

REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN IN 2012:

DIFFERING BEHAVIOR

across subregions



Multilateral Investment Fund
Member of the IDB Group

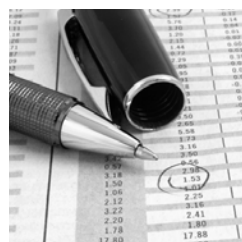
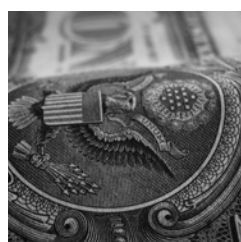
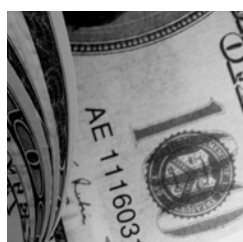
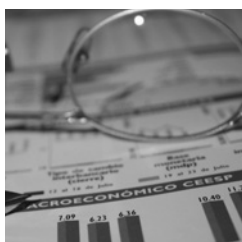
2012

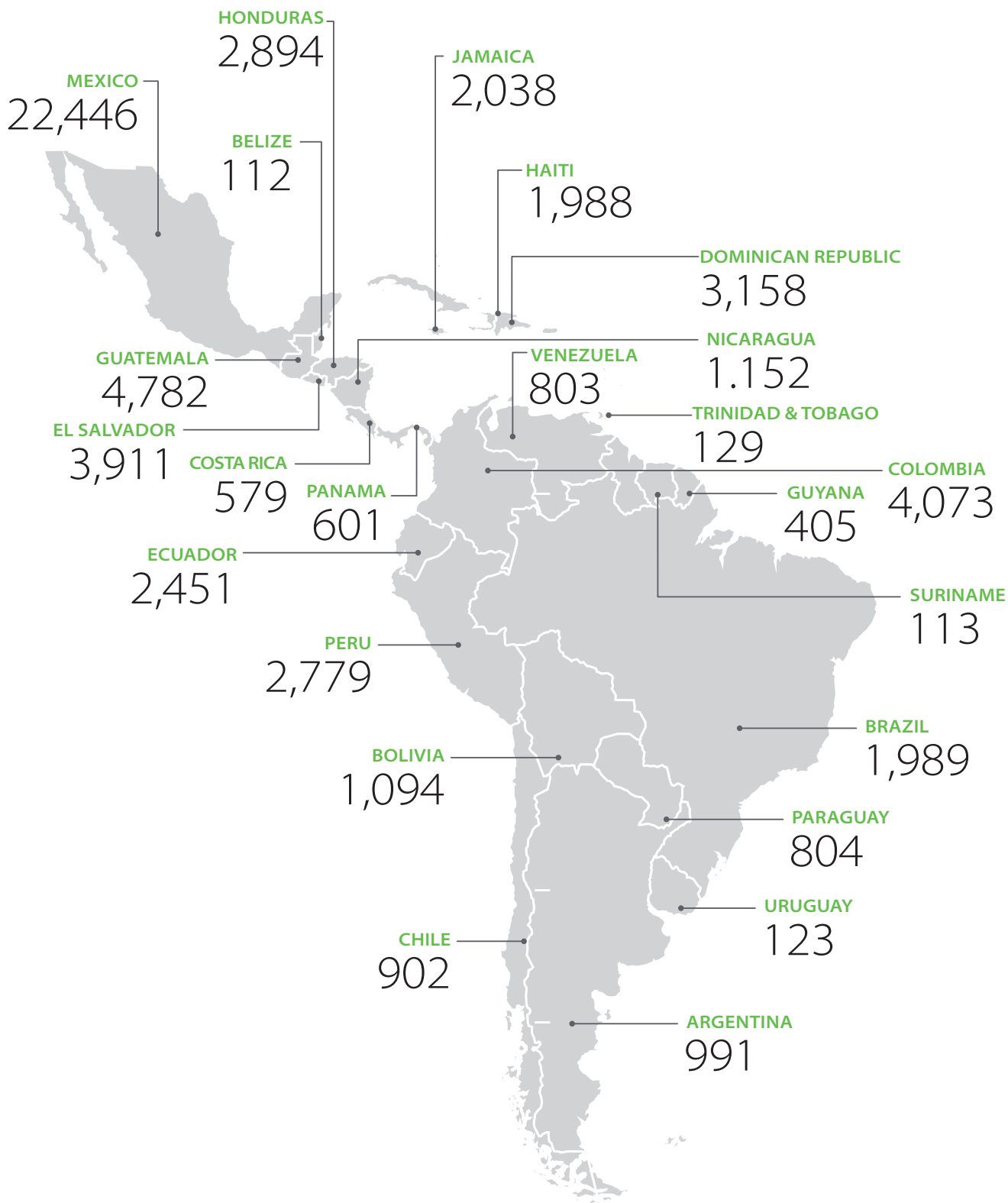
REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN



TOTAL:

US\$ 61,276 millions





TOTAL AMOUNT OF REMITTANCES RECEIVED IN 2012
By country in millions US\$



This document was produced by the Multilateral Investment Fund (MIF), Member of the IDB group.


AUTHORS: Rene Maldonado, coordinator of the MIF project "Improving Central Bank Remittance Reporting and Procedures", in collaboration with Maria Luisa Hayem, from MIF.

SUGGESTED CITATION: Maldonado R., Hayem, M. "Remittances to Latin America and the Caribbean in 2012: Differing behavior across subregions", Multilateral Investment Fund, Inter-American Development Bank. Washington, D.C., 2013.



↓ PART ONE 4

REMITTANCES IN 2012



↓ PART TWO 11

SENDING COUNTRIES' EFFECT ON
REMITTANCE FLOWS



↓ PART THREE 18

RECIPIENT COUNTRIES' EFFECT
ON REMITTANCE FLOWS



↓ CONCLUSIONS AND
PROSPECTS FOR 2013 26





PART ONE

REMITTANCES
IN 2012

The total amount of remittances received by countries in Latin America and the Caribbean (LAC) in 2012 remained nearly the same as in the previous year, resulting in a practically null rate of growth at the regional level. Since the final quarter of 2008, rising unemployment in traditional remittance-sending countries such as the United States, Spain, and Japan, along with the resulting reduction in income of the

LAC migrants living in those countries, led to an unprecedented drop in remittances to the region. Remittance flows began to stabilize in 2010, followed by a slight period of recovery in 2011. Nonetheless, the data from 2012 once again show stagnation in growth, with the total value of remittances received by countries in LAC measured at US\$61.3 billion.

