IDB SURVEY OF REMITTANCES TO MEXICO AND CENTRAL AMERICA: FINDINGS AND ANALYSIS

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Since 2000, the Inter-American Development Bank (IDB) has been intensively studying remittances to Latin America and the Caribbean (LAC) in order to better understand the nature and volume of these flows, to help reduce transaction costs and, most recently, to leverage their potential development impact.

Over the past seven years, it has become very clear just how critical remittances are to the well-being of millions of families throughout LAC, and to the stability of many national and local economies of the region. Each year, more migrants have been leaving home, drawn by the prospect of employment, given the need for more workers in developed countries. As their numbers have increased year after year, so too has the percentage of migrants sending remittances, along with the average monthly amounts sent home.

Once "hidden in plain view," literally recorded in the errors and omissions columns of central bank statements, remittances to LAC are now recognized as consistently exceeding the combined total of net Foreign Direct Investment (FDI) and Overseas Development Assistance (ODA) to the region, reaching US$62.3 billion in 2006.

Although this amount represents a tripling of recorded remittances since 2000, much of that gain is attributable to greatly improved reporting systems over the same time period. As a result of the much more accurate baseline data now available, it has been anticipated that future increases in remittances would "moderate" to about ten to fifteen percent in coming years, depending on the country.

It is in this context that reported trends in Mexican remittance flows have attracted considerable attention and speculation in recent months. For example, in the first semester of 2006, Mexican remittances increased 23% over the same period in 2005. This contrasts dramatically with the announcement last week that remittances to Mexico were essentially flat for the first half of 2007, as compared to 2006.

Percent Increase in Remittances, Central Bank of Mexico

	January – June	***July – December***
2003 – 2004	26%	22%
2004 – 2005	18%	23%
2005 – 2006	23%	8%
2006 – 2007	0.6%	N/A

This marked deceleration in remittances to Mexico has fueled a number of concerns as well as hypotheses, some attributing the change to the loss of good jobs in the U.S. construction sector, others to increased security measures along the U.S. border. Given the prominence of Mexico as the remittance leader in the region, the IDB recently commissioned a survey of Mexican remittance senders in order to test various hypotheses. Central American senders were also surveyed because of the assumption that the same factors would likely affect both populations in the same way.

The survey findings (attached) strongly suggest that, while a slow-down in the U.S. economy/construction industry and/or increased border security measures may have had some relatively minor impact on remittances at the margin, they simply do not explain the sharp deceleration of remittances to Mexico. This is particularly obvious since remittances to Central American countries (El Salvador, Guatemala and Honduras) have remained relatively unaffected during the first half of 2007, increasing by almost 11% on average.

Instead, the key factor in explaining the recent trends in remittances to Mexico is apparently linked to the geographic location of Mexican immigrants working within the United States. Survey respondents in the 10 "traditional states" that have received large numbers of Mexican immigrants over the last two or three decades (e.g. California, Arizona, Illinois, Texas, New York, etc.) report largely unaffected remittance sending patterns over the past year (dropping from 68% to 66% from 2006 to 2007). In contrast, the **almost 2 million** Mexican immigrants who are living in the other 40 "new destination states" (Alabama, Georgia, Iowa, North and South Carolina, Ohio, Pennsylvania, Tennessee, Virginia, Oregon, Washington, etc.) report a significant reduction in sending home remittances over the same time period—indeed, dropping from 80% to 56% from 2006 to 2007.

In short, Mexicans living in "new destination states" have slipped in the past twelve months from the highest percentage of sending (80%) to the lowest (56%). It appears from other questions in the survey that Mexican migrant workers living in these areas are encountering an unprecedented range of economic and social difficulties, leaving them less optimistic about their futures, and more uncertain about their economic prospects.

This environment is leading about **one in three Mexicans** in "new destination states" that were sending remittances last year – almost **a half million immigrants** – to stop sending money home. In contrast, the remittance flow to Central America has not been significantly impacted because almost all (97%) of immigrants from El Salvador, Honduras and Guatemala reside in the 10 "traditional states." Approximately 75,000 Central American immigrants reside in the 40 "new destination states."

Over the long term, we expect that the forces of globalization, integrating labor markets, and most importantly, demographic trends of aging populations in developed countries will continue to require a large influx of workers from less developed countries. In the short term, however, there does appear to be some significant dislocation taking place within certain parts of the United States.

This dislocation will clearly have some negative consequences for the approximately two million Mexicans back home[1] who would otherwise be supported by remittances from relatives working in the United States. The potential economic impact on localities within the United Sates that have come to depend on immigrant labor is not yet fully understood.

As a result, the IDB intends to commission another survey early in 2008 that would build upon the data from this study, and help determine whether the most recent remittance trends are confirmed for Mexico and are starting to spread elsewhere, or prove to be only a temporary phenomenon, given the strength of larger economic and demographic forces that have led to increased remittances over the past decade.

[1] The average remittance to Mexico supports a household of 4.5 people.