

Box 3

Recent behavior of foreign remittance inflows to Colombia

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In August 2024, it was projected that family remittance income received in Colombia surpassed USD 1000 million for three consecutive months, an amount of USD 187 million above the monthly average for 2023. The sustained increase of this external income has enhanced the significance of this component for the nation's macroeconomy and for the income and consumption of beneficiary households.

Remittances are defined by the international standard as household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. These transfers are made without consideration (IMF, 2009). As such, remittances are the outcome of a migratory process in which the family member residing abroad maintains a connection with their country of origin (Mejia, 2006). The specialized literature has identified several determinants of this item's behavior, such as the migrant's income (Rapoport et al., 2006), the performance of the economy where the migrant resides (Higgins et al., 2004), and the degree of altruism of the migrant who aspires to enhance the welfare of their household in their country of origin (Shimada, 2011; Bouhga-Hagbe, 2006).

What explains the recent growth of remittances in Colombia? This box studies the evolution of remittance income and its fundamental determinants. The analysis indicates that the changes in this income source correlate with the growth of the Colombian diaspora and the favorable conditions of labor markets in the host countries of the migrants. Similarly, remittance money has been increasingly contributing to the Colombian economy and serves as a significant resource for the expenditures of Colombian households. Moreover, the increase in remittances in Colombia approximates the regional average, indicating the absence of novel or unusual reasons contributing to this dynamism.

1. Evolution of remittance income

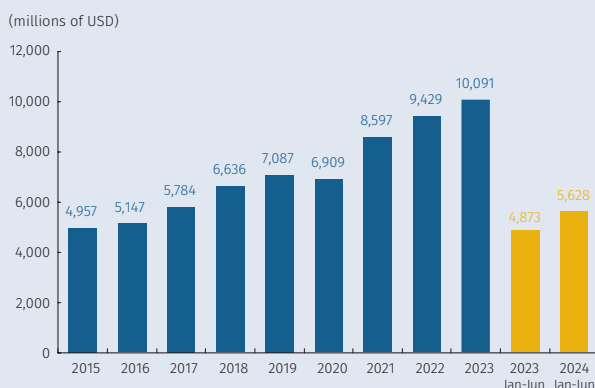
In 2020, the global economic crisis resulting from the pandemic triggered a 3% contraction in the remittance volume to Colombia. One year later it experienced a significant rebound, growing by 24% in 2021, largely attributed to the subsidies offered to households by the local governments where the Colombian emigrants reside so they could weather the crisis (Graph B3.1, Panel A). Subsequently, during the post-pandemic economic recovery process these transfers grew at an annual rate of close to 10% in 2022, and 7% in 2023, exceeding that same year USD 10,000 million for the first time. This occurred despite the deceleration observed that year in the growth rate due to inflationary pressures and a sluggish global economy (Graph B3.1, Panel B).

Remittances received by the country have been increasing in recent years at annual rates that surpass those of economic activity. Their share of the semester GDP reached 2.8% in

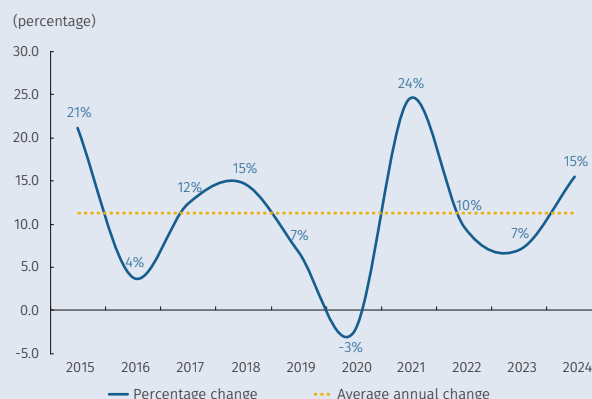
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Graph B3.1
Annual remittance income received by Colombia

A. Annual remittance income



B. Annual changes in remittance income



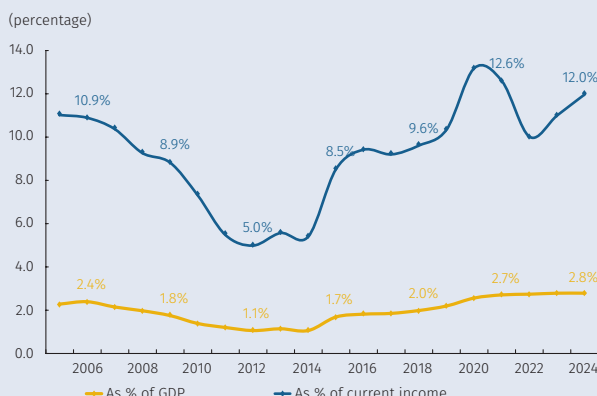
Sources: Banco de la República; own calculations.

