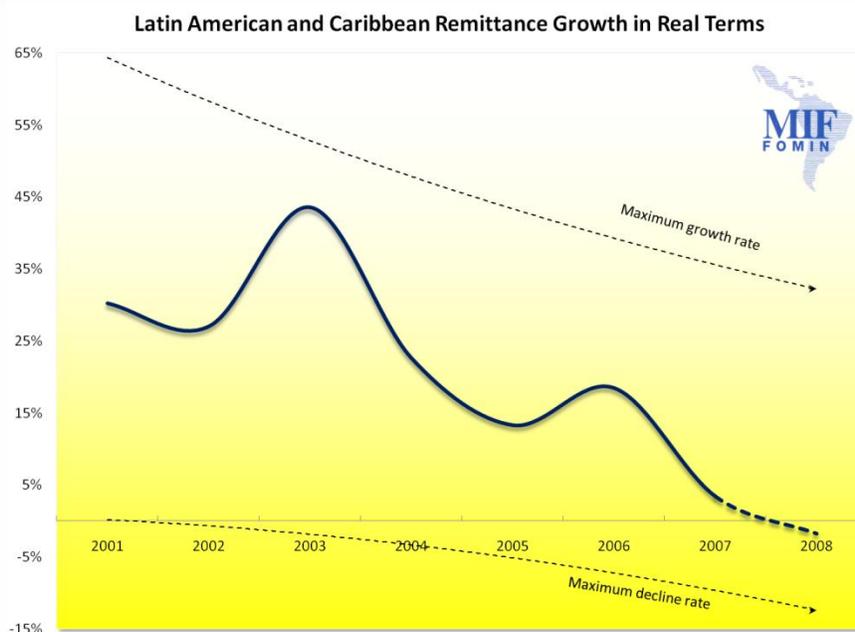


## IDB estimates of 2008 remittance flows to Latin America and the Caribbean

### Remittances contributing less to regional family income for first time

The Inter American Development Bank (IDB) projects that remittances to Latin America and the Caribbean will grow by 1.5% in 2008, reaching 67.5 billion dollars. Despite a nominal increase, this will be the first year on record during which the real contribution of remittances to households will have decreased. Adjusted for inflation and exchange rate variations, the IDB estimates that remittances will have contributed 1.7 % less to the household incomes in Latin America and the Caribbean than in 2007.<sup>1</sup>



Remittances to some of the key countries in the region have shown negative growth in 2008. Mexico and Brazil, the top two recipient countries, showed consistent declines in remittance receipts since mid-2007, and both of these countries showed negative remittance growth earlier this year. In August of 2008, the drop in remittances growth spread to El Salvador and Guatemala, countries where remittance flows represent a significant proportion of GDP, at 18% and 12%, respectively.

A number of factors have contributed to this reduction in the contribution of remittances:

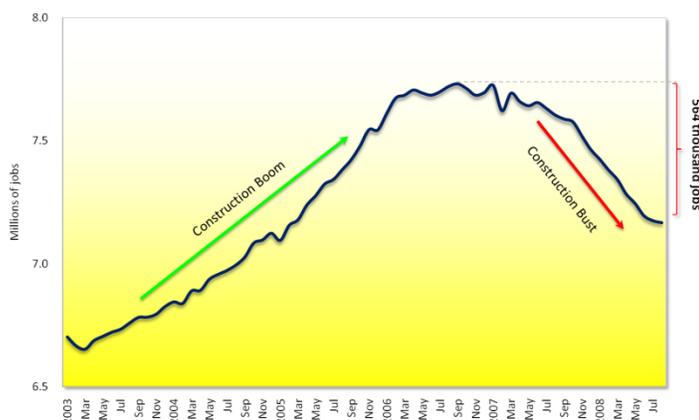
- 1) **Inflation:** The significant rise in the price of food and fuel makes life more expensive for migrants sending money home. At the same time, these price rises also increase the needs of families dependent on remittances from abroad.
- 2) **Economic downturns:** The downturns in the US economy, and more recently in Spain, have made it more difficult for immigrants to find well-paying jobs.
- 3) **Migration Climate:** In remittance sending countries, the migration climate is becoming more restrictive, affecting migrants' ability to send money home.
- 4) **Value of the dollar:** Many non-dollarized economies in Latin America and Caribbean have seen their currencies appreciate against the dollar. As a result the dollars sent home are not going as far as they used to.

