Remittances and Development: The Case of Mexico

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Remittances and Development: The Case of Mexico

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I. Evolution of Remittances to Mexico

- During 2004 remittances totaled US$16.6 billion, a figure that represents an annual increase of 24%, placing Mexico second in the world in terms of remittances received, just below India.
I. Evolution of Remittances to Mexico

- The significant growth of registered remittances has been a consequence of both better statistical coverage of those transactions and an increase in inflows.
- During the last decade, the average amount of remittances has been steady, fluctuating between US$320 and US$350.

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflow1/</th>
<th>Number2/</th>
<th>Average Amount3/</th>
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<tr>
<td>2000</td>
<td>6,573</td>
<td>17,999</td>
<td>365</td>
</tr>
<tr>
<td>2001</td>
<td>8,895</td>
<td>27,744</td>
<td>320</td>
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<tr>
<td>2002</td>
<td>9,814</td>
<td>29,954</td>
<td>328</td>
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<tr>
<td>2003</td>
<td>13,396</td>
<td>41,808</td>
<td>320</td>
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<tr>
<td>2004</td>
<td>16,613</td>
<td>50,874</td>
<td>327</td>
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<tr>
<td>2005 Jan-Apr</td>
<td>5,647</td>
<td>16,958</td>
<td>333</td>
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</tbody>
</table>

1/ Millions of US dollars
2/ Thousands of transactions
3/ US dollars
I. Evolution of Remittances to Mexico

An electronic transfer is the most common instrument used to send remittances, covering almost 90% of the total.

Inflows from Remittances
Millions of US dollars

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005 Jan-Apr</th>
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<tbody>
<tr>
<td>Total Remittances</td>
<td>6,573</td>
<td>8,895</td>
<td>9,814</td>
<td>13,396</td>
<td>16,613</td>
<td>5,647</td>
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<tr>
<td>Money Orders</td>
<td>1,434</td>
<td>803</td>
<td>687</td>
<td>1,623</td>
<td>1,883</td>
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<tr>
<td>Personal Checks</td>
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<td>10</td>
<td>10</td>
<td>6</td>
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<tr>
<td>Electronic Transfers</td>
<td>4,642</td>
<td>7,784</td>
<td>8,798</td>
<td>11,512</td>
<td>14,496</td>
<td>5,011</td>
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<tr>
<td>Direct Transfers *</td>
<td>488</td>
<td>298</td>
<td>320</td>
<td>255</td>
<td>234</td>
<td>72</td>
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</table>

* Includes transfer of goods as well as cash. Data are drawn from Banco de México’s International Travel Surveys.
I. Evolution of Remittances to Mexico: Transfer Costs

In recent years transfer costs of remittances have been significantly reduced. This is mainly due to increased competition between the various intermediaries that make such transactions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Chicago</th>
<th>Dallas</th>
<th>Houston</th>
<th>Indianapolis</th>
<th>Los Angeles</th>
<th>Miami</th>
<th>New York</th>
<th>Sacramento</th>
<th>San Jose</th>
<th>TOTAL</th>
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<tr>
<td>1999</td>
<td>21.8</td>
<td>27.1</td>
<td>21.8</td>
<td>42.1</td>
<td>28.3</td>
<td>27.4</td>
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<tr>
<td>2000</td>
<td>18.8</td>
<td>24.3</td>
<td>21.4</td>
<td>29.7</td>
<td>23.7</td>
<td>22.6</td>
<td>21.6</td>
<td>17.1</td>
<td>29.2</td>
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<td>2001</td>
<td>12.7</td>
<td>16.2</td>
<td>15.7</td>
<td>21.1</td>
<td>13.1</td>
<td>17.0</td>
<td>15.7</td>
<td>14.7</td>
<td>15.0</td>
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<tr>
<td>2002</td>
<td>13.3</td>
<td>14.6</td>
<td>14.9</td>
<td>17.1</td>
<td>13.9</td>
<td>16.4</td>
<td>14.2</td>
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<td>12.6</td>
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<td>12.3</td>
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<td>11.8</td>
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<td>January</td>
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<tr>
<td>May</td>
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<td>10.0</td>
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<td>9.8</td>
<td>10.2</td>
<td>10.7</td>
<td>10.7</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Source: PROFECO.
I. Evolution of Remittances to Mexico

- The amount of remittances to Mexico is very high when compared with other receipt items of the external accounts.

Remittances in 2004 as a Percentage of:

- Crude Oil Exports: 78%
- International Travel Inflows: 153%
- Foreign Direct Investment: 100%
- Maquiladora Surplus: 87%
During 2004 a negative relationship was observed between the level of development of Mexican states, measured by per-capita GDP, and the relevance of remittances as a source of income.