GRAPH 1: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2001-2012) BILLIONS OF US DOLLARS



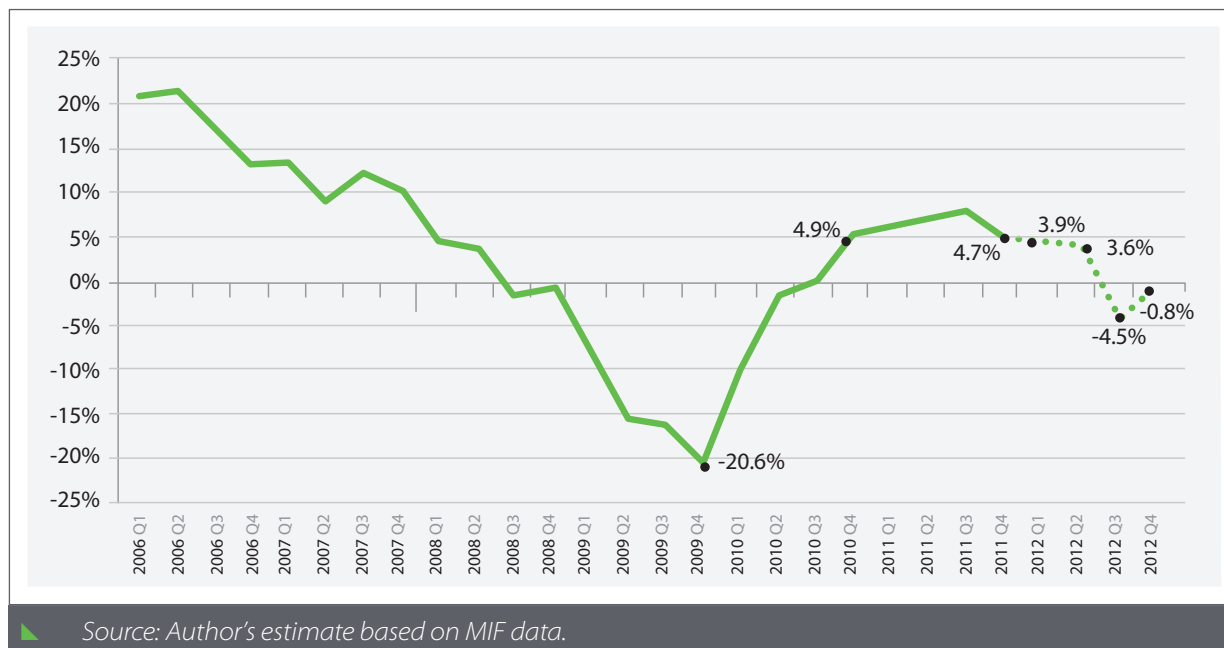
NOTE: Remittances data for 2011 has been revised to reflect updated data for the Dominican Republic and Mexico.

From 2002 to 2008, the annual growth rate of remittance flows received by LAC reached 17% on average. Nevertheless, starting in mid-2008 with the impact of the economic crisis, the flow of remittances experienced negative growth, with a percent change of more than -15% in 2009. During the first months of 2010, the remittance growth rate started to show signs of recovery; first a deceleration of its fall, which during the last quarter of the year turned into a positive rate of growth of 4.9%, a process that continued throughout 2011 to achieve an annual growth rate of 6.0%.¹

Nonetheless, as was observed during the last quarter of 2011, the rate of growth began to drop, turning negative again during the second half of 2012, leaving the overall annual growth rate at only 0.6% compared to the year before.

¹ Maldonado, R., Bajuk, N., Hayem, M. "Remittances to Latin America and the Caribbean in 2011: Regaining Growth". Multilateral Investment Fund, Inter-American Development Bank. Washington D.C., 2012.

GRAPH 2: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2006-2012) YOY GROWTH



The quarterly growth rates of remittances flows in 2012 were 3.9% and 3.6% in the first and second quarters, respectively, followed by a decrease that resulted in a negative growth rate of -4.5% in the third quarter. This reduction appeared to decelerate in the final quarter of the year, with a growth rate of -0.8%, which while still negative, was significantly lower than that of the previous quarter. This suggests that the drop observed during the third quarter might be attributed to a particular shock whose effects could be drawn out throughout the following quarters.

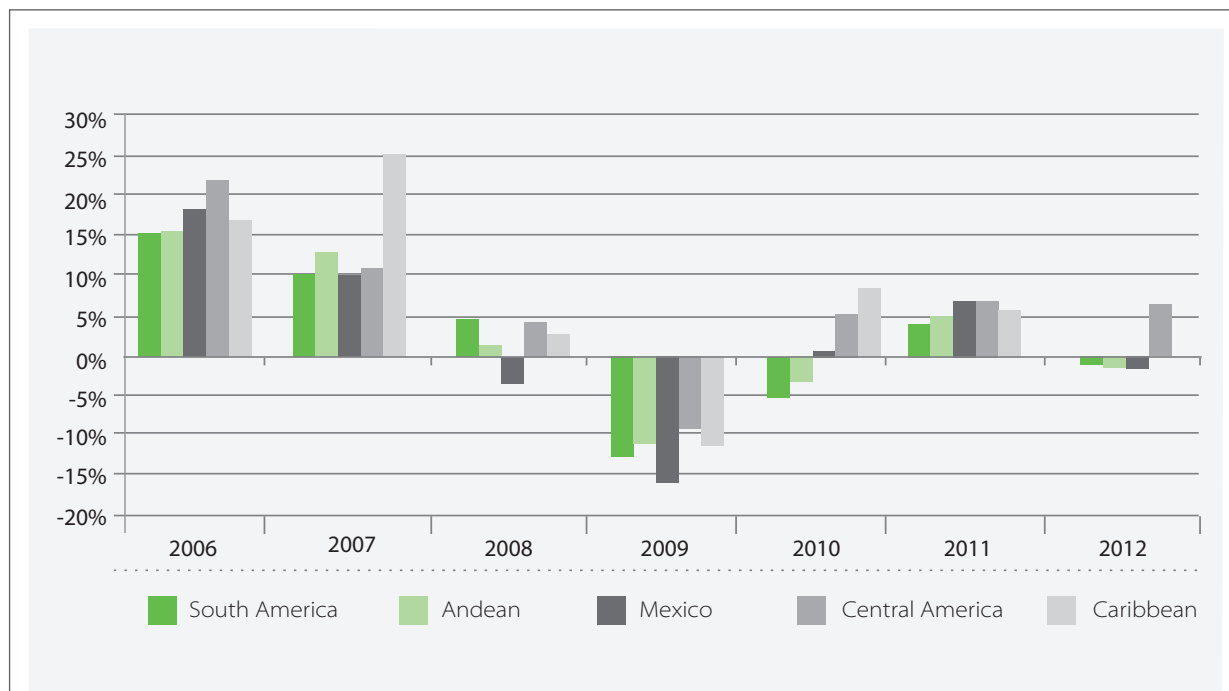
During the economic crisis experienced by traditional remittance sending countries in 2008, a heterogeneous behavior of remittance flows was observed in the various regions within LAC², and for that reason it is necessary to deconstruct these flows into blocks, in which countries displaying similar characteristics are grouped together to allow for better study. For the purpose of this analysis, the region has been divided into four blocks: Mexico, Central America, the Caribbean, and South America.

In **Mexico**, following a strong -16% decline in remittance inflows in 2009 as a result of the United States economic crisis, remittance flows began to recover, first with a slight increase in 2010 and then greater strength in 2011 with an annual growth rate of 6.9%. The first months of 2012 still displayed positive growth rates of 5.4% and 6.6% during the first and second quarters of that year, respectively. Nevertheless, the third quarter of 2012 registered a sharp negative growth of -11.8%, followed by continued negative growth, albeit less extreme, of -5.6% in the last quarter. This behavior could be

² The beginning of the economic crisis and its duration and intensity were different, for example, in the United States as compared to European countries, and as a consequence remittance flows from each of these countries were affected in different ways.

tied to changes in migration flows and improvements in the exchange rate, which incentivized unusual increases in remittance transfers in May³ and June. This transitory increase in transfers may have caused a reduction in remittances sent in the following months. These factors resulted in an overall annual growth rate for Mexico of -1.6% in 2012, relative to remittance volumes recorded in 2011. However, measured in local currency and adjusted for inflation, remittances to Mexico remained steady throughout 2012, as explained later in this report.

GRAPH 3: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN⁴ (2006-2012) YOY GROWTH



Source: Author's estimate based on MIF data.

³ LAC, including Mexico, usually experiences a seasonal increase in remittance transfers due to the observance of Mother's Day. Still, the increase experienced by Mexico in 2012 was above and beyond what was expected.

