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)*

<table>
<thead>
<tr>
<th>Year</th>
<th>LAC</th>
<th>Developing Asia</th>
<th>Africa</th>
<th>Middle East</th>
<th>CIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>1995</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>2000</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>2005</td>
<td>4.7</td>
<td>4.7</td>
<td>4.7</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>2010</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>2015</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Top Occupations, Immigrants Who Entered After Age 22, 2014</th>
<th>Mexico</th>
<th>South America</th>
</tr>
</thead>
<tbody>
<tr>
<td>17% Building and Grounds Cleaning and Maintenance</td>
<td>12%</td>
<td>Building and Grounds Cleaning and Maintenance</td>
</tr>
<tr>
<td>14% Production</td>
<td>11%</td>
<td>Office and Administrative Support</td>
</tr>
<tr>
<td>14% Construction and Extraction</td>
<td>9%</td>
<td>Sales and Related</td>
</tr>
<tr>
<td>11% Food Preparation and Serving</td>
<td>8%</td>
<td>Management, Business, Science, and Arts</td>
</tr>
<tr>
<td>10% Transportation and Material Moving</td>
<td>7%</td>
<td>Production</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Central America</th>
<th>Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% Building and Grounds Cleaning and Maintenance</td>
<td>13%</td>
</tr>
<tr>
<td>12% Construction and Extraction</td>
<td>12%</td>
</tr>
<tr>
<td>11% Production</td>
<td>8%</td>
</tr>
<tr>
<td>10% Transportation and Material Moving</td>
<td>7%</td>
</tr>
<tr>
<td>8% Food Preparation and Serving</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: 2008 American Community Survey.

### Average Migrant Wages

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

![Average Migrant Wages Chart]

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)


Cost of Sending 200 U.S. Dollars in Remittances: Latin America and the Caribbean (2016Q3; percent, by destination)

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

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

Migrant Educational Attainment at Entry
(Proportion of migrants with educational level)

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.

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)

- Remittances
- FDI
- Non-FDI capital flow
- Official aid

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

<table>
<thead>
<tr>
<th>Effect on:</th>
<th>Priors</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal revenues</td>
<td>+</td>
<td>Yes. Significant for CAPDR and Caribbean.</td>
</tr>
<tr>
<td>NPLs</td>
<td>-</td>
<td>Yes. Significant for CAPDR.</td>
</tr>
<tr>
<td>Real exchange rate</td>
<td>+ (appreciation)</td>
<td>Results generally insignificant and not strong.</td>
</tr>
<tr>
<td>Inflation</td>
<td>+</td>
<td>Yes. Significant for Caribbean and CAPDR.</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th></th>
<th>LAC</th>
<th>South America</th>
<th>Caribbean</th>
<th>Mexico</th>
<th>CAPDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>-1.4</td>
<td>-1.2</td>
<td>-1.0</td>
<td>-0.8</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

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

| Opportunitie in home country | • Curb brain drain through structural reforms to improve opportunities or limit subsidization through public funds  
Improved 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 |