



International Monetary Fund
June 14, 2017

**Migration and Remittances
in LAC: Macroeconomic
Stabilizers and Engines of
Growth?**



Key Questions

Importance of migration and remittances

- Can they act as engines of growth?
- Are remittances macroeconomic stabilizers?
- What policies promote (net) benefits?

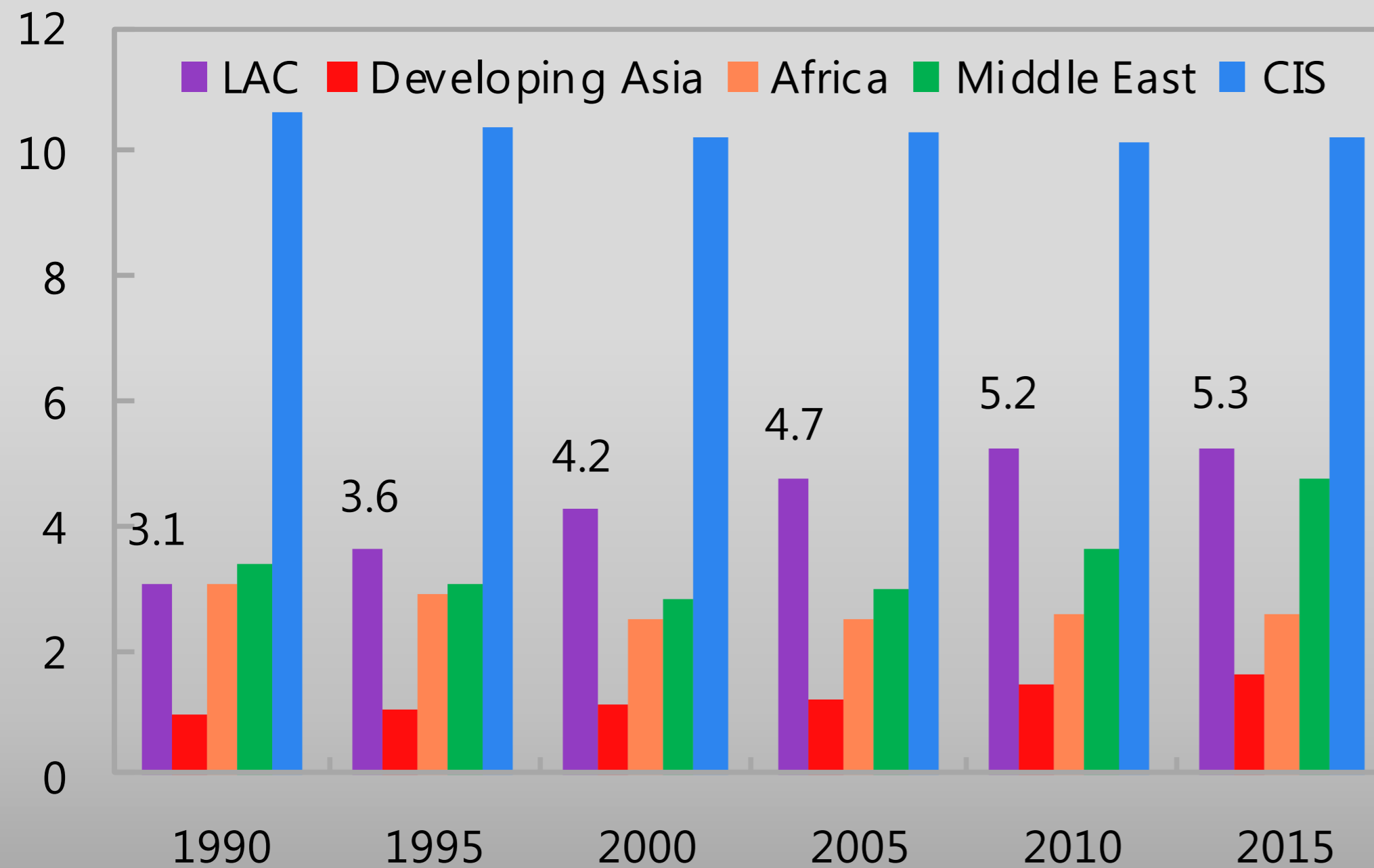
Perils to remittance dependence

- What policies to mitigate?

The stock of LAC emigrants is amongst the highest globally with emigrants sending substantial funds home

Emigrants

(Percent of population)

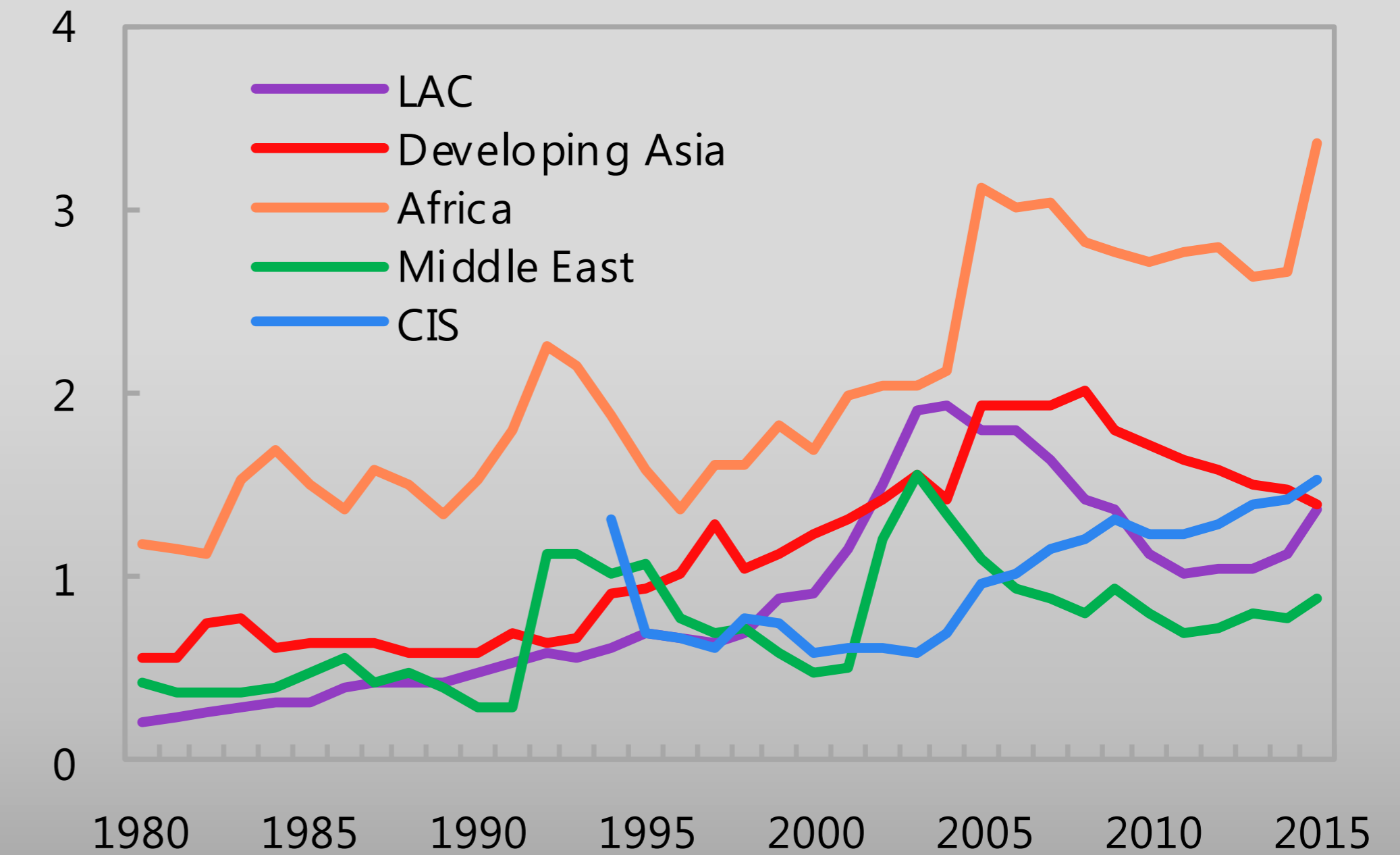


Sources: UNPD; and IMF staff calculations.