⁴ For the purposes of this report, the category of Andean countries (Bolivia, Colombia, Ecuador, Peru, and Venezuela) refers to a subset of the 12 South American countries.

In the case of **Central America**, following the effects of the crisis, the flow of remittances began to recover earlier than in other sub-regions, growing by 5.2% in 2010. This tendency for growth became stronger in 2011 with an annual growth rate of 7.0%, carrying into the first quarter of 2012 with a rate of 10.1% growth. The remaining quarters of 2012 also registered positive growth rates, yet less strong, with a growth rate of 3.9% in the second quarter and 6.3% and 6.8% during the final two quarters of the year, respectively. In annual terms, the Central American region displayed an overall growth rate of 6.5% in 2012.

At the same time, following the economic crisis, remittance inflows in the Caribbean region displayed an accelerated recovery in 2010 with a growth rate of 8.3%, attributed in large part to the unusually high volume of transfers received in Haiti in response to the earthquake experienced that year. In 2011, the growth rate relative to the prior year's reached 5.9%, similar to the rest of Latin America. During 2012, the quarterly growth rates in this region remained low, growing only 1.1% during the first quarter and 0.1% during the second. In the third quarter, similar to the trend seen in Mexico but on a smaller scale, remittance flows experienced a drop of -3.5%, then recovered during the final quarter with a rate of 1.6%. The combination of these fluctuations left the region with an overall growth rate for the year of 0.1%, with total remittances flows marginally higher than in the previous year. It is important to emphasize that among Caribbean countries, only the Dominican Republic displayed significant growth with an overall rate of 4.8%. This is consistent with the observed behavior of inflows to the majority of Central American countries, which, like the Dominican Republic, receive most of their remittances from the United States.

Following the economic crisis, **South America** displayed the slowest recovery of remittance flows relative to other sub-regions. In 2010, the flows to South America still had a negative growth rate of -5.3%. During 2011, growth turned positive, with an overall annual increase of 4.0%, the lowest rate of growth in the region. However, during the

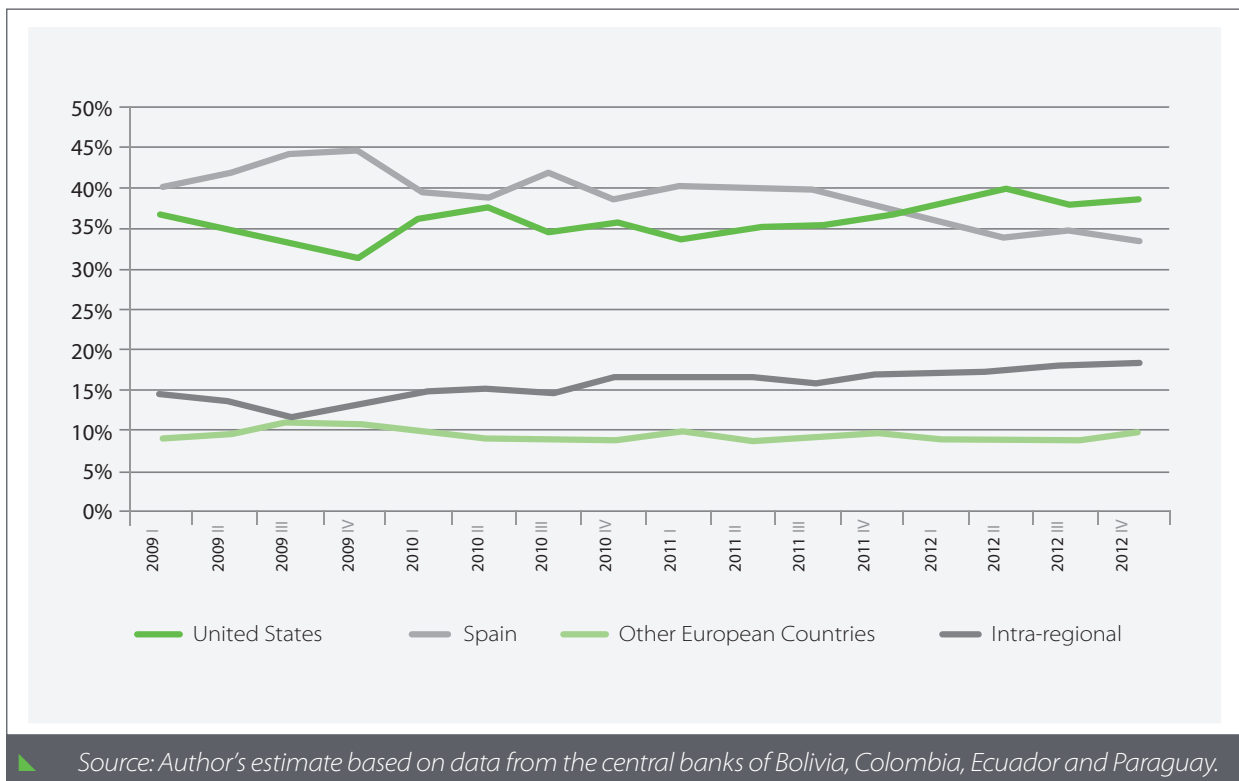


final months of 2011, remittances to this sub-region started to experience negative growth, reflecting a new reduction in remittances sent from Europe, an important source of remittances to South America. The progressive reduction of flows to Brazil, especially coming from Japan, also contributed to this drop in the sub-region. This downward trend was confirmed during 2012, which registered negative growth throughout nearly all of the year, of -1.1% during the first quarter, recovering slightly in the second quarter with a rate of 0.9% and then falling once again to -2.7% and -1.4% during the final two quarters of 2012, respectively. In overall annual terms, in 2012 the growth of remittance volume to the South American region was -1.1%.

→ As in prior years, remittance flows within the South American region displayed a particular dynamic that was shared in common by Andean countries, deserving independent analysis. In 2010 the **Andean countries** experienced a drop of -3.4% in remittance flows, as a result of the importance of remittances from Europe to these countries, and reflecting the erratic economic recovery process in European sending countries. As with remittances to South America overall, remittances to countries in the Andean region in 2011 had showed some recovery with an annual growth rate of 4.8%. Nonetheless, the last few months of 2011 had shown a weakening in that recovery, resulting in negative rates that carried over into the first three quarters of 2012, with -2.4%, -1.1%, and -2.8%, respectively. During the final quarter the growth rate in remittance volume to the Andean region became positive again, reaching a 0.6% growth rate. Overall, this group of countries experienced an annual growth rate of -1.4%, the largest drop in volume recorded within the sub-regions of LAC in 2012.



GRAPH 4: SHARE OF REMITTANCE FLOWS BY COUNTRY OF ORIGIN TO SELECTED COUNTRIES IN SOUTH AMERICA⁵ (2009-2012)



- As a result of the economic crisis faced by European countries, in the past four years the share of remittances from Europe to the LAC region has fallen by -8.9%, particularly that of Spanish origin, which have decreased by -8.1%. This decline has been countered by growth in remittances from the United States, which have increased their share by 4.4%, and those coming from other countries within the LAC region, with an increase of 4.5%. This trend continued in 2012, as the share of remittances from European countries, and mainly from Spain, fell by 4.8%, while remittances from the United States and the LAC region rose by 3.4% and 1.4%, respectively.
- In the case of **Brazil**, during 2011 remittance flows experienced a reduction of -4.9% with respect to the prior year, due to the repatriation of many Brazilian migrants who had been living in Japan. In 2012, this trend was reversed, resulting in a growth of 0.8% in remittances received by Brazil, a change which could be related to improvements in the employment rate among Brazilian migrants living in the United States, which also is an important source of remittances to Brazil.