2024, compared to 1.1% participation observed one decade before (Graph B3.2, Panel A). Likewise, remittances have also been increasing their share of the balance of payments current account income during the past decade. In the first half of this year, they accounted for 12% of external current income, while in 2014 their participation was only 6%.

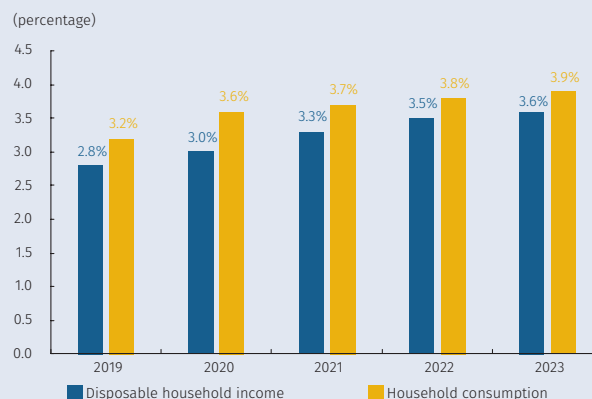
The continued growth of remittances to Colombia renders them an increasingly significant source of support for Colombian families, constituting 3.6% of disposable income and 3.9% of household consumption in 2023 (Graph B3.2, Panel B). This assistance is particularly important as it represents an income that is unaffected by the fluctuations of the local economy, enabling households to mitigate the impact of unemployment or other local eventualities (Shimada, 2011). In addition to contributing towards the household's maintenance, remittances may also serve an important role in the family's objectives, such as the children's education, the purchase of a family home, or facilitating investments that generate supplementary income for the migrant's household.

Graph B3.2
Contribution of remittance to the Colombian economy

A. Remittances as a percentage of GDP and current income of the balance of payments



B. Remittances as a percentage of household income and consumption



Sources: DANE; Banco de la República; own calculations.

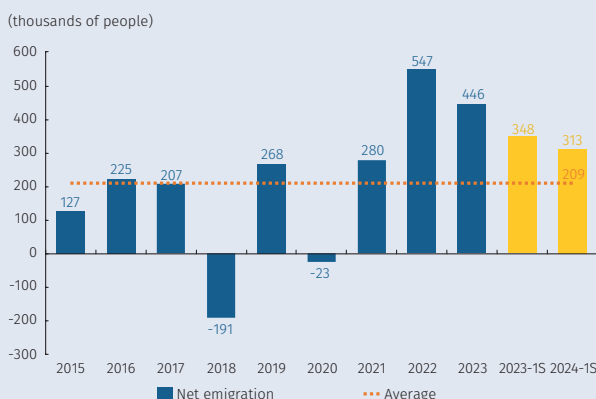
2. Context of remittance growth in Colombia

By its nature, the main determinant of remittances is the migratory flow (Garavito et al. 2019; Hagen-Zanker, 2008; Mejia, 2006). Hence the importance of highlighting the increase of the Colombian diaspora propelled in recent years as a result of a substantial migratory flow surpassing the averages of the past decade (Graph B3.3, Panel A). According to Migration Colombia data, in 2022 and 2023 approximately 547,000 and 446,000 Colombians emigrated from the country, respectively. Panel B of Graph B3.3 illustrates the gradual increase in family remittance income as the total number of Colombians residing abroad has expanded.

According to data from the United Nations, Colombian emigrants are primarily domiciled in Spain and the United States (Graph B3.4). It is estimated that in 2020 (the most recent available data), not considering the Colombians residing in Venezuela, 45% of the Colombian population living abroad was located in the United States and 25% in Spain. The Colombian population in the United States increased by 57% between 2006 and 2022, as indicated by official data from the U.S. Census Bureau. The number of Colombian nationals residing in Spain increased by 241% between 2016 and 2023, according to data from the National Institute of Statistics of Spain (INE for its Spanish acronym). Furthermore, the Colombian population has been a significant source of migration in countries such as Chile, Canada, and Panama, particularly since 2010.