Note: CIS = Commonwealth of Independent States.

Remittances

(Percent of regional GDP)

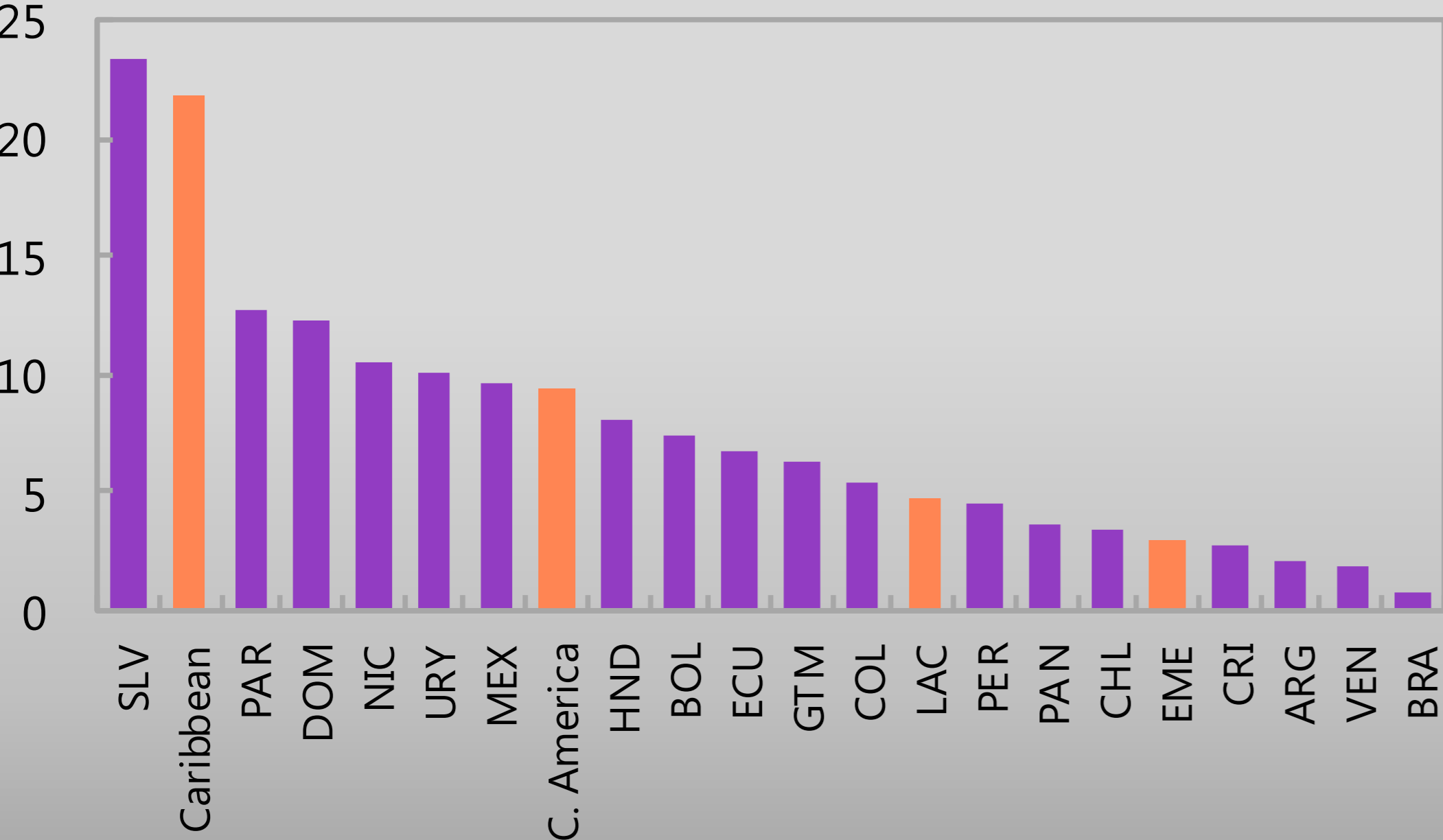


Sources: World Bank; and IMF WEO.

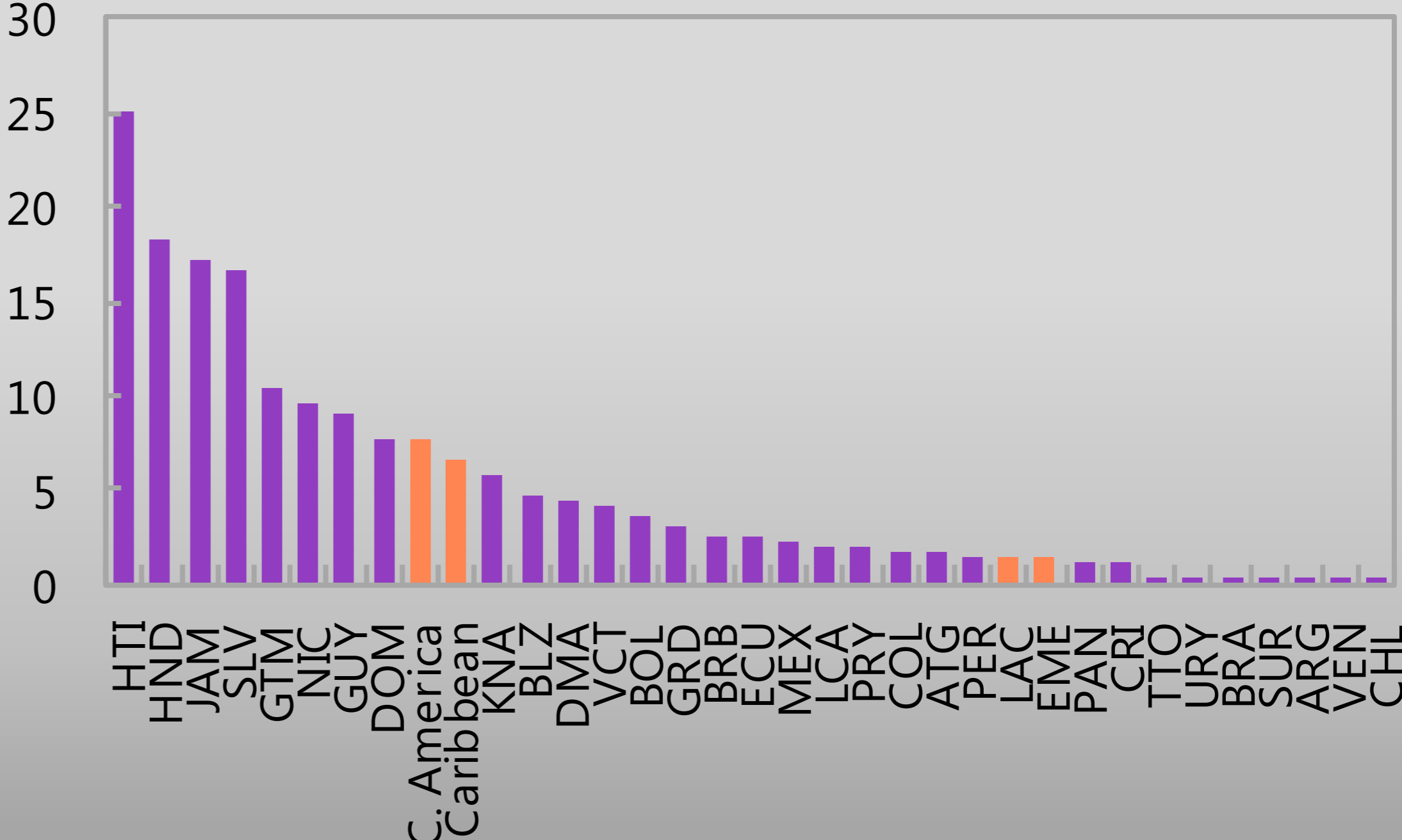
Note: CIS = Commonwealth of Independent States.

Central American and Caribbean receive significantly more remittances than Mexico and South America

Emigrants, 2015
(Percent of total population)



Remittances, 2015
(Percent of GDP)



Sources: UNPD; and IMF staff calculations.