⁵ The remittance recipient countries analyzed are Bolivia, Colombia, Ecuador, and Paraguay.



PART TWO

SENDING
COUNTRIES' EFFECT
ON REMITTANCE
FLOWS

The economic performance of countries where migrants live determines migrants' ability to obtain employment and generate income, and as a result, their capacity to send remittances each year. Within this context, rates of employment and unemployment, as well as the salary levels of migrants in the host country, are all indicators that help explain the evolution in remittance flows to the region.

United States. Data on the labor market in the United States, a major source of remittances to LAC countries, show that after 2009, time of economic turmoil that provoked a decrease in the employment rate among Latin American migrants by -3.7%, the rate only grew by 1.7% in 2010 and 1.3% in 2011. This growth did not fully compensate for the number of jobs lost during the international economic crisis. In the final quarter of 2011, the employment rate reached 3.5%, which contributed to the recovery of remittance flows sent from the United States. This recovery continued during 2012 as the employment rate rose once again, this time to 7.9% in comparison to the previous year, although in the last quarter of the year the rate of growth slowed down. Improvements in employment rates were accompanied by a growth in the Latin American migrant labor force, which rose by 1.7%, a growth rate smaller than employment, which helped to reduce unemployment rates among these migrants.

GRAPH 5: LATIN AMERICAN EMPLOYMENT AND LABOR FORCE IN THE UNITED STATES (2007-2012) YOY GROWTH

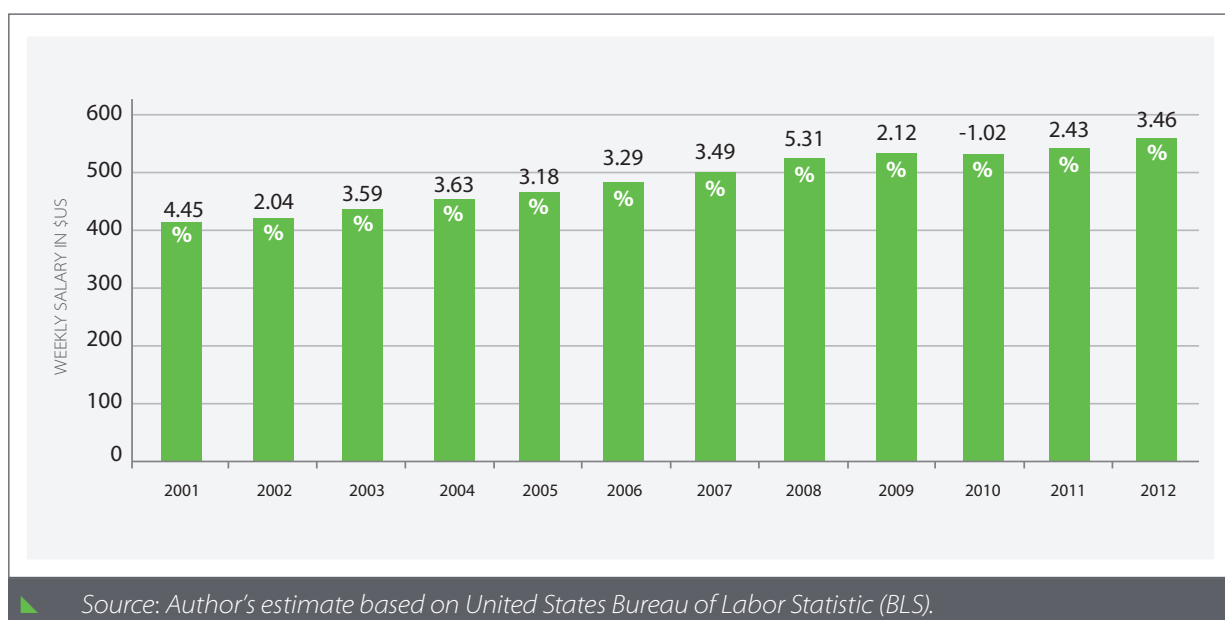


Changes in the labor force were reflected in distinct ways among migrants from LAC. While the Mexican migrant labor force grew by only 1.3%, migrants from other countries experienced an increase of 2.4%. Unemployment rates for Latin American migrants in the United States have

improved since the second half of 2009. Unemployment showed negative growth in 2011 at a rate of -7.4%, and again in 2012 at a rate of -4.4%.

In general, the labor prospects for migrants living in the United States appear favorable for 2013. Data for January 2013 show lower unemployment rates than in 2012, with 8.7% unemployment among non-Mexican migrants and 10.5% among Mexican migrants. Reductions in Mexican migration flows also took place during the first month of 2013, with a drop of -2.8% with respect to the previous year. Migrants from the rest of the region show an 8.7% increase in workers' migration, compared to rates by the end of 2012. These changes in migration flows could translate into reductions in the volume of remittances sent from the United States to Mexico, while leading to growth in remittance flows to the rest of the region and particularly to Central America.

GRAPH 6: WEIGHTED AVERAGE OF WEEKLY SALARIES OF LATIN AMERICA AND THE CARIBBEAN WORKERS IN THE UNITED STATES (2001-2012) TOTAL IN US DOLLARS AND ANNUAL GROWTH RATES



Additionally, for two consecutive years, the average weekly salary of workers from LAC in the United States displayed growth. In 2012, the average weekly salary grew 3.5% to US\$568 per week, in contrast to the negative rate of salary growth of -1.0% experienced in 2010, and even higher than the 2.4% rate of growth measured in 2011. These statistics, together with reductions in unemployment, in large part explain the upturn in remittances received by the region in 2012, particularly in Central America.

Spain. Despite the economic uncertainty experienced by countries in Europe, Spain remains the second most important source of remittances sent to LAC, particularly for many countries in South America.

According to data released by the National Institute of Statistics of Spain, this country is home to around 15% of migrants from the region, especially migrants from the Andean countries, who represent more than 67% of the total number of LAC migrants living in Spain. Ecuador is the country with the largest number of migrants living in Spain with 28% of the total, followed by Colombia and Bolivia with 19% and 11% respectively, and Peru with 10%. Male migrants from LAC tend to work in the construction (27%) and service (54%) sectors, while female migrants are concentrated exclusively in the services industry (94%).

Of these sectors of employment, the construction industry has been the most strongly affected since 2008 by the crisis, reaching an average negative growth rate of -22.8% in 2009. In 2010, the sector experienced a lower average negative growth of -12.8% as a sign of possible economic stabilization; however, negative growth accelerated again in 2011 with an average growth rate of -15.8%, and in 2012 it did not appear to have recovered yet, instead reaching -17.8%. The service industry began to suffer the effects of the crisis by the beginning of 2009, and since 2010 this sector's growth rate hovered around zero. Starting in the final months of 2011 and lasting throughout all of 2012, this sector also deteriorated as a result of the Spanish economic crisis, demonstrating an average annual growth rate of -3.5% for employment in the service industry.