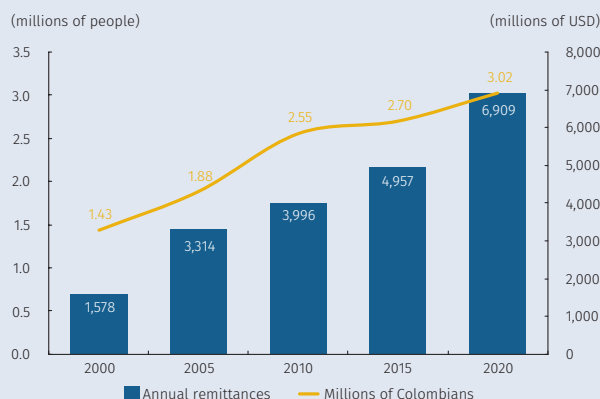
Graph B3.3
Colombian migration and remittances

A. Net emigration of Colombians^{a/}



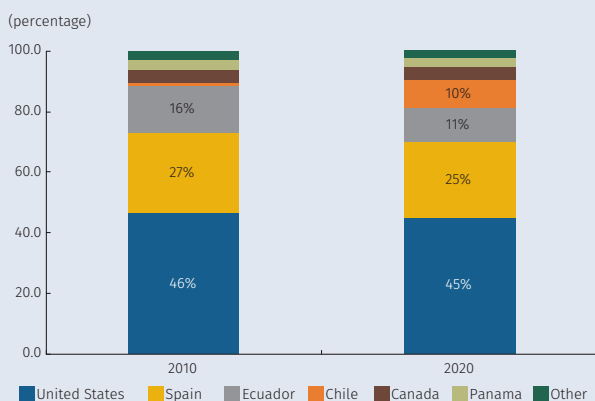
a/ Corresponds to the indicator for net exits of Colombians leaving the country. Sources: Migration Colombia; calculations of Banco de la República.

B. Colombians residing abroad and remittance income



Sources: UN data; Banco de la República; own calculations.

Graph B3.4
Colombians living abroad (excluding Venezuela)



Source: United Nations.

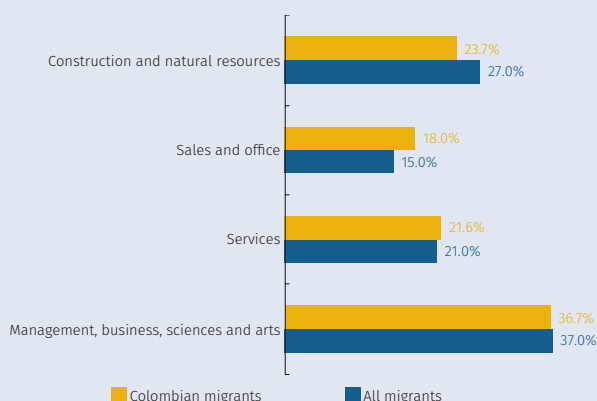
Generating remittances also requires that this emigrant population have an income that allows them to send their family transfers back to their homeland. Therefore, it is important to understand the economic situation of Colombian populations residing in the primary migratory destinations.

In the United States, the main source of employment since 2020 for emigrant Colombians in the U.S. centers on service-related activities, including sales and office work. (Graph 3.5, Panel A). The unemployment rate of the services sector has consistently been lower than the national average since 2022 (Graph B3.5, Panel B) and, because it generates close to 75% of the national GDP, may provide better employment opportunities for migrants. Moreover, the U.S. unemployment rate continues to fall from its pandemic peak.