Sources: World Bank; and IMF WEO.

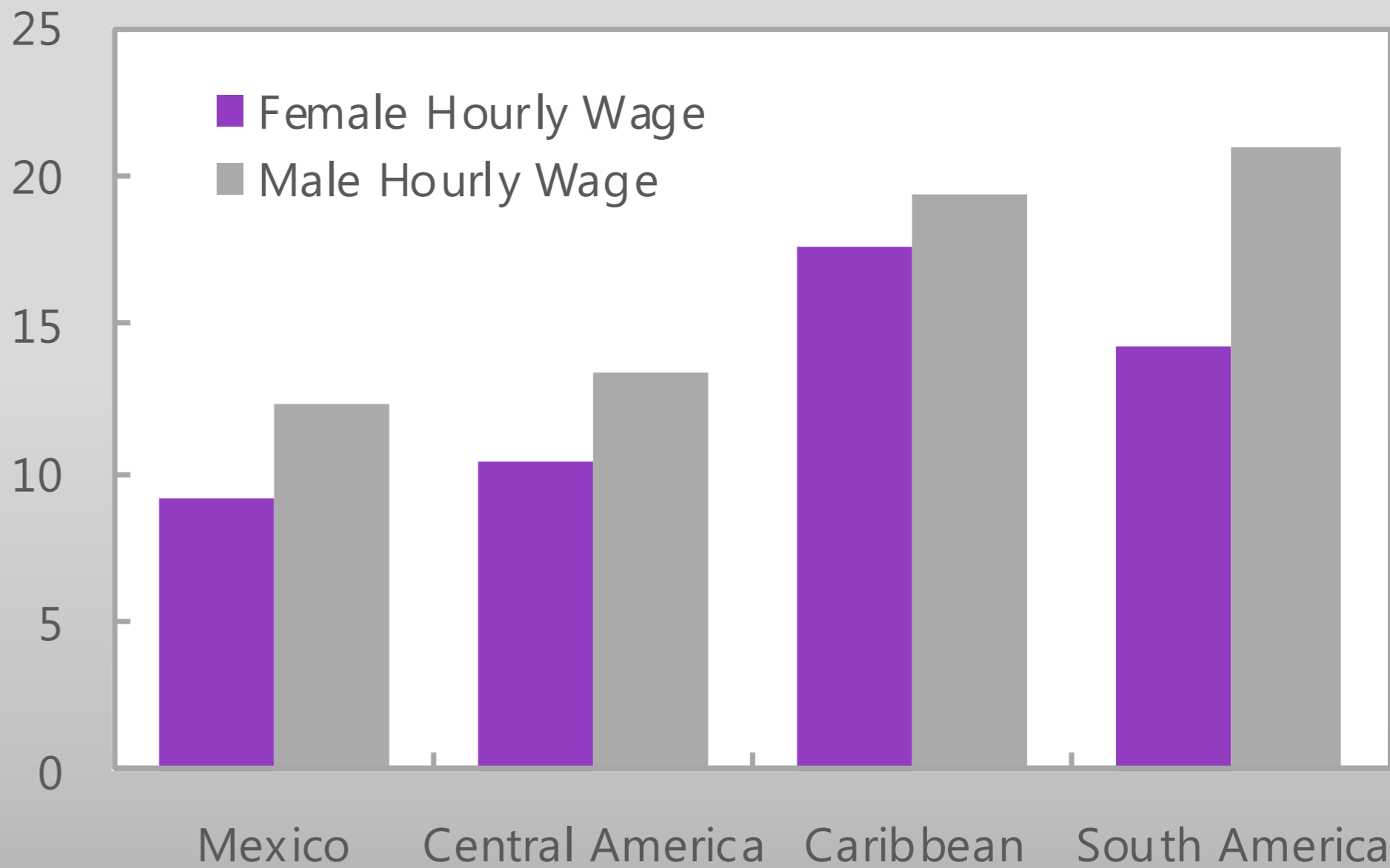
Migrant profiles also differ within LAC with brain drain a concern for the Caribbean

Top Occupations, Immigrants Who Entered After Age 22, 2014			
Mexico		South America	
17%	Building and Grounds Cleaning and Maintenance	12%	Building and Grounds Cleaning and Maintenance
14%	Production	11%	Office and Administrative Support
14%	Construction and Extraction	9%	Sales and Related
11%	Food Preparation and Serving	8%	Management, Business, Science, and Arts
10%	Transportation and Material Moving	7%	Production
Central America		Caribbean	
20%	Building and Grounds Cleaning and Maintenance	13%	Healthcare Support
12%	Construction and Extraction	12%	Office and Administrative Support
11%	Production	8%	Healthcare Practitioners and Technical
10%	Transportation and Material Moving	7%	Personal Care and Service
8%	Food Preparation and Serving	7%	Building and Grounds Cleaning and Maintenance

Source: 2008 American Community Survey.

Average Migrant Wages

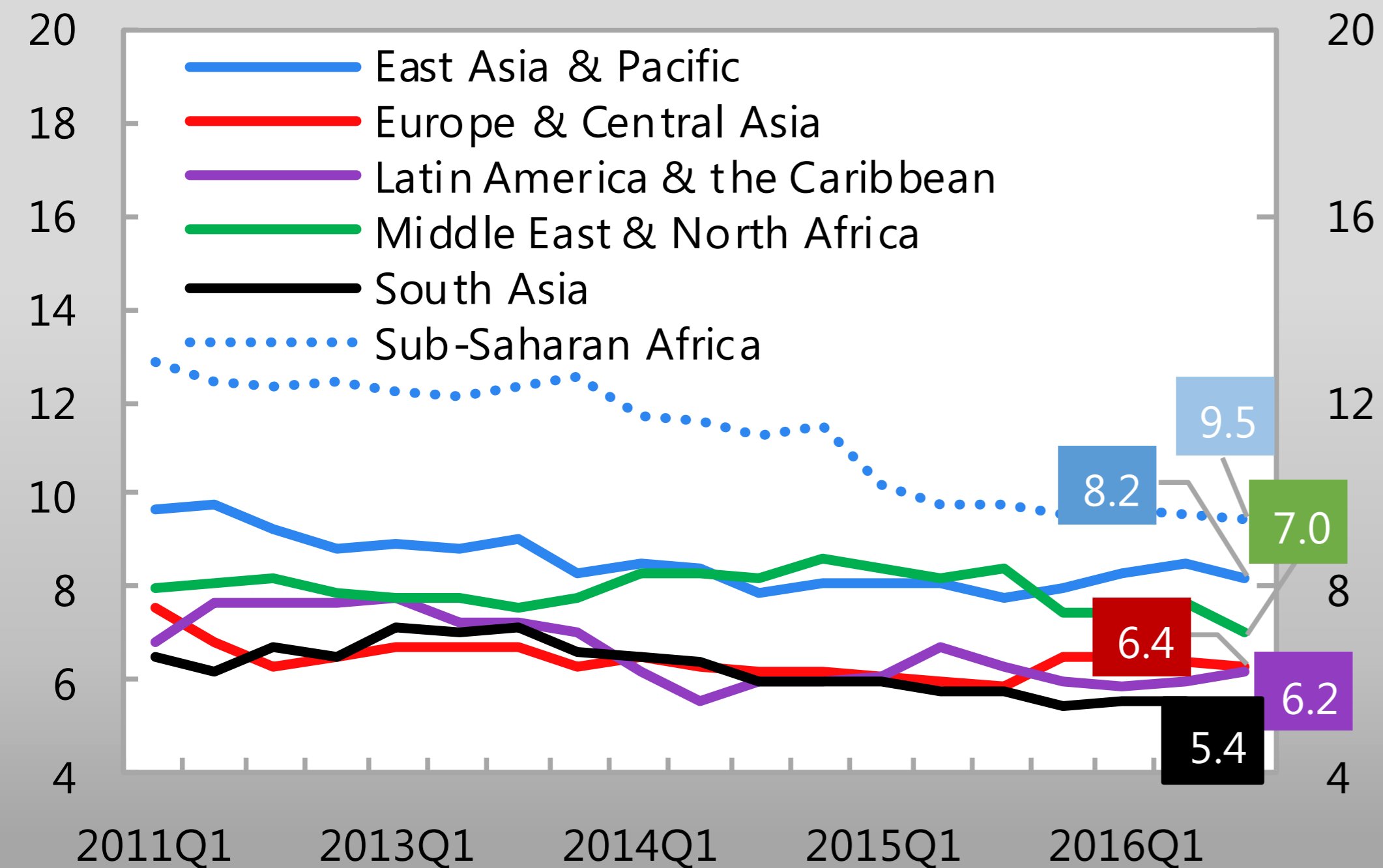
(2014 U.S. dollars; Migrants who entered after age 22)



Sources: American Community Survey (ACS); and IMF staff estimates.

