

## Remittances in Central America, Mexico and the Caribbean

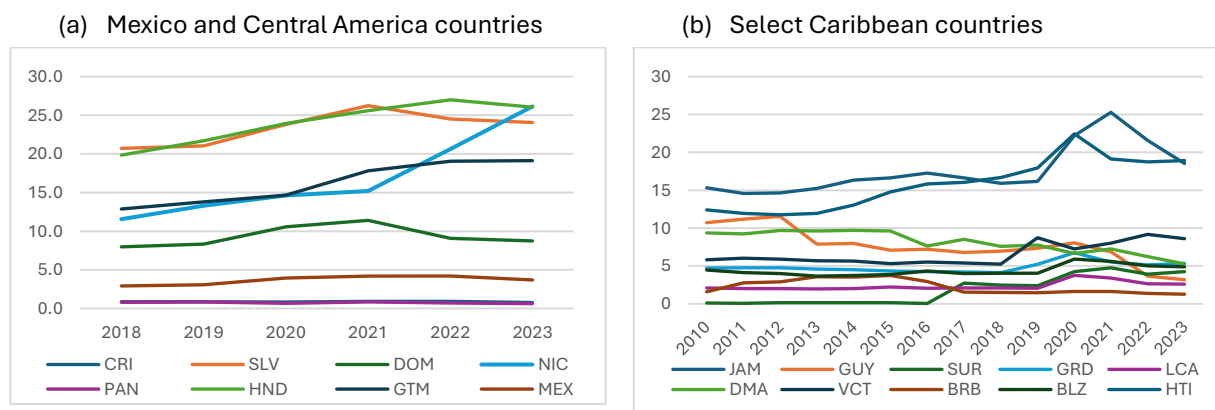
### Key messages:

- Remittances are an important source of income in many Central American and Caribbean countries as well as in Mexico, being near or above 20 percent of GDP in Honduras, Nicaragua, El Salvador, Guatemala, Haiti, and Jamaica.
- The U.S. is a primary source of remittances to countries in the region.
- Remittances create buffers against current account volatility and smooth consumption and GDP fluctuations.
- They provide additional income for households, helping reduce poverty and food insecurity and foster local development.
- Remittances allow for increased investment in human capital in countries of origin and reduce the likelihoods of receiving families to migrate.
- Remittances flows are sensitive to changes in transaction costs, however recent studies showed that Fintech development could be a mitigating factor.

### Impact of remittances on the:

**Macroeconomy.** Remittances offer a consistent source of foreign exchange for recipient countries, lowering current account financing needs and aiding in the accumulation of international reserves, thereby mitigating the risk of balance of payment issues. They are an important source of income in many Central American and Caribbean countries, being near or above 20 percent of GDP in Honduras, Nicaragua, El Salvador, Guatemala, Haiti, and Jamaica (Figure 1). However, increased dependence on large remittance inflows may affect the exchange rate and potentially lead to "Dutch Disease-like" economic challenges in the recipient country.

