



Remittances and Development: The Case of Mexico

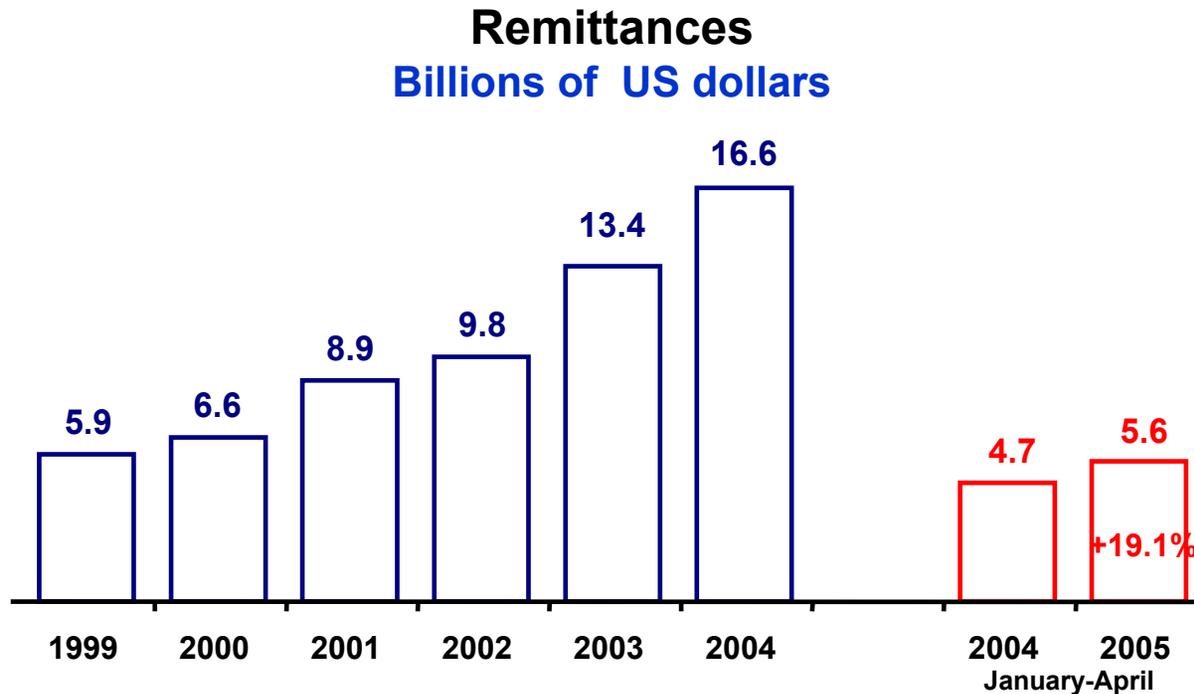
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Remittances and Development: The Case of Mexico

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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.*

Inflows from Remittances

Amount, number of transactions and average remittance

	2000	2001	2002	2003	2004	2005 Jan-Apr
Inflow^{1/}	6,573	8,895	9,814	13,396	16,613	5,647
Number^{2/}	17,999	27,744	29,954	41,808	50,874	16,958
Average Amount^{3/}	365	320	328	320	327	333

^{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

	2000	2001	2002	2003	2004	2005 Jan-Apr
Total Remittances	6,573	8,895	9,814	13,396	16,613	5,647
Money Orders	1,434	803	687	1,623	1,883	564
Personal Checks	9	10	10	6	0	0
Electronic Transfers	4,642	7,784	8,798	11,512	14,496	5,011
Direct Transfers *	488	298	320	255	234	72

* 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.