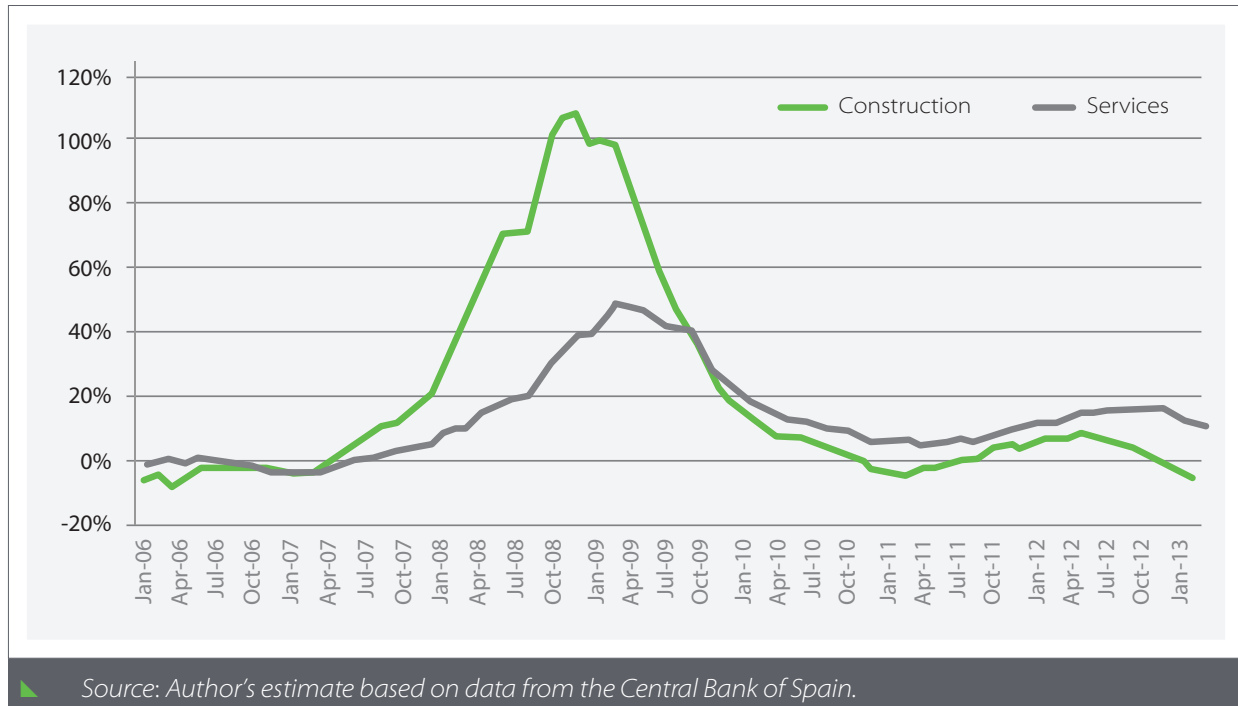
GRAPH 7: EMPLOYMENT IN SPAIN BY ECONOMIC SECTOR (2007-2012) YOY GROWTH



Source: Author's estimate based on data from the Central Bank of Spain.

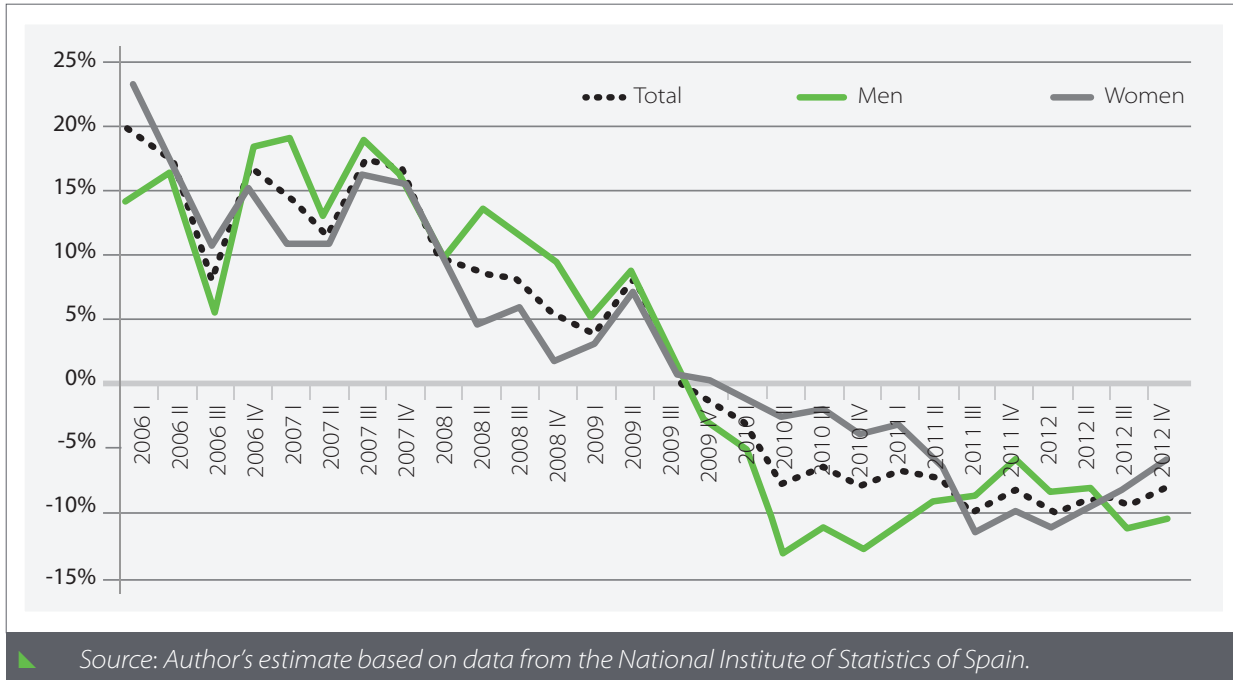
Unemployment in the construction and service sectors in Spain showed a positive growth rate the first quarters of 2012. Nevertheless, during the last months of the year there was a deceleration that resulted in a negative unemployment rate in the construction sector of -2.6% in December. Despite this improvement, the unemployment growth rate at the end of the year remained positive at 14.9%, a higher rate than that observed at the end of 2011 of 10.14%.

GRAPH 8: UNEMPLOYMENT IN SPAIN BY ECONOMIC SECTOR (2006-2012) YOY GROWTH



The reduction in economic activity in Spain has been accompanied by a decrease in the number of people of Latin American origin living in that country, with negative population growth rates since 2010. In 2011 the negative rate of population growth reached an average of -7.9%, becoming even more negative in 2012 with -9.0%, experiencing a slight deceleration during the last quarter of the year.

