



PERU

Remittances Constitute the Third Source of Foreign Exchange for Peru's Economy During 2005-2006.

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Migration and Remittance Volume

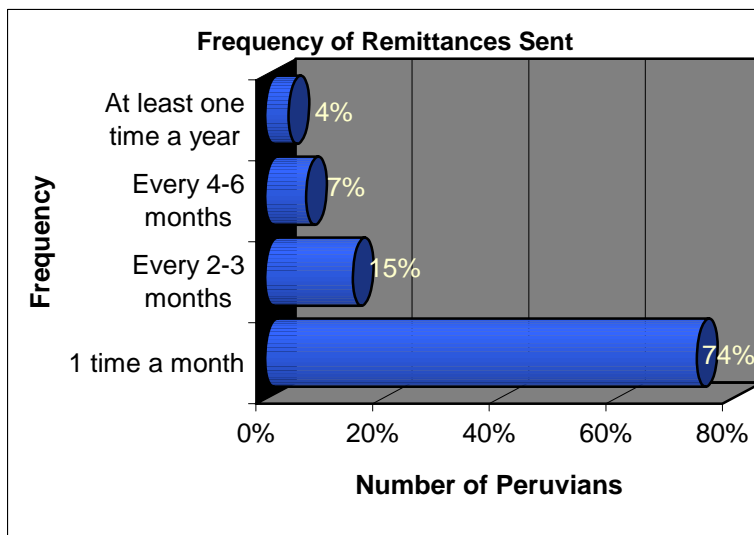
Latin American migration to more developed countries for improved life conditions has shown exponential growth during the last three decades (1976-2006), where roughly 40 million people have sallied to the U.S., of which, 20% (i.e., eight million migrants) reside illegally.

In his book, *Remesas en el Peru*, Dr. Jorge Zorilla states that remittances exist due to the obligation felt by each Latin American migrant to provide money to their families. Bendixen & Associates (BA) household survey shows that the large majority of receivers (28%) obtained remittances from either their son or daughter, followed by 21% who received remittances from a non-immediate family member, while 18% received remittances from their mother or father.

According to the Inter-American Development Bank (IDB), Latin American Countries (LAC) and the Caribbean received over US\$53.6 billion in remittances in 2005. In 2006, there was a 12% increase (US\$60 billion) of remittances to LAC and the Caribbean, where 75% originated from the U.S and nearly 15% from Western Europe.

It is estimated that Peru received approximately US\$1.4 billion in remittances in 2005 and US\$1.7 billion in 2006, 53% of which came from the U.S and 35% from Europe. The Banco Central de Reserva del Peru (BCRP, Peru's Central Bank) estimates that remittances will reach US\$2.0 billion in 2007 and US\$2.2 billion in 2008. Remittances to Peru have tripled from 1996-2006, obtaining a 1.9% of the Peruvian GDP. In total, world remittances have reached a total of US\$270 billion to date and is expected to continue growing in the foreseeable future (i.e., 2008-2009).

Remittance Frequency and Channels



Source: Peru's Central Reserve Bank (www.bcrp.gob.pe)

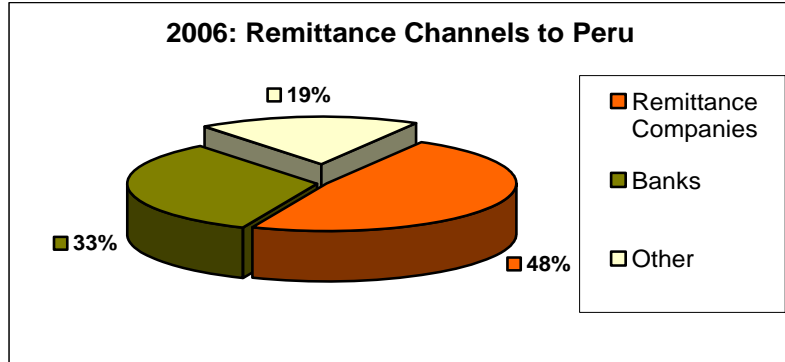
A 2006 report by the Multilateral Investment Fund (MIF) and BA, stated that the average individual remittance to the originating Latin American countries (LAC) ranges from US\$100 - US\$300.

The figure to the left shows that the majority (74%) of Peruvian recipients receive remittances at least one time a month and 26% receive their remittances on a less frequent basis.

Individual spending habits differ. The latest remittance survey conducted by B&A showed that 60% of Peruvian receivers use their remittances for daily expenses (i.e., groceries, transportation, etc.), 21% for education, 8% for business expenses, while 6% put it in their savings account and 2% use it for housing.

We can analyze remittance recipients based on their age group. For example, the largest receivers of remittances in Peru are roughly 27% (2 million) of the 28% who fall between the ages of 18 and 25, and the 27% (2 million) of the 28% who fall between the ages of 46 and up. 54% (7.0 million) of the 49% male population received remittances and 46% (6.2 million) of the 51% female population received remittances.

Ample opportunity exists for remittance companies and banks (i.e., Western Union) that respectively accounted for 48% and 33% of remittance transfers in 2006, while 19% went through courier companies, cooperatives, or travel agents. The BCRP projects that the current trend of lower transfer costs will continue to yield larger remittance transfers through banks than through remittances companies.



Source: MIF and Bendixen & Associates

Other remittance channels exist. Indirect remittance channels are created as 60% of Peruvian recipients divide their money amongst other Peruvians (i.e., 28% divide with one person while 17% divide with two people). Accordingly, Peruvian magazine ViceVersa states that Peru received close to US\$ 500 million worth of interregional remittances in 2005. Hence, both indirect and interregional channels are expected to concurrently develop with the anticipated remittance growth to LAC in the foreseeable future (2007-2008).

The future of the Peruvian remittance market will present an assortment of opportunities for U.S. companies as Peruvians continue to use remittances for basic expenses, savings, and/or long-term investments.

An article in the February edition of The Economist called "A Cash Call", discusses how smart cards and mobile phones have now enabled people to remit money back to their home country. Companies have already started to tap into the remittance market with this technology. During February, Mastercard began operating a system of 19 telephone operators with networks in 100 countries that allows people to remit money as text messages. And for those without bank accounts, Mastercard converts credit into pre-paid cards "which can then be used to buy things." Nonetheless, this technology has not reached the Peruvian market but offers a rewarding opportunity for U.S. companies willing to provide this service to those Peruvian migrants that send roughly US\$2 billion back to Peru.

For More Information

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