In Spain, the real labor income indicator measured by the real wage cost has been steadily rising in the last decade, assuming a steeper trajectory since the beginning of 2022 (Graph B3.6, Panel A). Additio-

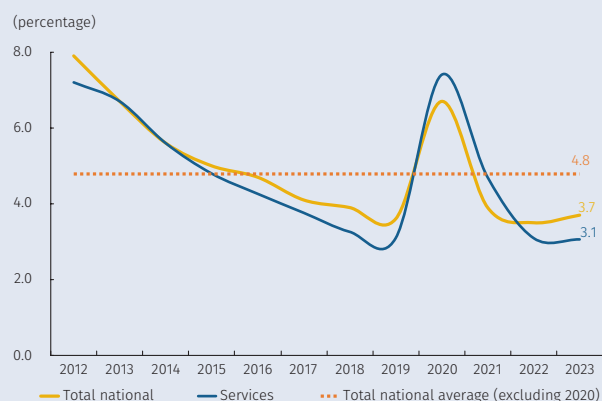
Graph B3.5
Migrants and the labor market in the US

A. Employed migrants as a percentage of the US labor force by economic sector



Source: U.S. Census Bureau.

B. United States unemployment

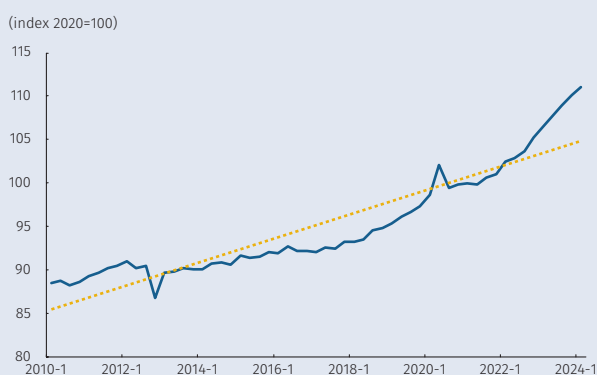


Source: U.S. Bureau of Labor Statistics.

nally, unemployment rates reported by the autonomous communities with a greater concentration of Colombian immigrants, such as Madrid and Cataluña (Barcelona),¹ are lower than those of the national average (Graph B3.6, Panel B). The latter might provide additional benefits for the Colombians residing in that country through a greater possibility of finding better-paid employment.

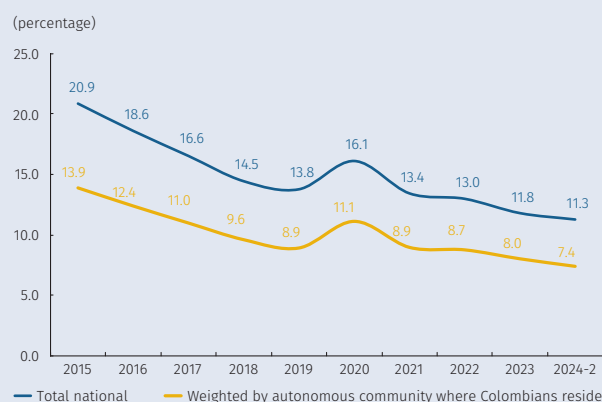
Graph B3.6
Labor market in Spain

A. Real cost per effective hour of work for Spain



Source: INE (National Institute of Statistics of Spain).

B. United States unemployment



3. Characterization of remittance income

As previously noted, the United States and Spain are the primary recipient countries of Colombian migration. This is evidenced by the fact that two-thirds of the remittances received by the country originate from those diasporas (Graph B3.7, Panel A), with 52% of total remittances originating from the U.S. and 15% from Spain. North America accounts for 54% of total remittances, followed by the Eurozone at 22%, and Latin America at 17%, where Chile and Ecuador are significant contributors. Approximately 56% of the Colombian population

1 The authors are members of the International Sector of the Monetary Policy and Economic Information Department. The views and opinions expressed herein do not necessarily reflect those of the Bank or its Board of Directors.

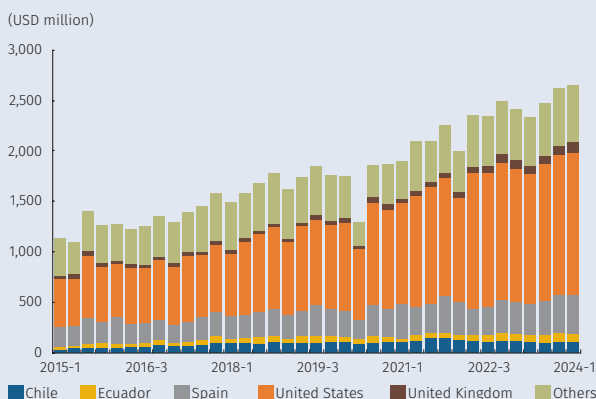
living in Spain is located in three autonomous communities: Madrid (22%), Cataluña (18%), and the community of Valencia (16%).