**Figure 1: Remittances by country, as percent of GDP (2018-2023)**

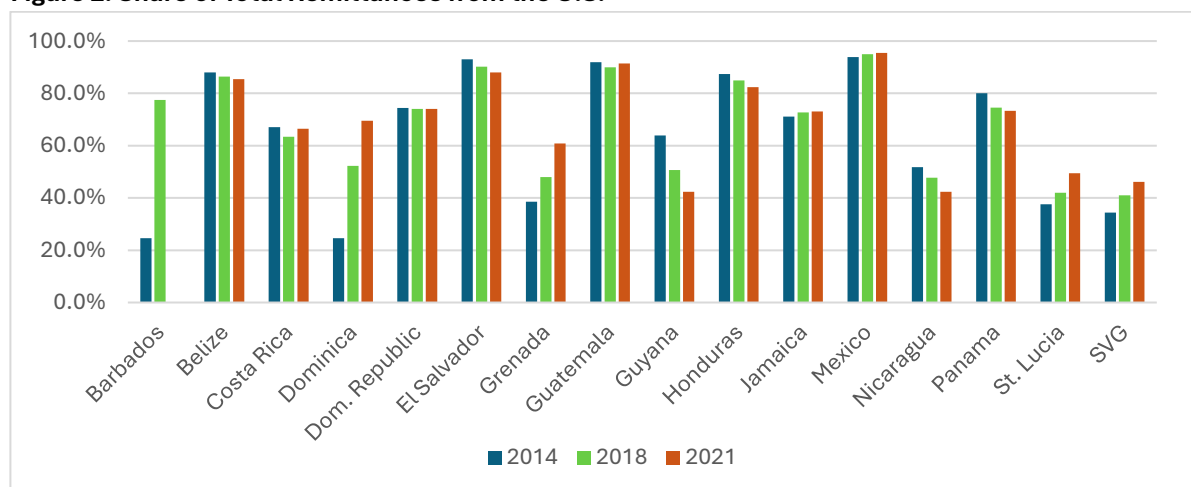


Source: World Development Indicators (WDI).

**Remittances also act countercyclically as a buffer against domestic shocks.** The ability of migrants to send remittances is not affected by business cycle fluctuations in the receiving countries, providing buffers against domestic shocks. For example, remittances to the region were found to rise after hurricanes and other natural disasters. However, heavy reliance on specific countries exposes

the receiving countries to business cycle fluctuations and policy changes in source countries. The U.S. is a primary source of remittances to countries in the region, representing over 90 percent of total inflows in El Salvador, Guatemala, and Mexico. Spain and Costa Rica also important sources of remittances for some countries (Figure 2).

**Figure 2. Share of Total Remittances from the U.S.**



Source: WDI and WB Bilateral Remittance Matrix.

**Financial sector development.** Evidence of the effect of remittances on financial sector development is limited. Anzoategui, Demirguc-Kunt, and Peria (2014) observed that while remittances positively influence financial inclusion by promoting the use of deposit accounts in El Salvador, they do not significantly affect the demand for and use of credit from formal institutions. Silva Filho (2022) did not find any impact of fintech innovation on remittance costs and financial sector development. Remittance costs tend to affect volumes of financial flows. Historically, higher remittance costs led to increased use of informal channels.

**Household well-being and poverty.** Remittances enhance the income and liquidity of recipient households, generally resulting in positive welfare outcomes. Although remittances are associated with reduced monetary poverty, the impact varies by country and over time, with a weaker correlation observed in recent years:

- **El Salvador:** If remittances were to be excluded from household income, extreme poverty would rise by 4 percentage points in urban areas and by 8 percentage points in rural areas (SLV PEA, 2024).
- **Honduras and Guatemala:** The increase in extreme poverty would be 15 percent (Arayavechkit, Scott, and Sousa, 2022). Furthermore, the positive impact on poverty has decreased in Honduras and Guatemala in recent years, reflecting changes in remittance distribution and income share.
- **Mexico:** Remittances contributed to a reduction in poverty by approximately 0.6 percentage points from 2016 to 2022. They are particularly significant in rural areas, where poverty rates

are higher and access to formal employment and social protection is more limited (MEX PEA, 2025).

**Remittances are associated with lower levels of food insecurity.** In Guatemala and Honduras, households receiving remittances were almost 40 percent less likely to report insufficient food compared to similar non-recipient households (Arayavechkit, Scott, and Sousa, 2022).