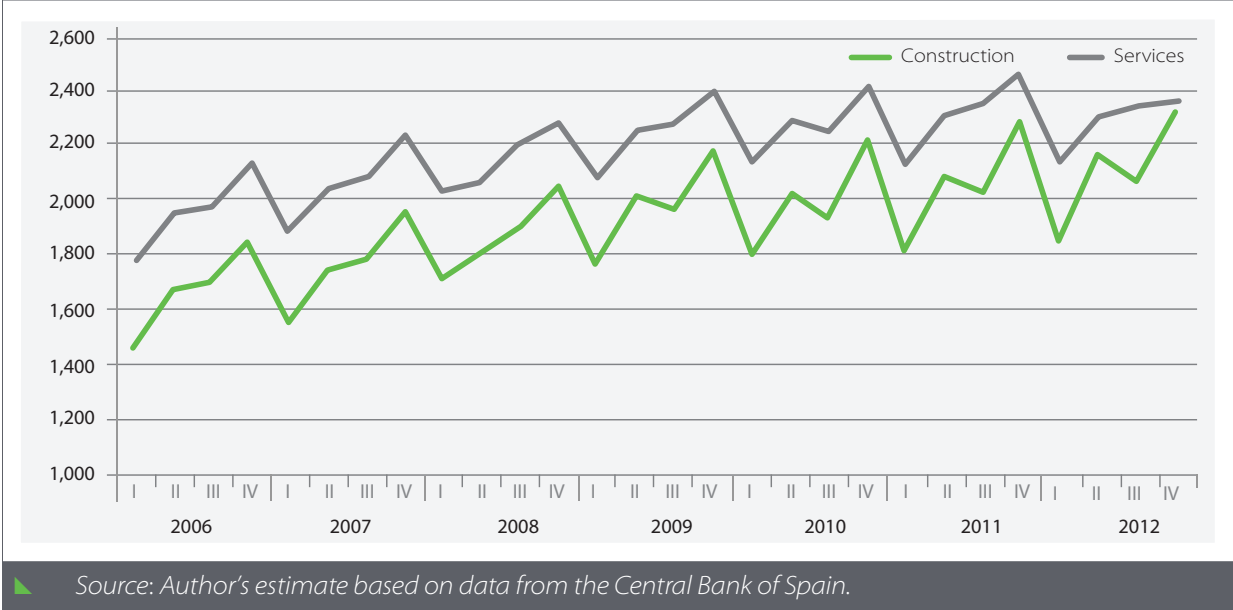
GRAPH 9: LATIN AMERICAN POPULATION IN SPAIN (2006-2012) YOY GROWTH



The reduction of activity in the construction sector that has taken place since 2008 may explain the reduction in the number of male migrants. In contrast, the relative stability of the service industry until mid-2011 resulted in a smaller reduction in the number of women migrants living in Spain. Nonetheless, in 2012 the worsening of the Spanish economy continued to impact the construction sector as well as the service industry, which is reflected in a contraction in the number of both male and female migrants in Spain.



**GRAPH 10: SALARIES IN SPAIN BY ECONOMIC SECTOR (2006-2012)
EUROS PER MONTH**



Average annual income among workers in the construction and service industries has largely remained unchanged since 2010. In 2012, there was a small increase of 2.2% for the construction sector and a -0.8% reduction in the service sector. This reality, combined with drops in employment and migration, may explain the reduction in the volume of remittances sent from Spain to South America, and especially to countries in the Andean region, for which these flows represent nearly one third of the total remittance flows to the sub-region.





PART THREE

RECIPIENT COUNTRIES' EFFECT ON REMITTANCE FLOWS

In addition to the impact of the economic conditions in remittance sending countries, other factors related to the receiving country may influence migrants at the moment of sending a remittance. Considerations such as the value of the remittance received, or the economic growth of the migrant's country of origin, may be taken into account when deciding how much money to send, or even whether to change his or her country of residence.

Value of the remittance received. Given that the majority of remittances are used to cover the recipient household's basic living expenses, migrants tend to place importance on maintaining the purchasing power of remittances received. Among the factors that influence the value of these transfers are the exchange rate between the currency of the sending country and that of the receiving country, as well as changes in the price of goods and services.

In 2012, local currencies of countries in LAC lost value against the dollar by an average of -3.1%⁶ at the regional level, although exchange rates varied by country, as shown in Box 1. Depending on the case, the exchange rate benefited or penalized migrant remittance senders according to the fluctuation of the value of local currency with respect to the dollars or euros sent.

Similar to what was observed in 2011, the average inflation in countries within the region was around 4.4% in 2012, which largely reduced the purchasing power of remittance flows. Inflation rates within the region were higher in South American countries (4.9%), the Andean sub-region (4.6%), and the Caribbean (4.5%) than in Mexico (4.1%) and Central America (4.0%)⁷.

Observing aggregated data for the region, an analysis of both contrasting effects shows that total remittance flows in 2012 were slightly affected by increased inflation that exceeded any gains that may have been generated by exchange rate variations, leaving the purchasing value of remittances with a negative growth of -0.7%. At the sub-regional and individual country levels, there were both gains and losses in the value of remittances depending on the case, as a product of these two factors. For example, South American countries observed a drop in remittance value of -4.4%. Within this sub-region, the Andean countries experienced a higher drop of -8.1%, especially because of the appreciation of Colombian and Peruvian currencies. In Central America, despite the effects of inflation, remittances still displayed an increase of 3.4% in value. In the Caribbean countries the value of remittances declined by -2.3%, while Mexico experienced an increase in value of 0.2% due to an improvement in the exchange rate.

⁶ Calculated by weighting the variations in the value of remittances in local currency in each country, proportionate to the country's share in overall remittance flows at the regional and sub-regional levels.

⁷ Regional and sub-regional inflation rate is calculated by weighting the variations in the Consumer Price Index for each country, proportionate to the country's share in overall remittance flows at the regional level and sub-regional levels.

BOX 1: EFFECT OF EXCHANGE RATE AND INFLATION ON REMITTANCES (2011-2012) US DOLLARS AND ANNUAL GROWTH RATES

	REMITTANCES IN 2012 (MILLIONS OF US\$)	ANNUAL GROWTH RATE: 2011-2012 (1)		
		REMITTANCES IN US\$	IN LOCAL CURRENCY	IN LOCAL CURRENCY AND ADJUSTED FOR INFLATION
SOUTH AMERICA	16,527	-1.1%	0.5%	-4.4%
ARGENTINA	991	-2.0%	8.1%	-1.7%
BOLIVIA	1,094	8.1%	8.2%	3.6%
BRAZIL	1,989	0.8%	18.1%	12.0%
CHILE	902	-3.6%	-2.9%	-5.7%
COLOMBIA	4,073	-2.3%	-5.1%	-8.0%
ECUADOR	2,451	-8.3%	-8.3%	-12.8%
GUYANA	405	1.0%	1.0%	-1.2%
PARAGUAY	804	1.9%	8.0%	4.2%
PERU	2,779	3.0%	-1.4%	-4.9%
SURINAME	113	-0.9%	-0.9%	-0.9%
URUGUAY	123	-1.6%	4.0%	-3.8%
VENEZUELA	803	-0.7%	-0.7%	-18.0%
CENTRAL AMERICA	14,031	6.5%	7.4%	3.4%
BELIZE	112	4.7%	2.2%	0.9%
COSTA RICA	579	9.2%	8.7%	4.0%
EL SALVADOR	3,911	7.2%	7.2%	5.3%
GUATEMALA	4,782	9.3%	9.3%	5.3%
HONDURAS	2,894	1.1%	3.4%	-1.7%
NICARAGUA	1,152	9.4%	14.8%	6.8%
PANAMA	601	1.5%	1.5%	-4.0%
CARIBBEAN (2)	8,272	0.1%	2.2%	-2.3%
DOMINICAN REP.	3,158	4.8%	8.0%	4.2%
HAITI	1,988	-3.4%	-3.4%	-9.1%
JAMAICA	2,038	0.6%	4.2%	-2.5%
TRINIDAD AND TOBAGO	129	-1.5%	-1.2%	-1.2%
MEXICO (3)	22,446	-1.6%	4.3%	0.2%
MEXICO	22,446	-1.6%	4.3%	0.2%
LAC	61,276	0.6%	3.7%	-0.7%