There is room to lower the costs of remittances

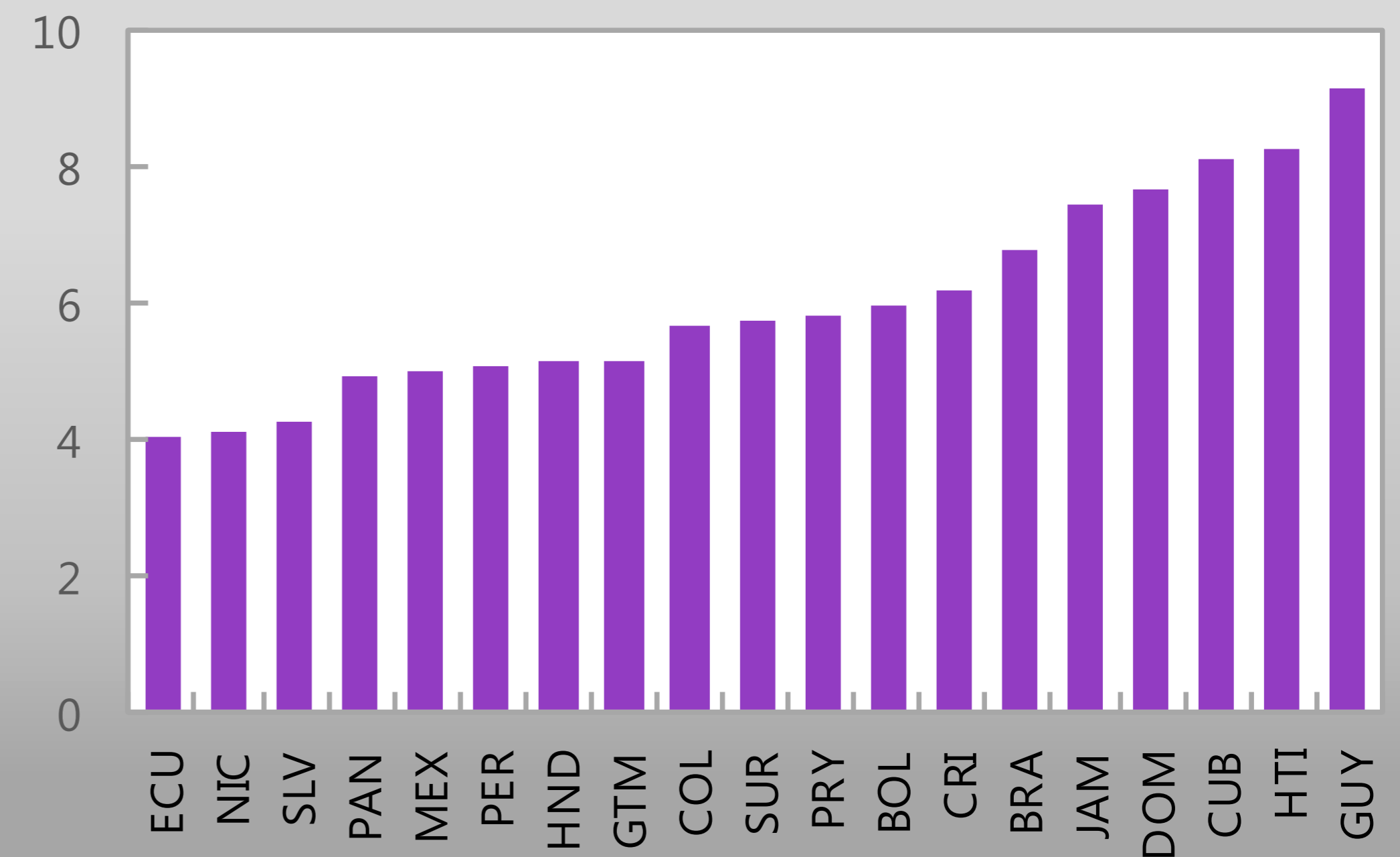
Cost of Sending 200 U.S. Dollars in Remittances
(Percent)



Source: World Bank Remittances Prices Worldwide.

Cost of Sending 200 U.S. Dollars in Remittances: Latin America and the Caribbean

(2016Q3; percent, by destination)

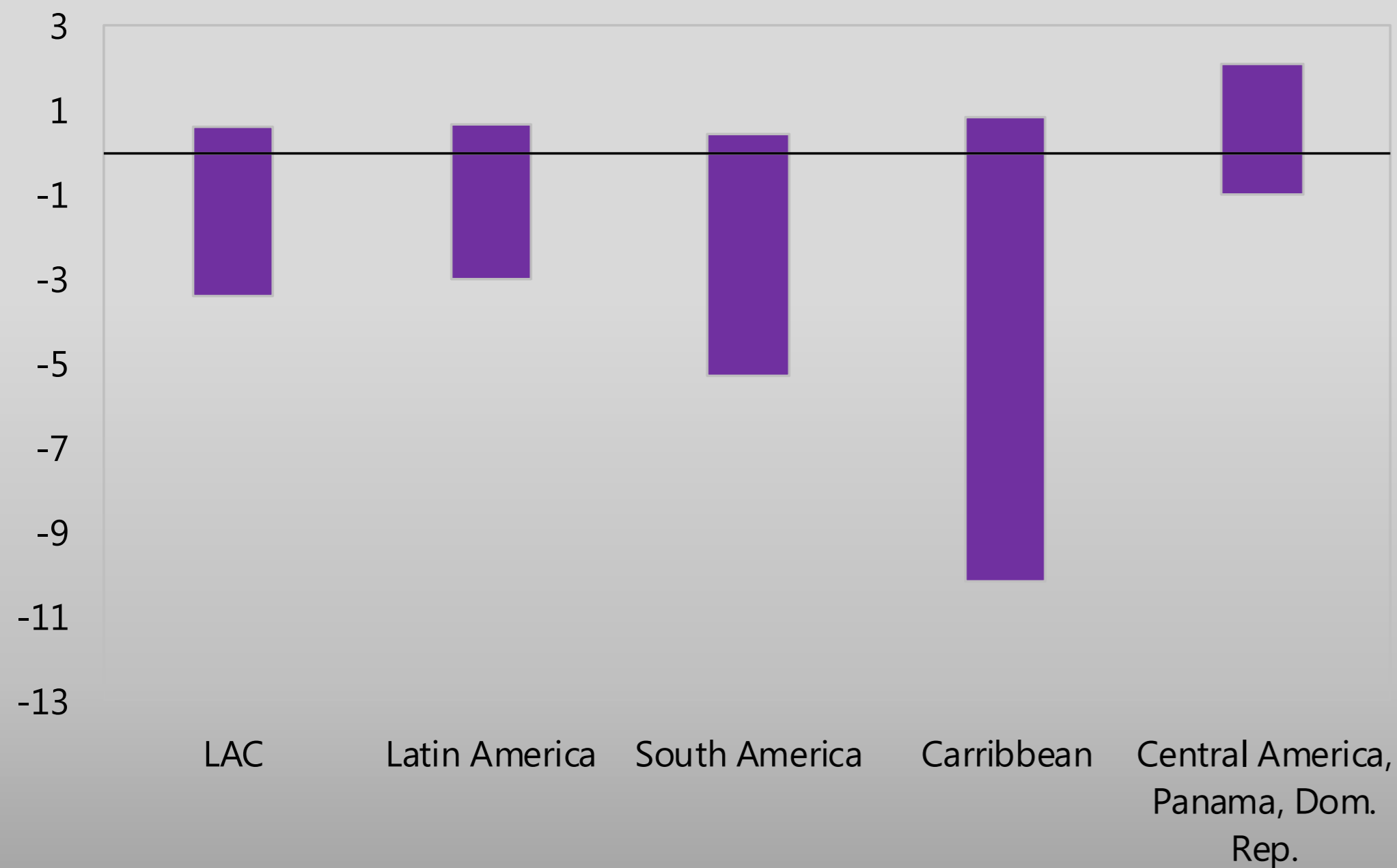


Source: World Bank, Remittances Prices Worldwide.