**Table 1. Remittance-receiving households by income quintile and share of remittances in total household income.**

	Dominican Republic		Guatemala		Honduras		Mexico		El Salvador	
	2015	2023	2015	2023	2015	2023	2016	2022	2015	2023
<b>Share of households receiving remittances by income quintile</b>										
<b>Poorest</b>	11.5	11.6	13.5	11.3	17.8	4.9	4.8	13.3	19.3	
<b>Q2</b>	13.2	12.8	18.4	17.6	21.9	5.7	5.4	17.8	23.7	
<b>Q3</b>	20.7	16.9	22.1	23.8	27.5	5.1	5.2	20.4	25.8	
<b>Q4</b>	25.2	17.3	21.4	24.6	24.0	2.6	3.0	17.3	22.2	
<b>Richest</b>	23.5	15.5	22.7	24.7	26.7	4.3	4.2	21.4	26.6	
<b>Remittances, share of total Household Income</b>										
<b>All households</b>	4.1	3.6	4.7	4.5	5.7	1.1	1.4	6.9	7.4	

Source: own estimation based on SEDLAC.

**Human Capital.** By relaxing budget constraints, remittances allow households to spend more on health, education, and food, leading to investments in nutrition, health, and education.

- **El Salvador:** In urban households, the median remittance amount reduces the hazard of a child leaving school by 54 percent during primary education and by 27 percent during secondary education. In rural areas, the effect is around 14 percent regardless of the educational attainment (SLV PEA, 2024).
- **Honduras (2019) and Guatemala (2014):** household receipt of remittances was positive and significantly associated with enrollment in formal schooling for children between 6 and 24 years of age (Arayavechkit, Scott and Sousa, 2022).

**Labor Market.** Remittances reduce labor force participation by increasing the reservation wage in countries of origin, but the impacts can differ by gender and country. Remittances are associated with lower levels of labor force participation in El Salvador, Guatemala, and Honduras.

- **El Salvador:** recipients of remittances decreased their labor force participation by 6 percentage points among males and 15 percentage points among females (Arayavechkit, Scott and Sousa, 2022).

**Incentives to migrate.** By improving living conditions and human capital accumulation in migrant-sending countries, remittances may reduce the incentives to migrate abroad (Bread for the World Institute, 2012; Amuedo-Dorantes, C., & Pozo, S., 2010; Central American Bank for Economic Integration, 2020; Hiskey, J. T., Córdova, A., Malone, M. F., & Orcés, D. M. 2018)

## Impact of increased transactions costs on remittances flows

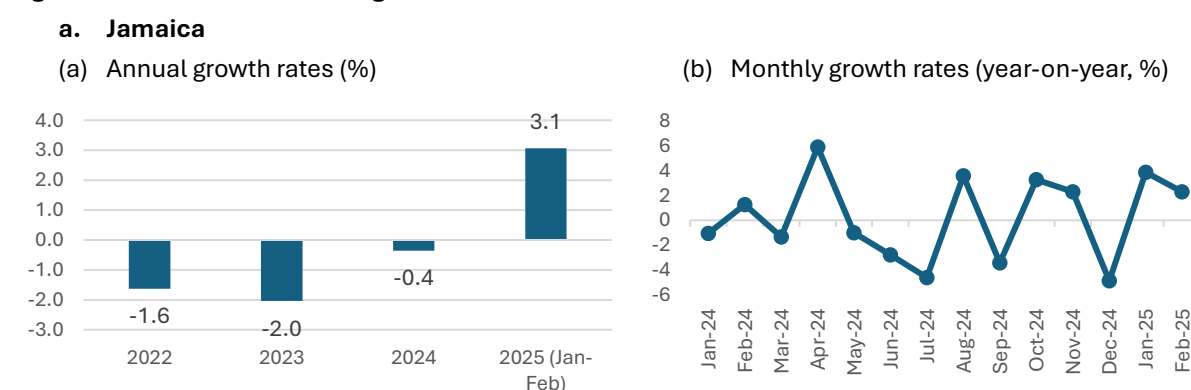
**Remittance flows are sensitive to transaction costs, with different studies showing significant behavioral changes in response to cost changes.** A field experiment conducted in Washington DC with Salvadorian migrants found that a \$1 reduction in fees led to a \$25 increase in the amount remitted, which was driven by higher frequency of transactions rather than higher amounts (Aycinena et al., 2010). A more recent IMF report using quarterly panel data with a sample covering 71 countries found that a 10 percent reduction in transaction costs leads to a 0.9 percent increase in the first quarter after the shock, with the impact becoming statistically insignificant from zero in subsequent quarters, implying that the response of remittances to transaction costs is essentially of a short-term nature (Kpodar & Imam, 2022).