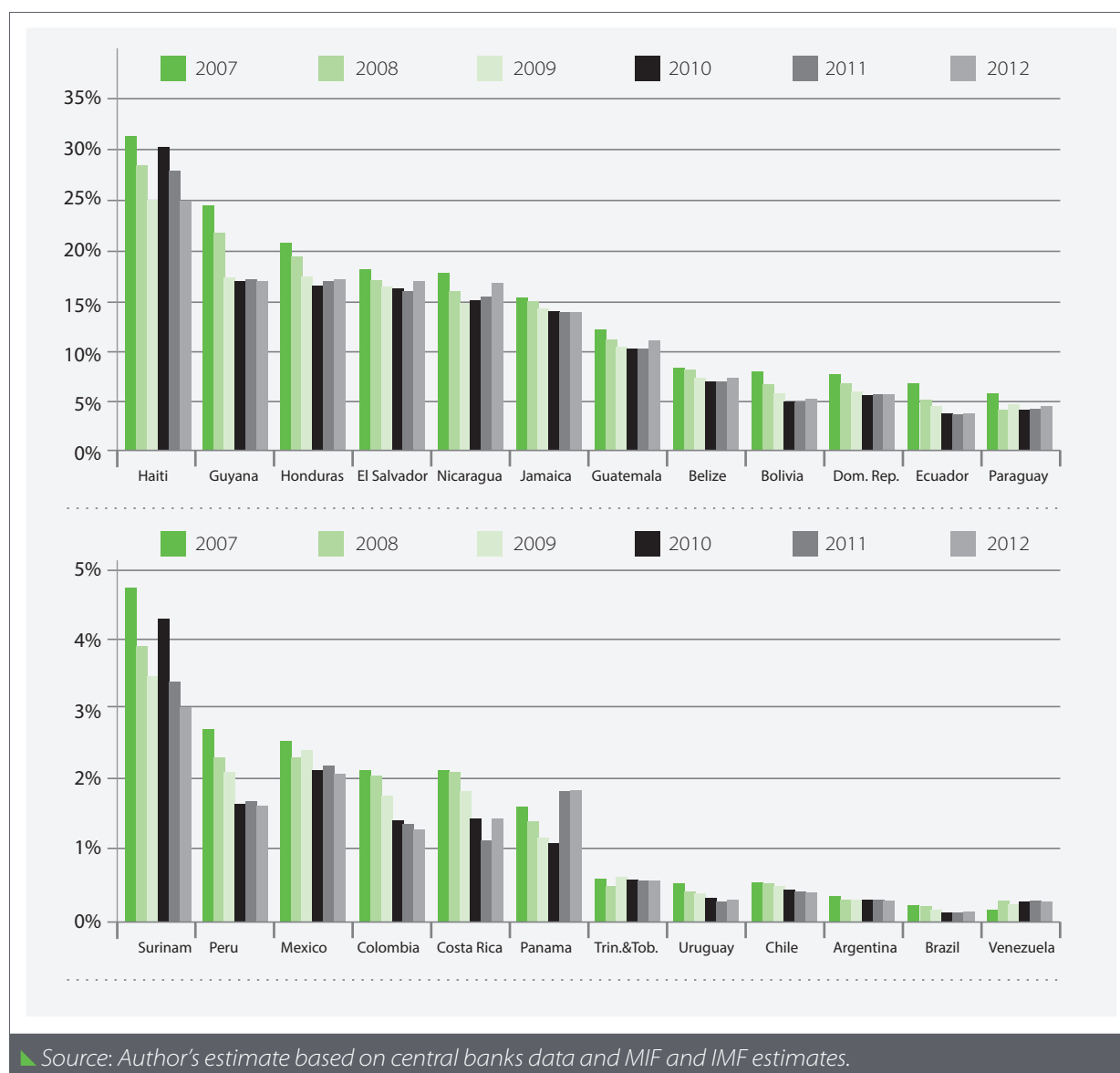
Source: Author's estimate based on MIF and central banks data.

NOTES:

- (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) Sub-regional data for the Caribbean aggregates data from other countries in the sub-region. The variations of remittances flows to the region in 2012 reflect adjustments in 2011 data estimates.
- (3) The variations of remittances flows to Mexico in 2012 reflect adjustments in 2011 data estimates.

Economic growth of recipient countries. One important factor in the decision to migrate is growth in the migrant’s country of origin, and with that, potential job opportunities. If the conditions in remittance recipient countries improve, the incentive to migrate decreases, and if economic conditions improve drastically, in some cases it can promote the return of migrants to their home countries.

GRAPH 11: REMITTANCES TO LATIN AMERICAN AND THE CARIBBEAN (2007–2012) PERCENTAGE OF GDP



Despite the reduction of remittance flows with respect to Gross Domestic Product (GDP) in recent years, for countries such as Haiti, Guyana, Honduras, El Salvador, Nicaragua, Jamaica, and Guatemala, these flows still represent more than 10% of GDP.

On a microeconomic level, these flows represent an important source of income for the millions of families in the region that depend on these transfers, including families living in economies with higher GDPs. Remittance flows have contributed to a reduction in poverty within countries in the region and has allowed many families to achieve a higher quality of life by financing the purchase of consumer goods and investments in education, health, housing, and business development. Without this regular flow of resources sent by migrants to their families, many remittance recipient families would fall below the poverty line.⁸



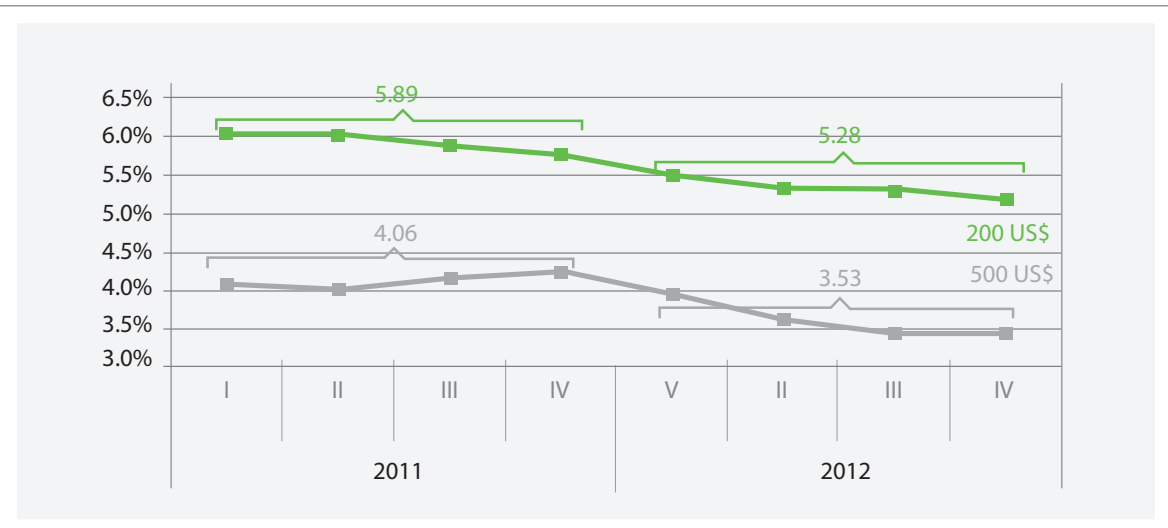
⁸ Monge Gonzalez, R., Torres, O., Vargas Aguilar, J. "South-South Remittances: The Importance of the Costa Rica-Nicaragua Corridor," 2009.



BOX 2: REDUCTION OF THE COST OF SENDING REMITTANCES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC IN 2012

In 2012 the median price of remittance transfers sent from the United States to Central America and the Dominican Republic fell. This result is derived from information generated by the Envía Centroamérica database <http://www.enviacentroamerica.org>, an initiative of the Multilateral Investment Fund (MIF), the Inter-American Development Bank (IDB), the World Bank (WB), and the Center for Latin American Monetary Studies (CEMLA). The cost to send US\$200 fell from 5.89% in 2011 to 5.28% in 2012, while the cost of sending US\$500 dropped from 4.06% in 2011 to 3.53% in 2012, as can be seen in the following graph.