Remittances and migration (on net) are not drivers of growth ...

Net Effect of Migration and Remittances on GDP Growth, 2003-13

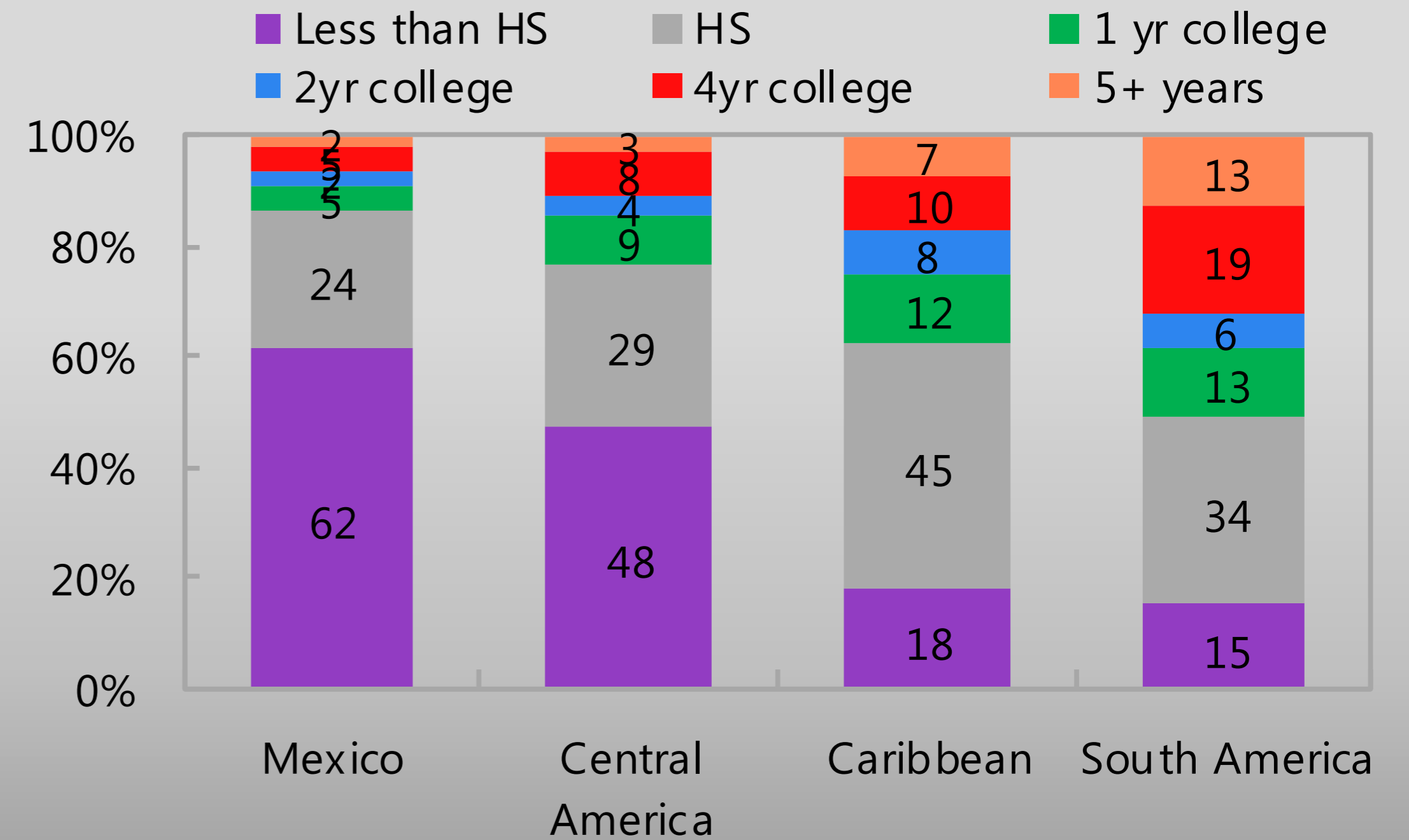
(Percent of GDP)



Notes: Based on coefficient estimates from fixed effects and instrumental variables regressions, changes in migrant stocks and remittances as a percent of GDP in 2003-2013. Results are robust to using remittances sent by those who left during 2003-2013 rather than total remittances.

Migrant Educational Attainment at Entry

(Proportion of migrants with educational level)

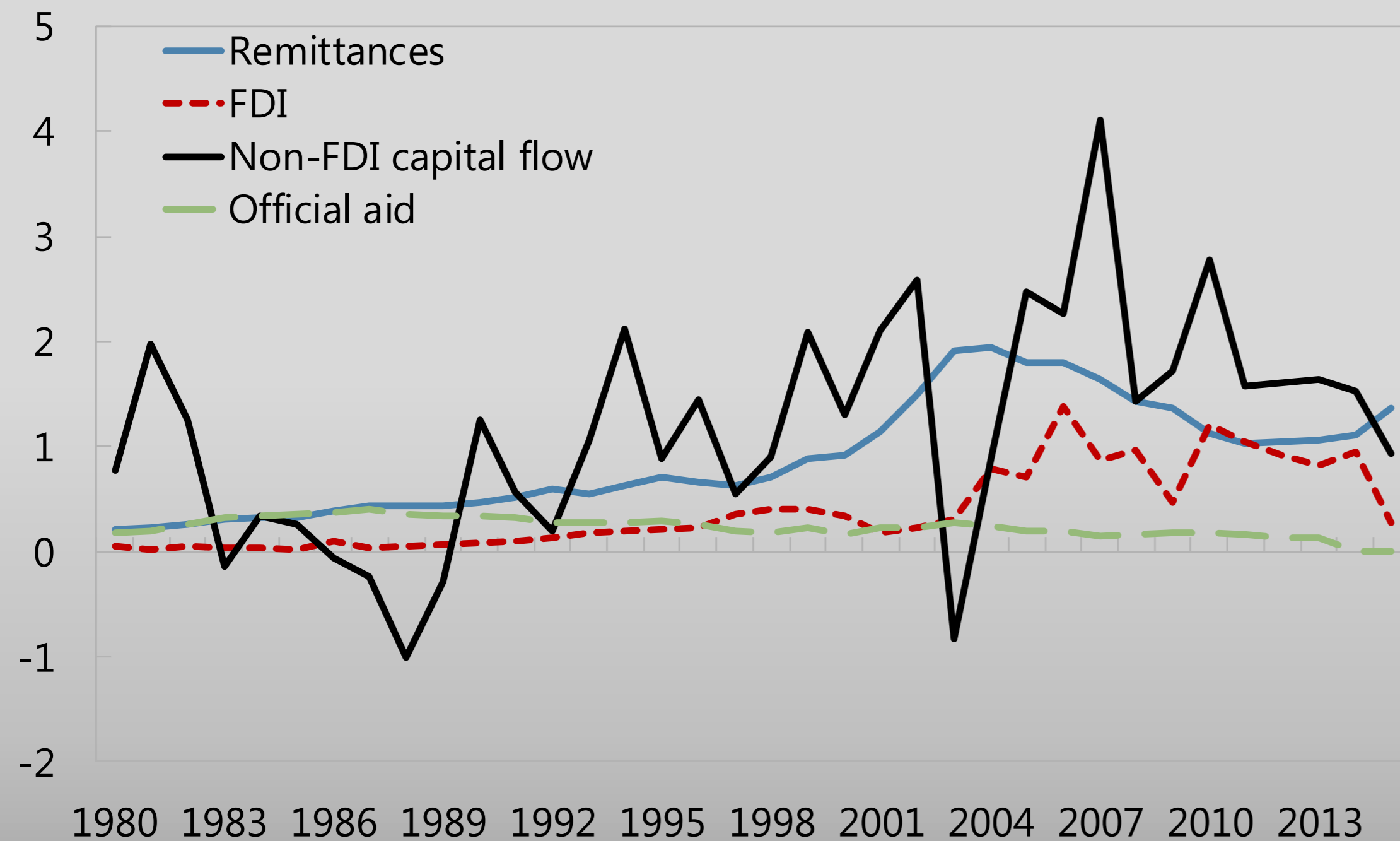


Sources: 2008 American Community Survey (ACS); and IMF staff calculations.