<sup>1</sup> The estimates are based on 2008 data from nine central banks reporting monthly or quarterly remittance flows and representing approximately 88.5% of remittances to the region.

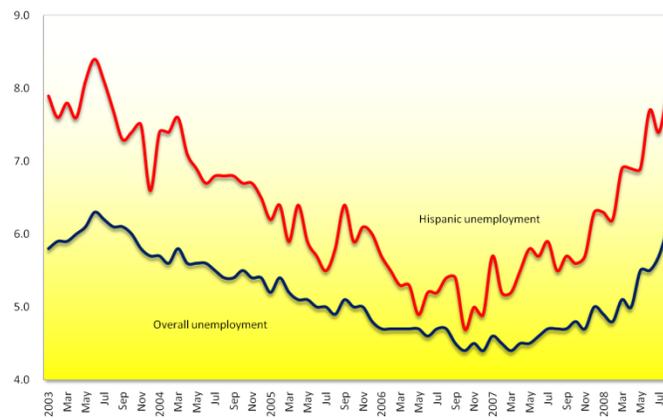
## Outlook for remittances from the US and Spain

The United States and Spain are the two most important countries from which remittances to the region flow, and the fortunes of migrants are currently closely intertwined with the health of these two national economies. Recent data suggests that the economic slowdowns in both countries are impacting the ability of migrant workers to send money home.

Job Development in the US Construction Sector



Hispanic Unemployment in the United States



According to the United States Bureau of Labor Statistics, Hispanic unemployment in the United States has been climbing steadily since October of 2006. In August of this year it reached 8%, almost 2% above the national unemployment rate. In Spain, the number of immigrants claiming unemployment benefits has surged by 81% in the last year.<sup>2</sup> Mirroring the US construction sector, which has shed over half a million jobs, construction jobs in Spain declined by 7.9% during the second trimester of this year, partially contributing to the increase in migrant unemployment.

Past surveys commissioned by the IDB show that 17% of remittance senders are employed in construction and therefore, the remittances they send are sensitive to changes in the job market in the short term while migrants are less likely to send remittances while seeking new employment, they are versatile and will move to other sectors or states to meet the needs of their families in the medium to long term.

### What does this mean for the future of remittances to the region?

It is clear that remittance flows will change in concert with global economic reality. Hard economic times hit everyone – nationals and migrants alike. However, it is important to keep the decrease in the impact of remittances in perspective. Any decline is likely to be modest, because migrant workers have proven their ability to adapt to changing demand for their labor. Focus groups held earlier this year illustrate that Latin American and Caribbean immigrants are cutting back on their own consumption, moving between job sectors and even moving from one state to another in order to be able to continue sending money home.

<sup>2</sup> Kingstone, Steve "Spain's radical plan for migrants" BBC, <http://news.bbc.co.uk/2/hi/europe/7568887.stm>

Migration is the result of developmental imbalance: people move when the expected future benefits outweigh the financial costs and personal sacrifices associated with migration. The case of Brazil is illustrative of the fact that when conditions improve, migrants move back.

In addition, migrant workers are extremely well informed regarding the labor market in destination countries, often having a job waiting for them before they travel abroad. As jobs become less plentiful in the US and Europe, those considering working abroad are likely to seek employment closer to home; the first indications of an increase in intra-regional remittances are already emerging.

### **What is the IDB doing to leverage the development impact of remittances?**

In countries such as Mexico, remittances are a key poverty reduction tool, as more than 57% 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, 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. The IDB 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 fact that leaner times are ahead makes it all the more important that migrants and their families receive greater access to formal financial services to leverage the funds they receive. Mainstreaming remittance clients can serve to assist them in building savings while at the same time giving banks and microfinance institutions access to new sources of deposits.

### **Conclusion**

After years of double digit increases in remittances, the massive remittance growth has ceased. Faced with inflation, economic downturns in sending countries, a stricter immigration climate and a weaker dollar, many remittance recipients are finding it more difficult to make their remittances stretch as far as they used to.

For the economies of Latin America and the Caribbean, remittances are a stable source of vital foreign currency and for millions of families throughout the region remittances are key to achieving financial independence.

Ensuring that migrant workers and their families have access to basic financial services such as savings accounts, insurance and loans will allow remittances to achieve their maximum developmental impact.

Remittances make an important contribution to alleviating the developmental imbalance that lies at the heart of why millions seek a better life abroad. As long as developed countries need migrant labor, immigrants will continue to migrate. For that reason, when the global economy recovers, remittance flows will do the same.