In recent years, the United States has consistently ranked as the primary source of remittances to Colombia, with its share increasing over the past decade. Remittances from Spain have diminished their proportion of the total value of external remittance inflows. Remittances from the United States, Chile, and the United Kingdom have increased more significantly than those from Spain (Graph B3.7, Panel B); however, the USD amount from the Iberian country has risen in recent years, doubling from 2015 to early 2024.

As for the leading remittance-receiving departments, Valle del Cauca is the region that historically received the largest share and, accordingly, accepted 25% of total external remittance inflows to Colombia based on first-quarter data for 2024. In the same period, Cundinamarca, including Bogotá, received 17% of remittances and Antioquia 16% (Graph B3.8, Panel A). Hence, almost 60% of remittances are clustered in these three departments, which historically have assumed a similar pattern. Of the remaining 40% share, the Eje Cafetero (Caldas, Quindío, and Risaralda), Atlántico, and Santander are the largest beneficiaries. Finally, there

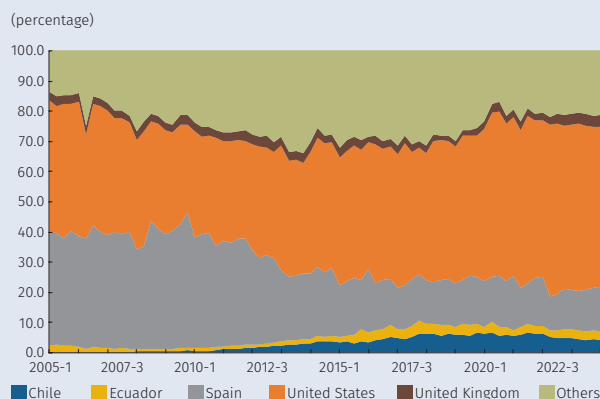
Graph B3.7
Remittances by country of origin

A. Remittance income by country of origin



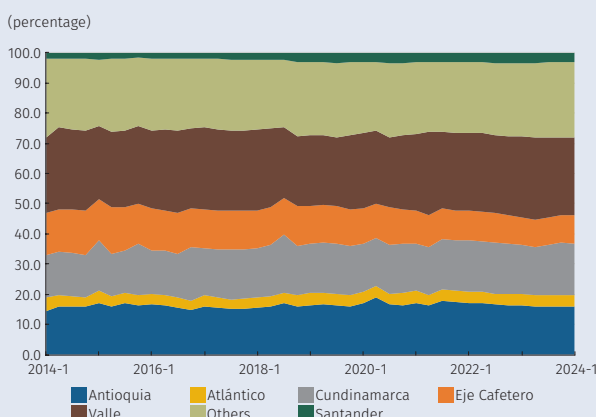
Sources: Banco de la República; own calculations.

B. United States unemployment



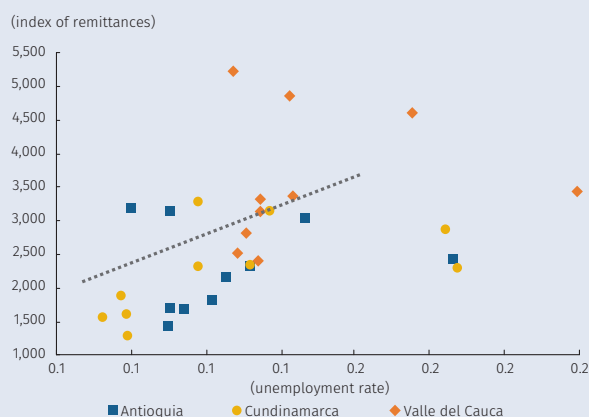
Graph B3.8
Remittance receptor departments

A. Primary remittance receptor departments



Sources: DANE; Banco de la República; own calculations.

B. Relation between unemployment and remittances in the primary receptor departments

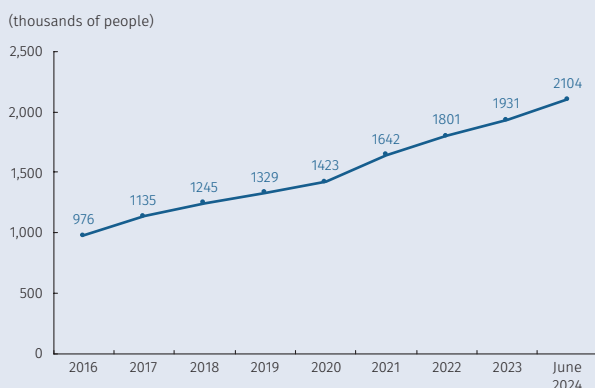


is a positive correlation between the unemployment rate in the largest recipient departments and the receiving of remittances (Graph B3.8, Panel B).