... But remittances are large, resilient, and can help smooth consumption against shocks ...

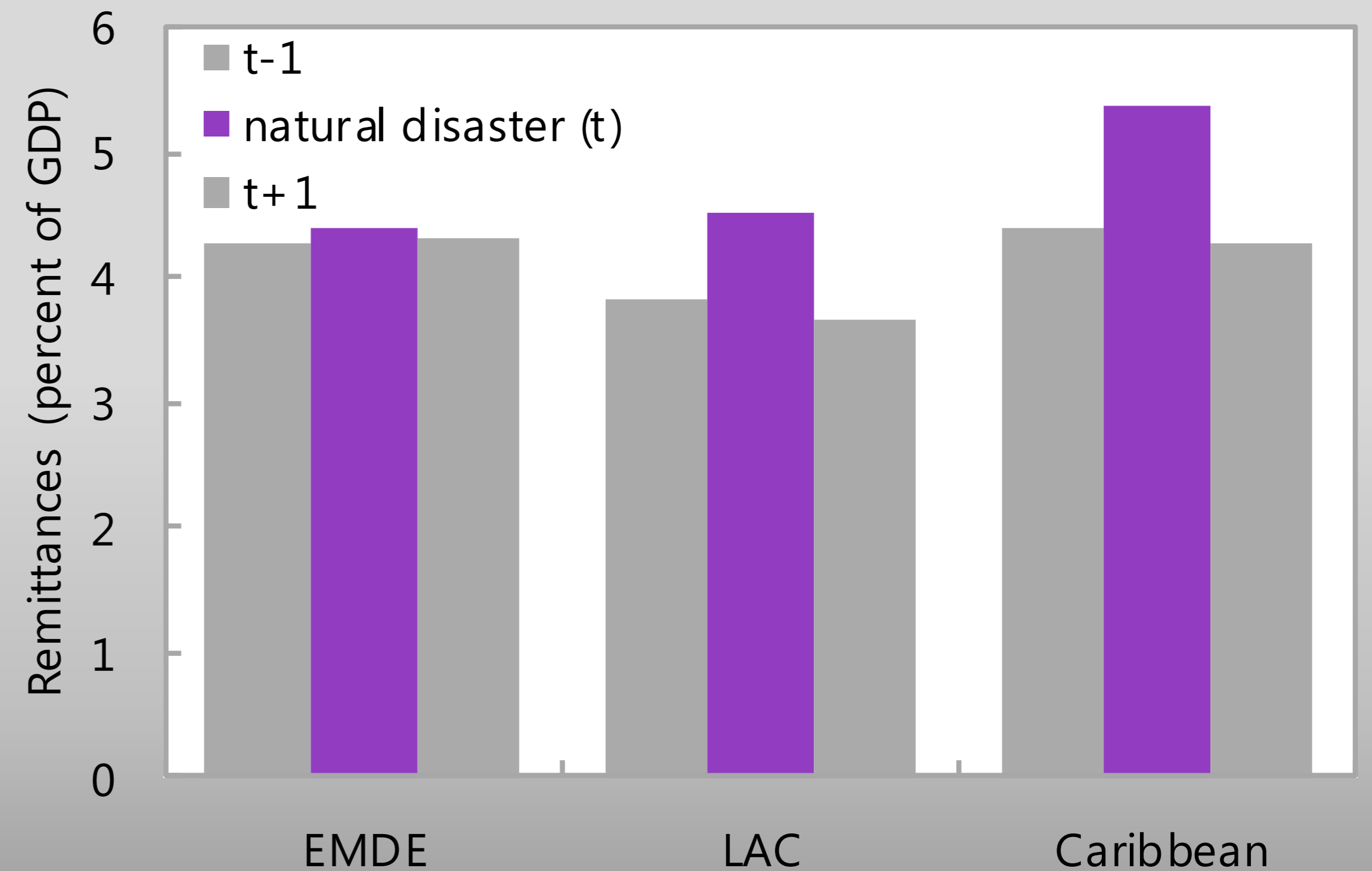
LAC: Remittances and Other Inflows

(Percent of GDP)



Sources: World Bank WDI, IMF BOPS and WEO

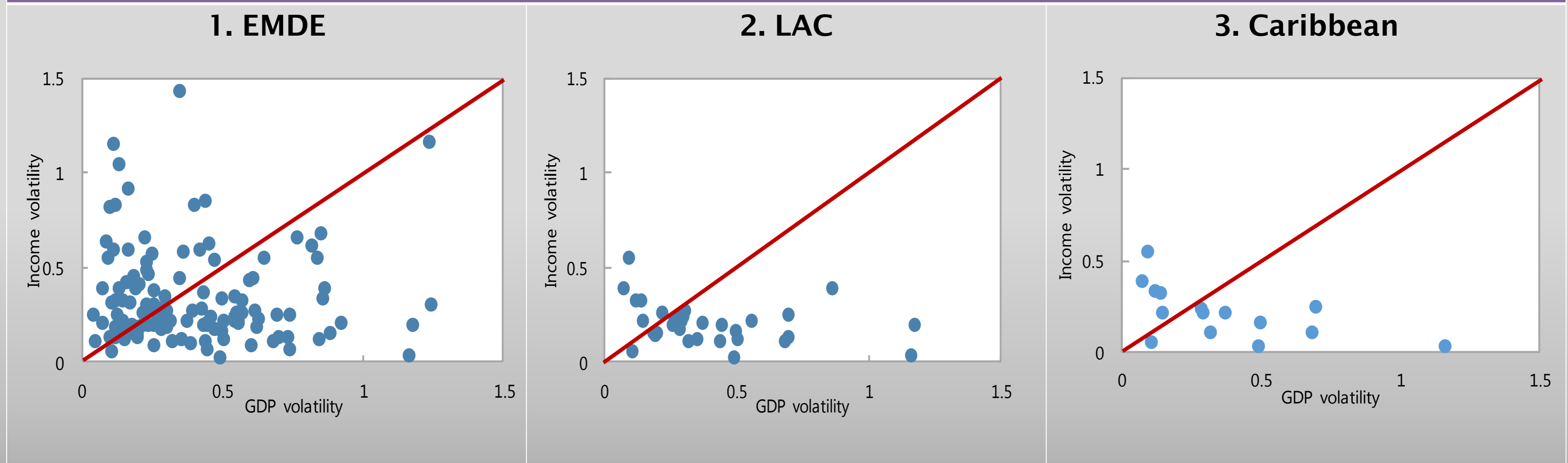
Remittances and Natural Disasters



Sources: Emergency Events Database; and IMF staff calculations.
 Note: EMDE = emerging market and developing economies.

