Figure 9: Mexico: 2008-2009 Remittance
Growth in US dollars and in Mexican pesos,
Adjusted for Inflation**



Source: Author's calculations based on central bank data/deseasonalized data

CONCLUSIONS AND OUTLOOK FOR 2010

The effects of the crisis on remittance flows to Latin America and the Caribbean were significant, in that for the first time the overall volume of remittances sent was less than the total recorded the previous year, even less than the amount sent in 2006. However, despite this decline, remittances sent in 2009 still represent more than 10% of GDP for several countries in the region (Guatemala, Jamaica, Nicaragua, El Salvador, Honduras, Haiti and Guyana.) Remittances continue to represent an indispensable source of income to cover basic expenses including clothing, medicine or food, for millions of families in the region.

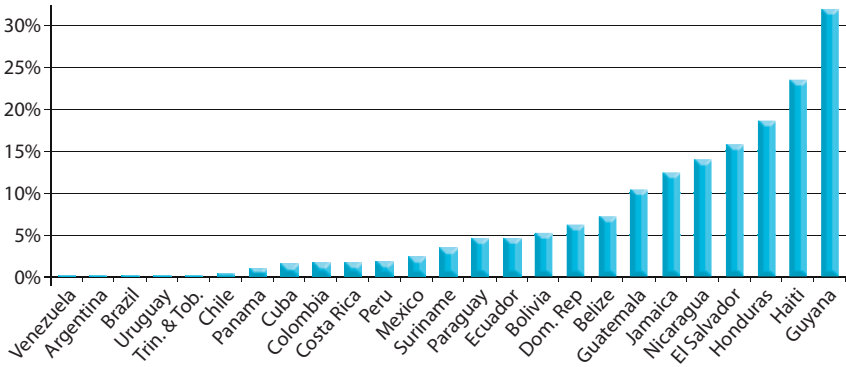
In the short term, significant recovery in the volume of remittance flows is unlikely, largely due to the uncertain outlook for economic growth in traditional remittance sending countries. But the signs of stability of the last months could provide a basis for an estimate of stabilized remittance levels, or even the beginnings of a new period of single-digit growth in the near future. The last months of 2009 recorded a considerable stabilization in the diminishing growth rates of these flows. In addition, migration data and employment statistics in sending countries like the U.S. also suggest a bottoming-out, which could lead to a deceleration in the rate of decline, evening out the trend for 2010.

Any forecast for remittances to LAC must take into account that migrants have undertaken many additional efforts in the past months to maintain sending levels to their families back home, either by tapping their saving, taking out loans or cutting back on expenses. Migrants' economic vulnerability may ultimately affect their capacity to send remittances. Even when incomes and employment rates revert to previous levels in sending countries, the months of uncertainty and deferred expenses may force migrants to redirect their expenditures to focus on securing their own situations.

In addition, the fluctuations of 2009 prove that irregular factors, depending on their strength, have the potential to affect projections significantly, either positively or negatively. Exchange rates in recipient countries will undoubtedly have an effect on the volume of remittances sent, as migrants adjust their sending to the value of their remittance their families receive. At the same time, the monitoring of prices and employment levels in LAC remains critical, since these are factors that determine both the propensity to migrate, and the needs that migrants' recipient families will have back home.

Despite the effects of the global economic crisis, remittances are and will continue to be an important resource for recipient economies. Improvements in the information available on these flows are indispensable for informed decision-making, at the level of governments and the private sector, as well as at the level of consumers. Continuing efforts to facilitate a more efficient, transparent and competitive marketplace are fundamental to improve the efficiency, effectiveness and security of these crucial transactions for the development and growth of millions of families across the region.

Figure 10: LAC Remittances as a Share of GDP 2009



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

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