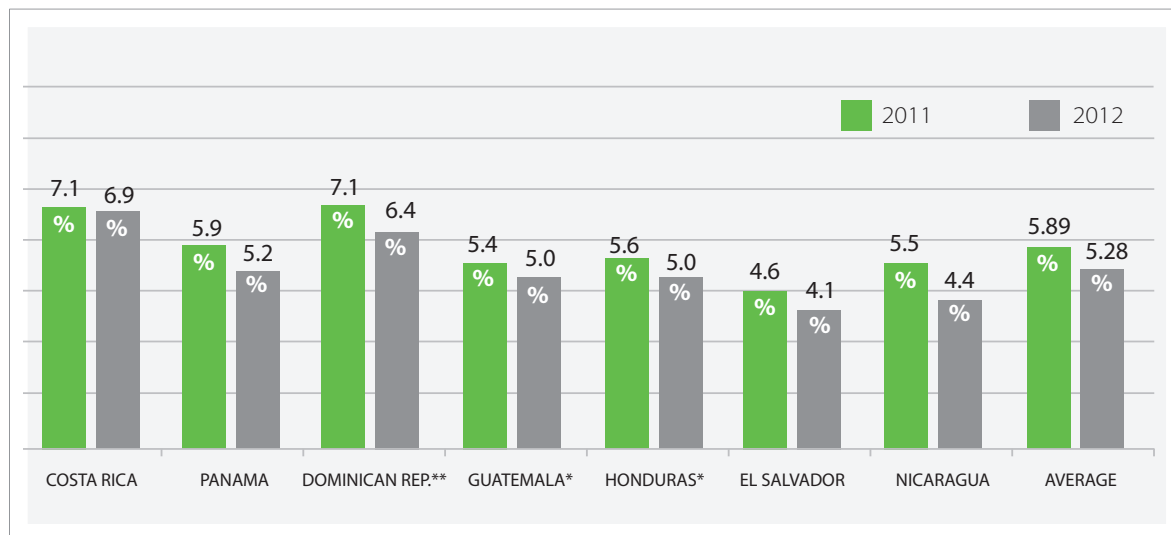
AVERAGE PERCENT COST OF SENDING A REMITTANCE TRANSFER OF US\$ 200 FROM THE UNITED STATES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC



In 2012, migrants experienced a reduction of US\$1.22 on average to send US\$200, representing a decrease of 10% in the cost of sending remittances with respect to 2011. Therefore, while in 2011 a migrant paid US\$11.78 to send US\$200, in 2012 he or she paid US\$10.56.

The reduction in average cost to send remittances from the United States was reflected differently in each of the seven countries in this subset, and differences in the magnitude of change in each country is reflected in the following graph.

AVERAGE PERCENT COST OF SENDING A REMITTANCE TRANSFER OF US\$200 FROM THE UNITED STATES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC



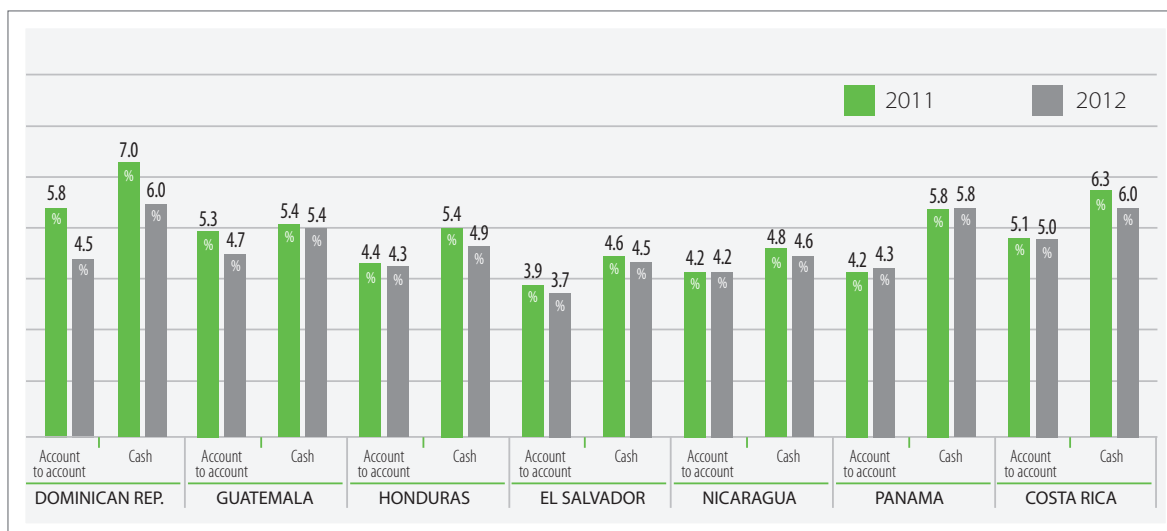
NOTE: *Does not include credit card to cash services. **Does not include home delivery services.

It is estimated that in 2012, migrants from Central America and the Dominican Republic working in the United States spent approximately US\$630 million to cover the cost of remittance transfers to family members in their countries of origin. In 2011, the amount spent on remittance transfers totaled close to US\$671 million. This estimated US\$41 million reduction in remittance transfer costs was the net result of a reduction of 12.4% in the average cost of these transfers, combined with a 6.3% increase in the total volume of remittances sent by migrants in the United States to Central America and the Dominican Republic.

In 2012 there were significant differences between the average costs of remittance transfers from the United States to the various countries within this sub-region. As a percentage of the amount sent, costs were highest among remittances to the Dominican Republic and Costa Rica and lowest among transfers to the other Central American countries. It is important to point out that for transfers to El Salvador and Panama, dollarized economies, as well as to Nicaragua, where the majority of remittance payouts are made in dollars, the consumer was not affected by additional cost associated with exchange rate spreads. In the case of the Dominican Republic, the home delivery of remittances dominates the market, and is also the most expensive method of receiving remittances.

In general, transfers of remittances to Central America and the Dominican Republic made through a bank account are less expensive than transfers in cash, as illustrated in the following graph. However, the use of this method of sending is still relatively limited in the United States.

AVERAGE COST OF CASH REMITTANCES VERSUS ACCOUNT TO ACCOUNT TRANSFERS, 2011-2012



Many remittance transfer providers offer money transfers from the United States to Central America and the Dominican Republic via debit and credit cards, with payments made in either cash or direct deposit to an account on the receiving end. There are variations in costs depending on delivery modalities, cash payouts being normally more expensive than direct deposits to accounts. Overall, for this subset of seven countries, the differential cost was 2.1 percentage points in 2012, but it was even higher in the case of transfers to Guatemala, Honduras, and Costa Rica.

Finally, it is important to note that the reduction in the cost of remittance transfers from the United States to the seven countries considered in this analysis was derived from a decrease in prices across a significant number of remittance transfer providers. Between 2011 and 2012, 49% of remittance transfer providers reduced their prices, 22% maintained existing pricing, and 17% raised them.



**CONCLUSIONS
AND PROSPECTS
FOR 2013**

7.09

3.98

3.9

ACROE

For the remittance market in LAC, 2012 was a year of contrasts between distinct sub-regions. While remittances to South America decreased by -1.1%, reflecting the effects of the economic crises that still plague Europe, and especially Spain, the Caribbean displayed modest growth and Central America experienced a significant increase of 6.5% in the total remittances received, which allowed the region as a whole to end the year with slight positive growth.

In the case of Mexico, despite its similarity to Central America in that it receives the majority of its remittances from the United States, the country experienced a -1.6% drop in the volume of remittances received in 2012. This reduction could be related to changes in migration flows as well as to increases in the exchange rate between the Mexican peso and the U.S. dollar.

The macroeconomic prospects of the three principal sources of remittances to the region – the United States, Europe, and other countries within the region – provide some clues to the potential behavior of remittance flows in the future. The relatively stable macroeconomic projections for the United States, with an expected product growth rate increase similar to 2012, may suggest stabilization in the growth of aggregate remittance flows to the region in 2013.







MULTILATERAL INVESTMENT FUND
New York Avenue, N.W.
Washington, D.C. 20577
www.fomin.org