... In addition to help lowering income volatility

Remittances and Income Volatility



Remittances support financial sector stability and fiscal revenues, with limited evidence of Dutch disease

Macro-stabilizing Effect of Remittances

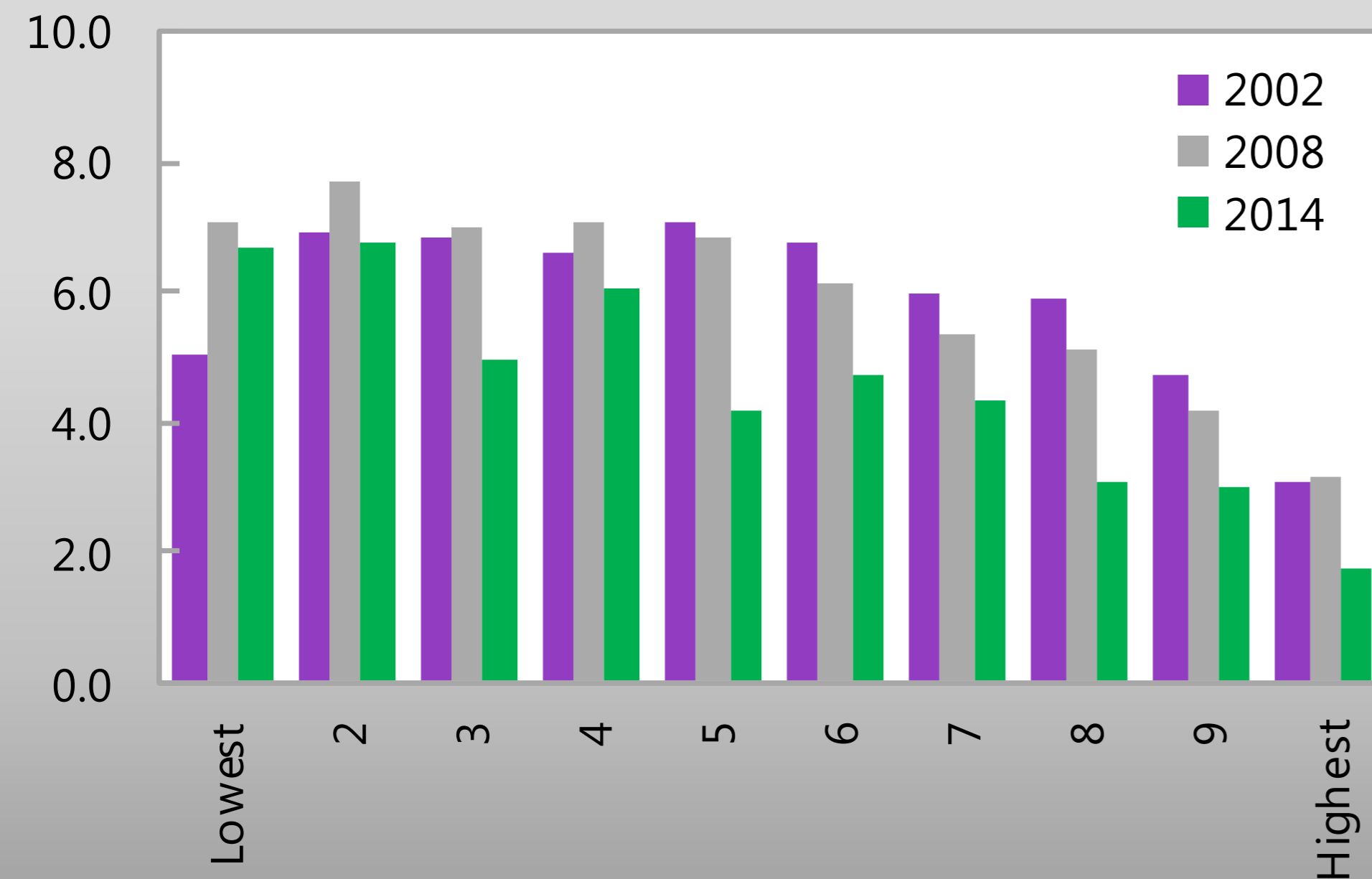
Effect on:	Priors	Results
Fiscal revenues	+	Yes. Significant for CAPDR and Caribbean.
NPLs	-	Yes. Significant for CAPDR.
Real exchange rate	+ (appreciation)	Results generally insignificant and not strong.
Inflation	+	Yes. Significant for Caribbean and CAPDR.

Source: IMF staff calculations.

Note: CAPDR = Central America, Panama, and the Dominican Republic.

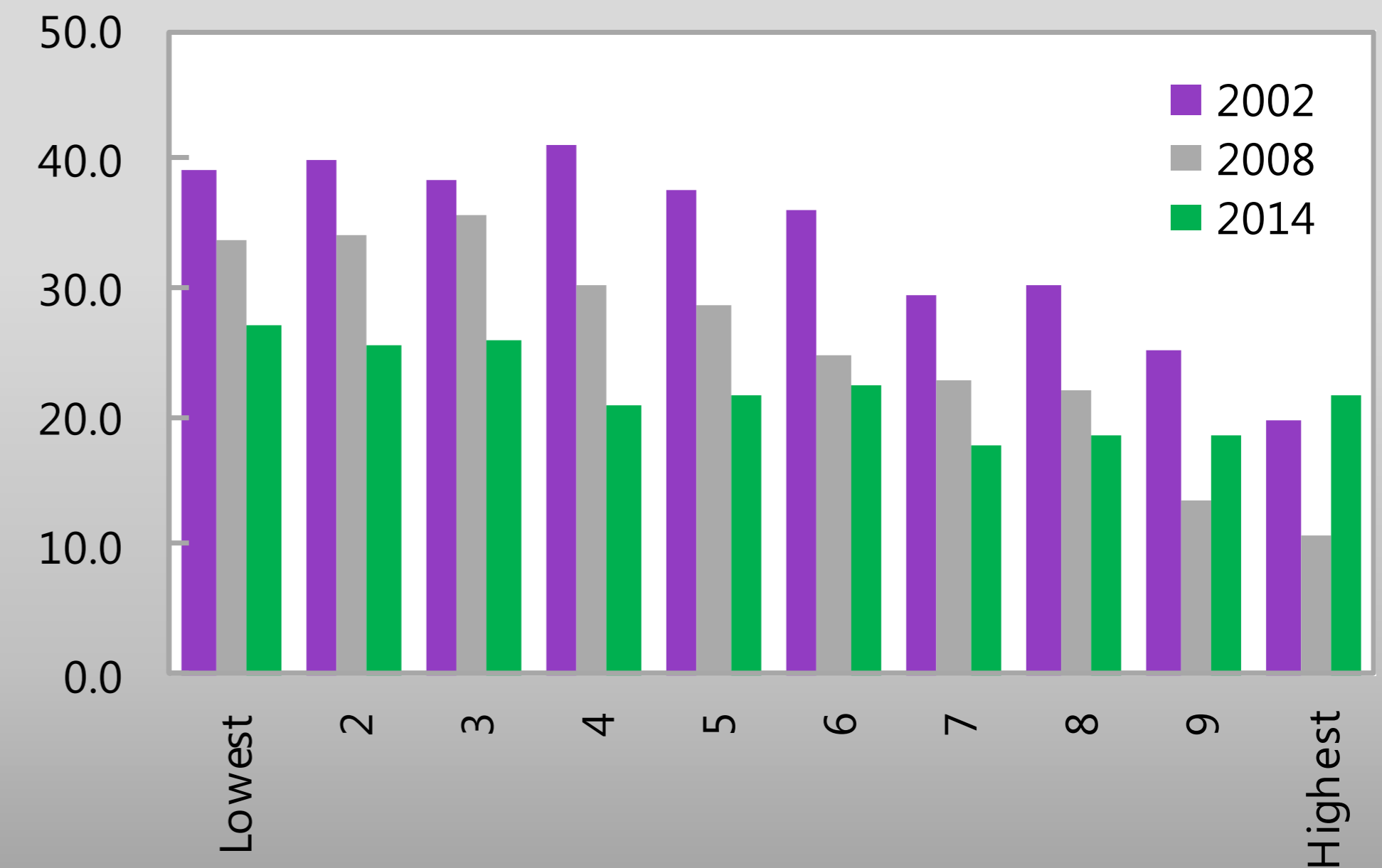
Remittances can also be pro-poor and provide significant support to lower income households

Share of Households Receiving Remittances, by Decile
(Percent)



Sources: INEGI; and IMF staff calculations.