**The role of fintech can be a mitigating factor on the impact of higher transaction costs in remittances flows.** Higher ICT development is associated with a lower cost-elasticity of remittances. Furthermore, the elasticity of remittances to transaction costs is stronger in countries with high ICT costs than in those with low ICT costs (Kpodar & Imam, 2022). These results suggest that in context with higher fintech penetration, changes in transactions costs might not have an impact on recipient countries. Remittance costs averaged 6.6 percent in the third quarter of 2024, a previous study showed that the average cost of sending a remittance through a digital service like Xoom/PayPal costs nearly half.<sup>1</sup>

## Recent trends and developments

**High frequency data is showing significant increases in remittance in the first months of 2025, wherever data is available.** In Guatemala, remittances grew 16.8 percent until April, compared with 8.6 percent in 2024. In El Salvador, remittances grew 18.2 percent until March, compared with 2.5 percent in 2024. In Jamaica, remittance inflows grew by 3.1 percent between January and February 2025, compared to a decline of 0.4 percent in 2024. In Dominican Republic, remittances grew 12.1 percent until April, compared with 5.9 percent in 2024 (Figure 3).

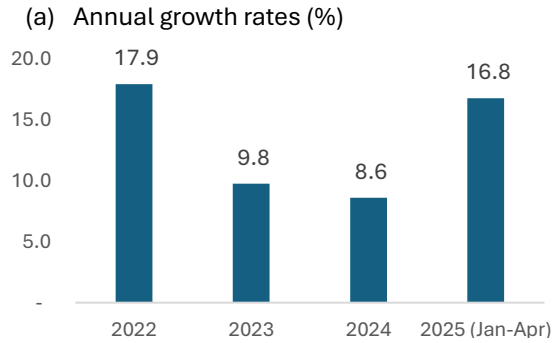
**Figure 3: Remittances inflows growth rates for selected economies**



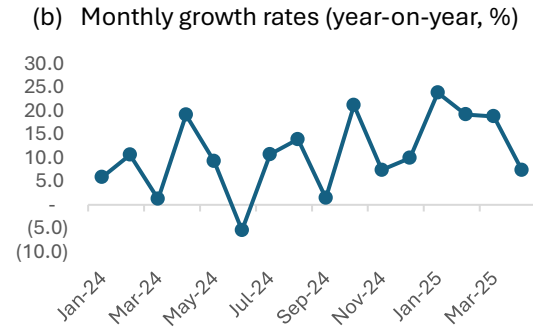
Source: Bank of Jamaica

### b. Guatemala

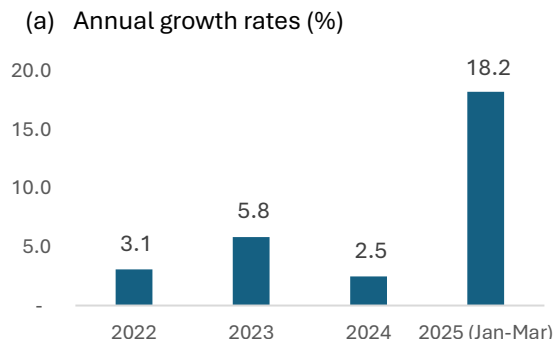
<sup>1</sup> Digital Remittances and Global Financial Health <https://blogs.worldbank.org/en/peoplemove/digital-remittances-and-global-financial-health>