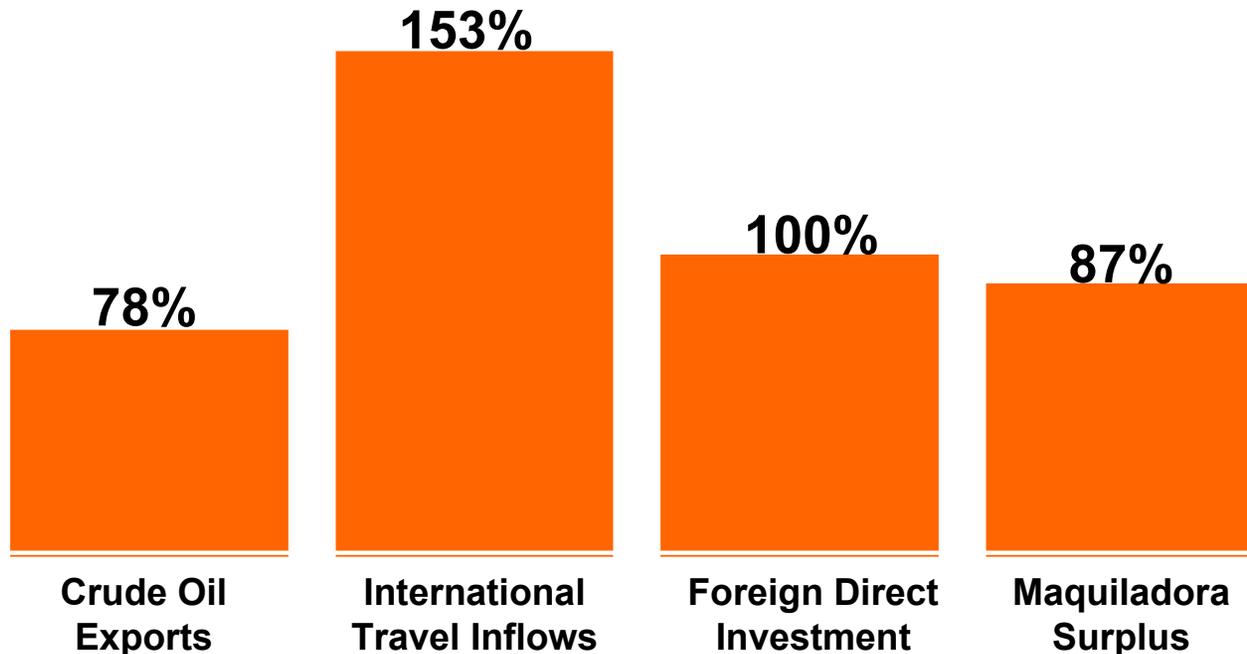
**Total Cost of Money Transfers from the U.S. to Mexico of an
Average Amount of US\$300 from a Sample of Firms by City of Origin**
US dollars per Transfer

	Chicago	Dallas	Houston	Indianapolis	Los Angeles	Miami	New York	Sacramento	San Jose	TOTAL
1999	21.8	27.1	21.8	42.1	28.3	27.4	27.0	32.4		28.5
2000	18.8	24.3	21.4	29.7	23.7	22.6	21.6	17.1	29.2	23.2
2001	12.7	16.2	15.7	21.1	13.1	17.0	15.7	14.7	15.0	15.7
2002	13.3	14.6	14.9	17.1	13.9	16.4	14.2	15.3	14.4	14.9
2003	11.2	13.1	13.1	11.9	12.0	13.1	12.8	14.5	13.1	12.8
2004	11.2	12.3	12.6	11.3	11.4	12.0	12.2	12.2	11.7	11.9
First Half	11.1	12.3	12.6	11.7	11.3	12.3	12.0	12.3	11.7	11.9
Second Half	11.3	12.3	12.6	11.0	11.2	11.6	12.4	12.0	11.6	11.8
2005										
January	9.8	10.3	10.7	9.4	9.2	8.9	10.3	9.6	9.5	9.8
February	10.5	11.3	11.6	9.1	10.2	10.4	11.4	10.6	10.6	10.6
March	11.4	12.3	12.8	11.3	11.1	11.5	12.1	11.6	11.4	11.7
April	10.9	11.6	12.0	10.2	10.7	11.1	11.8	10.9	11.1	11.2
May	10.0	12.5	12.5	10.0	10.3	9.8	10.2	10.7	10.7	10.7