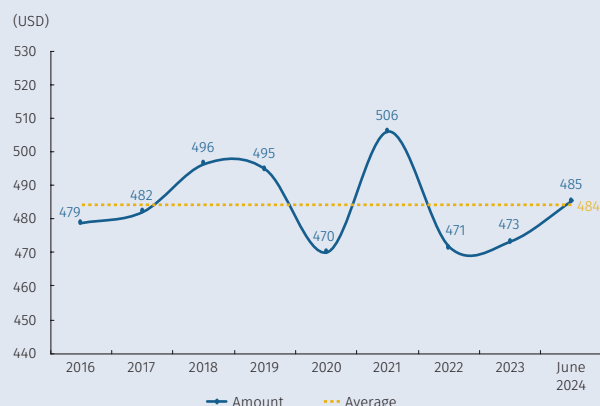
The greater migration activity of Colombians is also noticeable in the higher number of remittance recipients nationally: from just under one million beneficiaries in 2016, this figure rose to 2.1 million in June 2024 (Graph B3.9, Panel A). In addition, it is estimated that

Graph B3.9
Recipients and average amount of remittance in Colombia^{a/}

A. Number of recipients

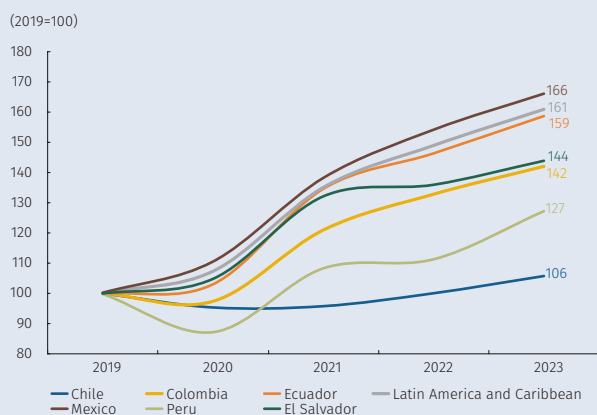


B. Amount of remittance per recipient



a/ The data points are for December of each year, except for 2024 which is for June.
Sources: Banco de la República; own calculations.

Graph B3.10
Growth rate of remittances



Source: World Bank.

the current average monthly amount in USD of the remittance has remained steady, ranging between USD 470 and USD 506 per month (Graph B3.9, Panel B).

4. International comparison

The recent increase in remittances has been a widespread occurrence throughout the region. Remittances in Colombia climbed by 42% compared to pre-pandemic levels, while in Latin America and the Caribbean, they rose by 61% (Graph B3.10). The growth rates of foreign remittance income in Mexico (66%), Ecuador (59%), and El Salvador (44%) exceeded those in Colombia.

In 2023, Colombia placed in the fourth position in remittance inflows within Latin America, following Mexico, Guatemala, and the Dominican Republic. According to data from the Migration Data Portal, the principal remittance-receiving countries globally for that year were India, Mexico, China, the Philippines, and Pakistan.

Conclusions

The increase in remittances to Colombia has led to remittances assuming a greater share of the national GDP, the current income of the balance of payments, and the disposable income of Colombian households, potentially driving the favorable consumption performance seen recently. This growth trend is prevalent in several countries in the region and, particularly in the Colombian case, has been largely associated with the increase in Colombian emigration and employment opportunities of the migrant population abroad. The United States and Spain are identified as the principal destination countries

for Colombian migrants, as well as the primary sources of foreign remittance revenue for Colombia.

The greater migratory activity has also increased the number of remittance beneficiaries in Colombia. Moreover, the average monthly value in current dollars of remittances per recipient has continued close to its historical average over the past eight years. Valle del Cauca, Cundinamarca (including Bogotá), and Antioquia are the main recipient regions of these remittances, with a composition that has remained relatively consistent over time.

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