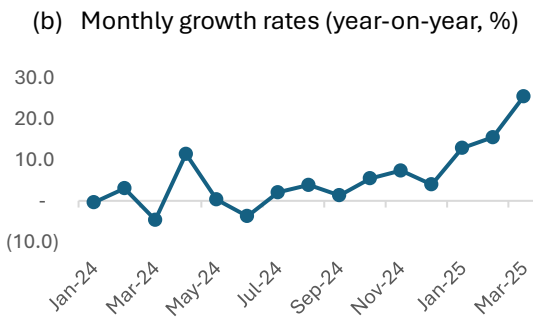
Source: Bank of Guatemala



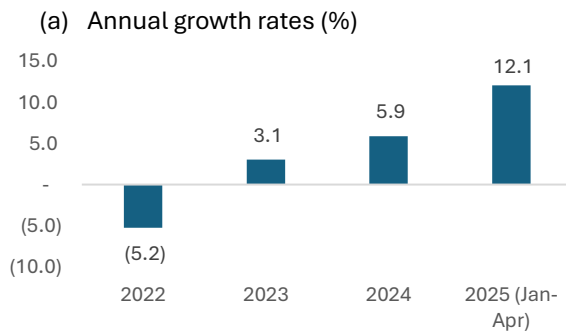
**c. El Salvador**



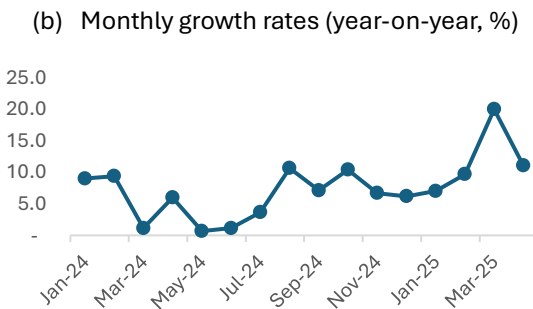
Source: Central Bank of El Salvador



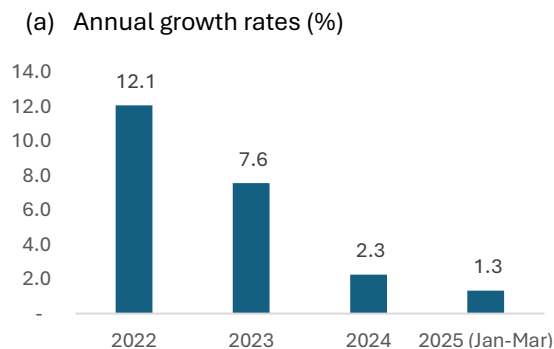
**d. Dominican Republic**



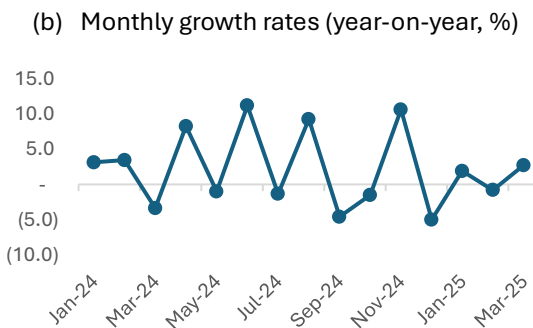
Source: Central Bank of Dominican Republic