I. Evolution of Remittances to Mexico

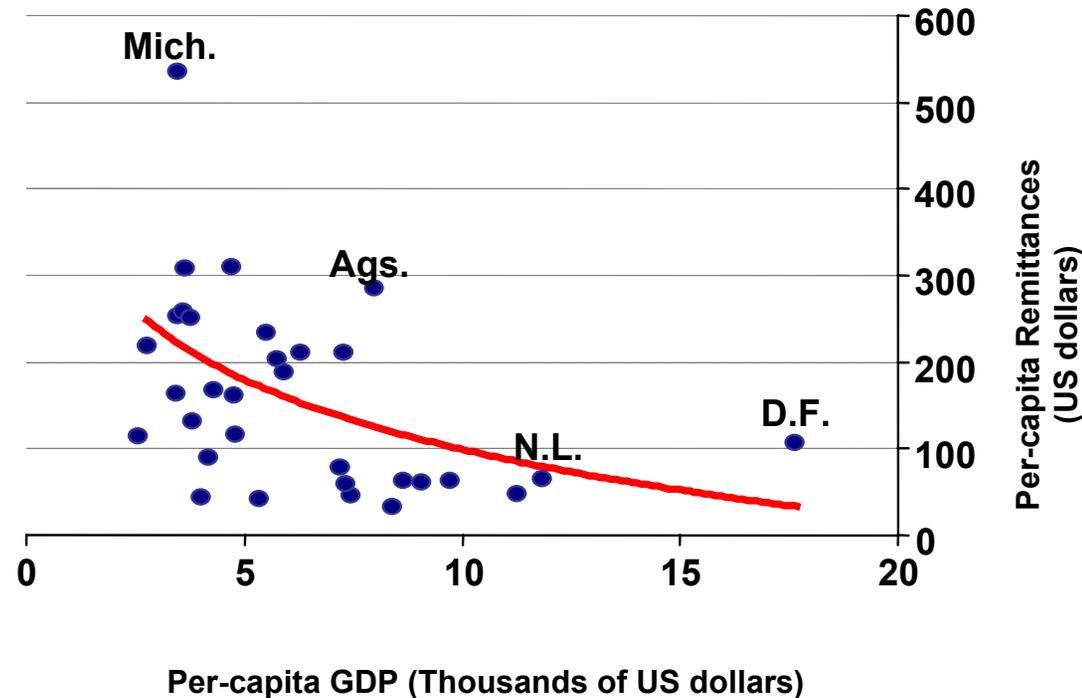
- *The amount of remittances to Mexico is very high when compared with other receipt items of the external accounts.*

Remittances in 2004 as a Percentage of:



I. Evolution of Remittances to Mexico

- 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.



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.***

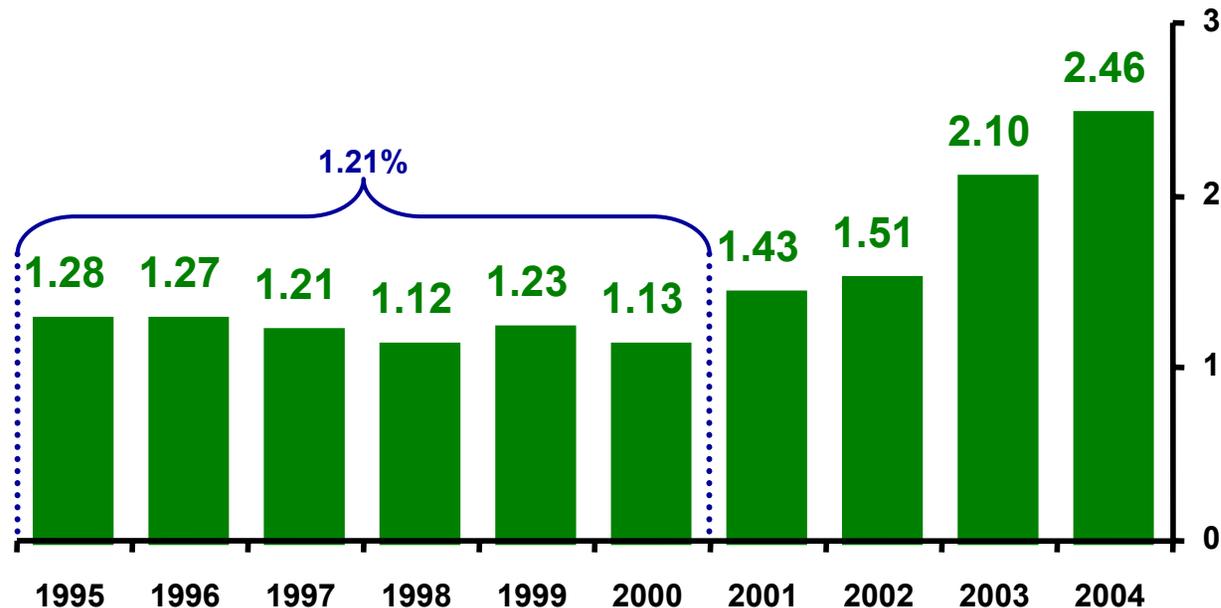
V. Remittances and Economic Development

- *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.*

V. Remittances and Economic Development

- *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.*

Remittances as a Percentage of GDP



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.***