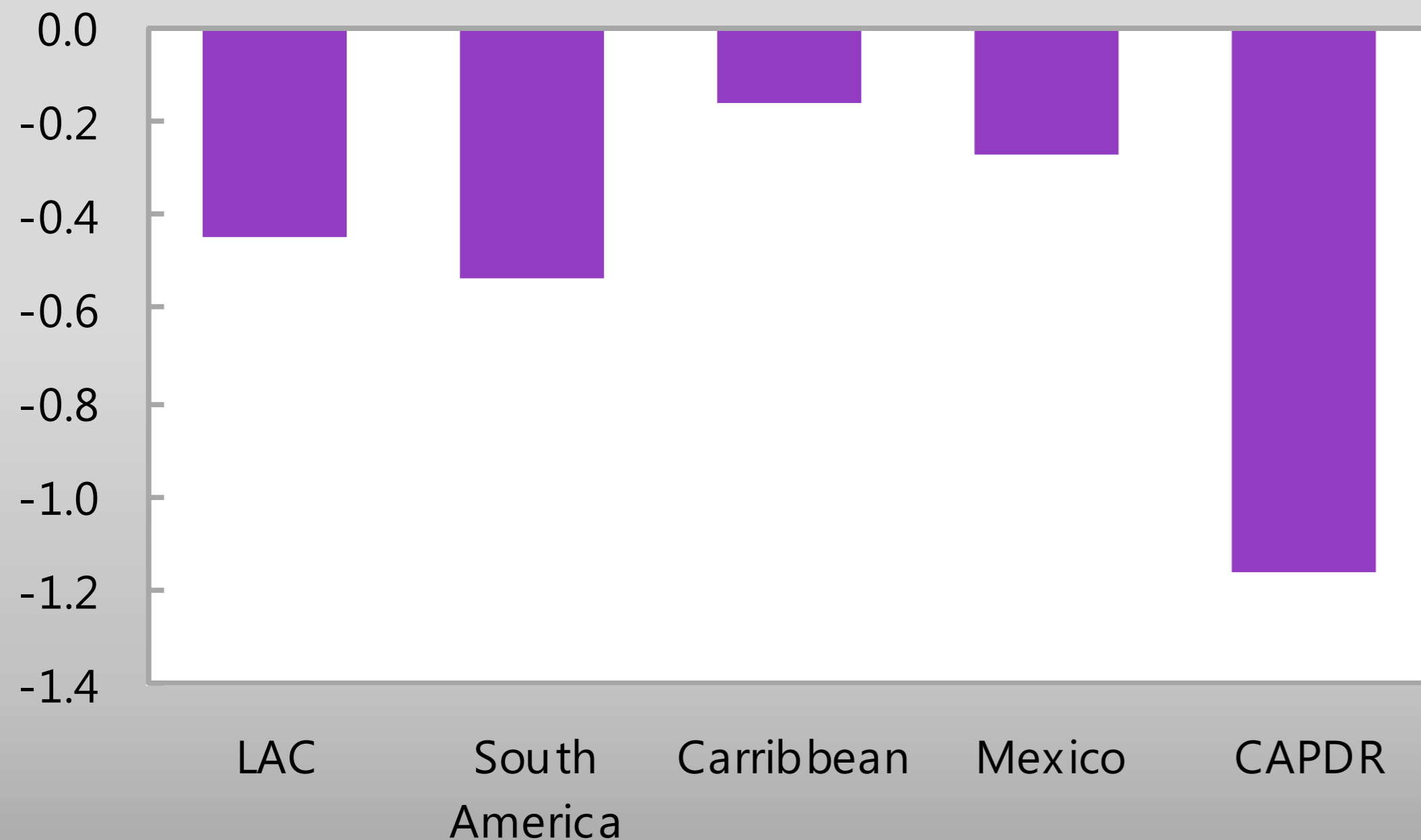
Remittances as a Share of Household Income, by Decile
(Percent)



Sources: INEGI; and IMF staff calculations.

But there are perils from remittance dependence

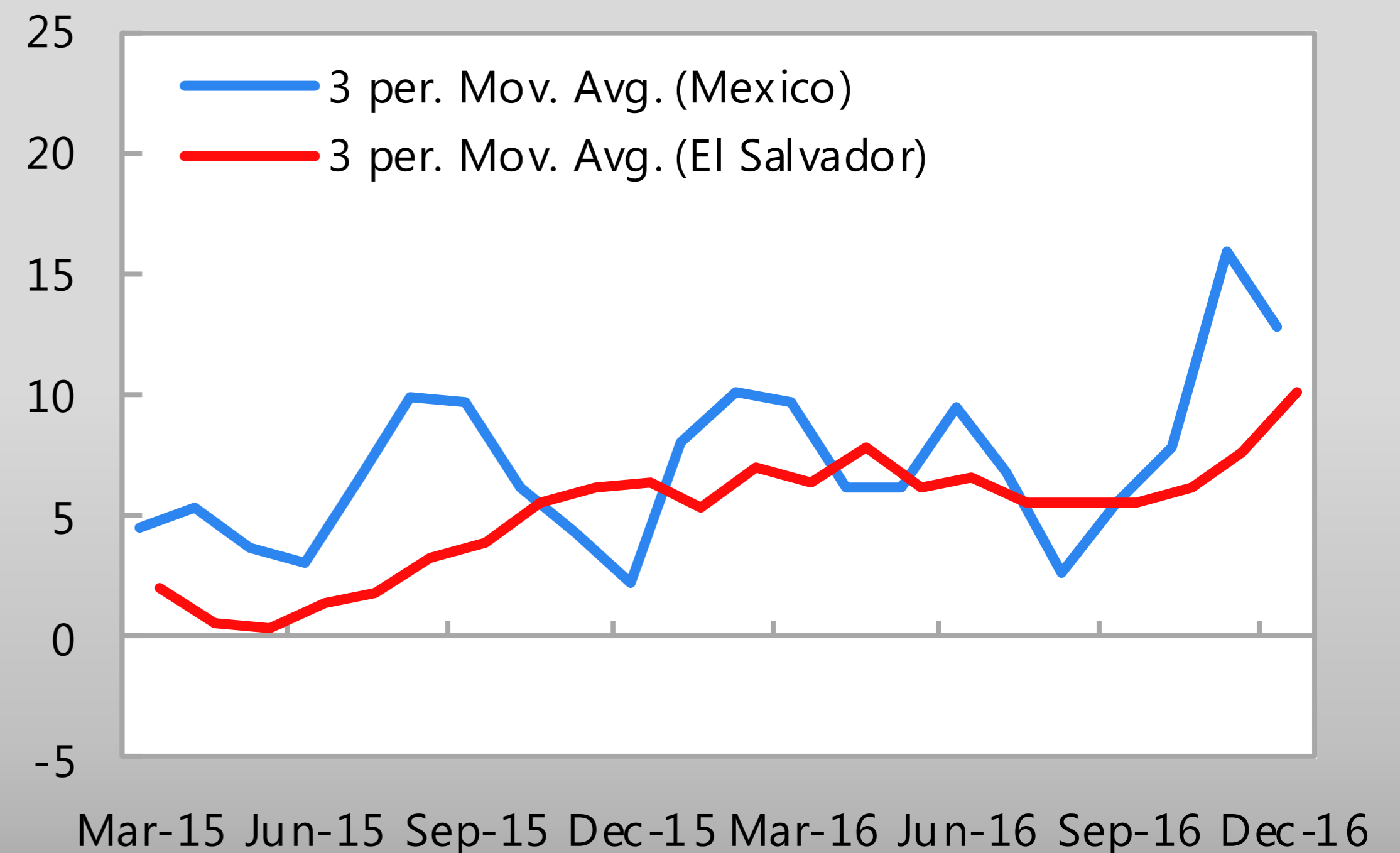
Change in Remittance Flows, 2008-2010 Relative to 2007
(Percentage points of GDP)



Sources: World Bank; and IMF WEO.

Note: CAPDR = Central America, Panama, and the Dominican Republic.

Remittances to Mexico and El Salvador
(Percent change, year over year)



Sources: Bank of Mexico; and Banco Central de Reserva de El Salvador.

Policy Priorities

Opportunities in home country

- Curb brain drain through structural reforms to improve opportunities or limit subsidization through public funds

Improvements in business climate and productivity to foster return migration.

Enhance ties with diaspora to boost FDI and tourism receipts; explore the use of remittances for investment

Resilience

- Strengthen AML/CFT frameworks; explore regional solutions to improve regulatory framework

Exchange rate flexibility as shock absorber; fiscal discipline to enhance social safety nets

Build buffers to strengthen resilience of financial system to volatility and sudden stops

Costs of remittances

- Further develop payment systems (e.g. mobile money)

- Enhance consumer protection

- Ensure competitive markets to drive down remittances prices