**e. Mexico**



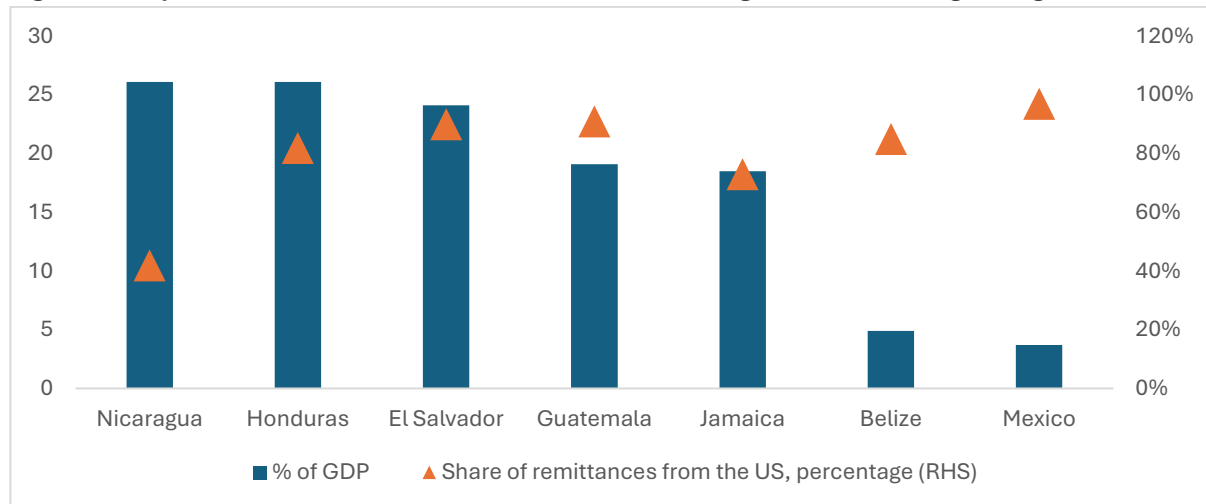
Source: Bank of Mexico





## Annex 1: Remittances from the US to the region

**Figure A1: Top Countries in Remittance Inflows as a Percentage of GDP and Originating from the U.S.**



Source: WDI and WB Bilateral Remittance Matrix.

**Table A1. Remittances inflows and share coming from the U.S.**

Country	Remittances received		Share of remittances from the US (% of total remittances)
	US\$ Million	% of GDP	
Nicaragua	4662.3	26.1	42%
Honduras	8968.2	26.1	82%
El Salvador	8193.2	24.1	90%
Guatemala	19981.0	19.1	91%
Haiti	3753.2	18.9	49%
Jamaica	3600.8	18.5	73%
Dominican Republic	10619.2	8.7	74%
St. Vincent and the Grenadines	91.6	8.6	38%
Grenada	70.3	5.3	51%
Dominica	34.5	5.3	49%
Belize	149.6	4.9	85%
Suriname	146.9	4.3	8%
Mexico	66,237.8	3.7	97%
Guyana	545.6	3.2	60%
St. Lucia	63.3	2.6	50%
Barbados	85.2	1.3	N.A.
Costa Rica	662.1	0.8	66%
Panama	515.7	0.6	73%

Source: WDI. Note: Data shows year 2023. WB bilateral remittance matrix 2021

### **Annex 3: Recent World Bank analytics and resources**

- Brief on World Bank strategy on remittances:  
<https://www.worldbank.org/en/topic/migration/brief/remittances-knomad>
- El Salvador Poverty and Equity Assessment (2024):  
<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099120924111523990/p500656146605102a1a3d41a577d289eac6>
- Mexico Poverty and Equity Assessment (2025):  
<https://documents.banquemondiale.org/en/publication/documents-reports/documentdetail/099021925181518988>
- Migration and Development Briefs: Last issue on June 2024:  
<https://documents1.worldbank.org/curated/en/099714008132436612/pdf/IDU-a9cf73b5-fcad-425a-a0dd-cc8f2f3331ce.pdf>
- Remittances and Development : The Experience of Northern Central America (2022):  
<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099726405092540601>
- Remittances Prices Worldwide: Database and quarterly reports  
<https://remittanceprices.worldbank.org/>
- Understanding Migration in North Central America (2022):  
<https://documentos.bancomundial.org/en/publication/documents-reports/documentdetail/099062623125538471>
- World Development Report 2023: Migrants, Refugees, and Societies:  
<https://www.worldbank.org/en/publication/wdr2023>

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