I. Evolution of Remittances to Mexico
II. Regulation on Remittances

- There are no exchange restrictions in Mexico.

- In October 2002, Banco de México issued a set of rules instructing all firms dedicated to the service of funds transfers to provide monthly information on the amounts and volume of remittances sent to Mexico, classified by Mexican recipient state.

- Rules were issued with the following goals: a) to create a register of firms dedicated to money transfers, b) to standardize the information received, and c) to produce information at a national and state level.

- Remittances sent by electronic means and by money orders are calculated from accounting information.

- The calculation of remittances delivered in cash or in kind draws from the international traveler surveys of Banco de México.
III. Some Features of the Sender and Recipient of Remittances

According to surveys conducted by Banco de México:

✓ Relatives in the U.S. at Arrival. Three out of four respondents stated that they already had relatives in the United States when they first arrived in that country and almost everyone reported to have lived with them at arrival.

✓ Sending Frequency. 80% of those interviewed stated that they send money to their relatives in Mexico on a regular basis. On average, senders remit money 10 times a year.

✓ Average Remittance and Worker’s Income. The average value of remittances is directly related to the income of the Mexican worker in the United States.

✓ Income of the Sender. Almost two-thirds of the respondents have an income between US$1,000 and US$2,000 per month.
III. Some Features of the Sender and of the Recipient of Remittances

✓ Visit and Transfer Amount. When visiting their relatives in Mexico, senders leave an amount of money that exceeds the value of the monthly normal remittance.

✓ Years of Residence. As the age of the sender or the number of years living abroad increases, the average amount of the remittance tends to decrease.

✓ Relatives in the U.S. The amount remitted is smaller when the sender has other relatives in the United States.
III. Some Features of the Sender and of the Recipient of Remittances

- **The Recipient.** The main beneficiaries of remittances are the parents, followed in frequency by wife and siblings. The highest average amount is sent to the wife.

- **Other Sources of Income of the Recipient.** Almost half of the recipients have other sources of income. The amounts transferred are higher when they have no additional sources of income.

- **Use of Remittances.** The main use of remittances is consumption. However, half of those interviewed said that their beneficiaries have used part of those resources for acquisition or improvement of housing.
IV. Destination of Remittances Inflows

- Most remittances are used by households for consumption expenditure, including education. Part of these resources are used for acquisition and improvement of housing.

- The results of the questionnaire applied by INEGI to 10% of Mexican households show that:
  - The share of Mexican households with electrical appliances (radio, TV, video recorders, refrigerators, washing machine, etc.) is higher in households that receive remittances than in those that do not receive such transfers.
  - In 2000, 83% of households receiving remittances owned the house where they lived, whereas the proportion was 78% for households that did not receive such transfers.
V. Remittances and Economic Development

- Studies regarding worker remittances’ impact have found that those resources are mainly used to finance consumption, as well as to increase human capital (education and health expenditure). Only a small portion of remittances are oriented towards investments such as the improvement or acquisition of a house or to establish a small business.

- Investment of remittances in human and physical capital has a direct impact on economic growth, while consumption expenditure affects GDP indirectly through increasing aggregate demand.
Two factors have limited remittances for investment expenditures: 1) the low portion of such remittances that is left over to finance investment expenditures; and 2) the lack of managerial skills on the side of remittances’ recipients.

Some studies have found that remittances dampen the effect of declines in revenue during economic crisis, reducing family income volatility.

Evidence also suggests that members of recipient households have fewer incentives to search for alternative sources of income.
In Mexico, remittances as a proportion of GDP has increased significantly. This reflects their upward trend as well as the coverage improvement of these transactions.
VI. Final Comments

- **Labor market conditions in Mexico encourage migration to the United States:**
  - Labor market rigidities.
  - Weakness in formal-sector job creation.
  - Weakness in the quality of the jobs created (health benefits, low average pay, lack of an established working place, etc.)

- Increased long-term economic growth in Mexico would not make wage differentials for similar work between the two countries disappear. Thus, migration will continue to be attractive for Mexican workers for the foreseeable future.
VI. Final Comments

- Other factors:
  - A high and increasing number of Mexicans have family ties in the United States, thereby reducing migration costs.
  - Migration to the United States is attractive:
    - The U.S. economy is the largest economy in the world.
    - In the U.S. labor market:
      - Earnings are among the highest in the world.
      - On the demand side, the economy is very flexible and has great capacity for job creation.
      - On the supply side, migrants complement some working activities.
  - Despite increased restrictions, the United States is still a very open country for migration.
  - Thus, remittances will continue to flow steadily for some time in the future.