

**THE EVOLUTION OF WORKER'S REMITTANCES
IN MEXICO IN RECENT YEARS**

BANCO DE MÉXICO

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I. INTRODUCTION

In recent years Workers' Remittances have increased their presence in Mexico's external accounts. During 2006 they added up to 23,054 million US dollars, thus recording an annual rate of growth of 15.1 percent. In the first two months of the current year remittances added up to 3,409 million of US dollars for an annual increase of 5.5 percent. Such rapid growth has resulted from a better recording of transactions as well as from an actual increase of the flows.

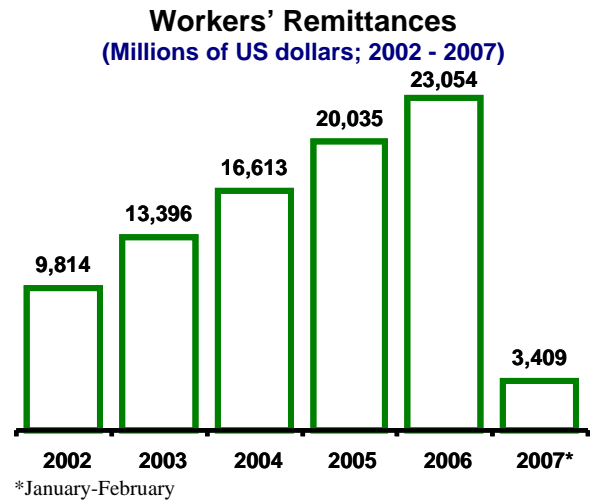
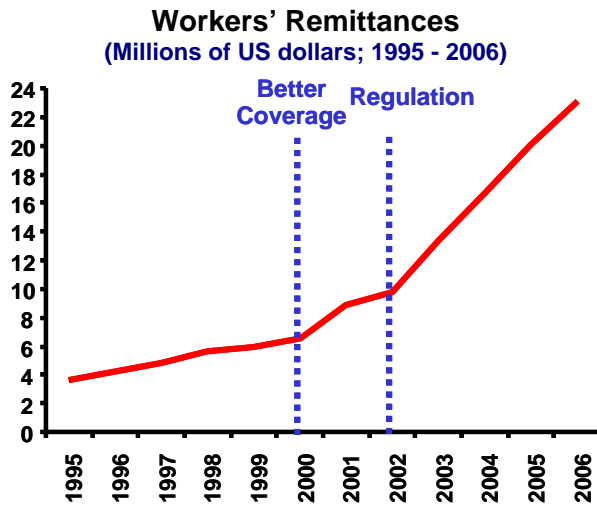
II. MAIN ASPECTS OF WORKERS' REMITTANCES

Since 2000 Banco de Mexico's efforts have aimed at increasing and improving the recording of Workers' Remittances statistics. Just a few years ago there was a widespread view in Mexico's Central Bank, as well as among analysts in Mexico and abroad, the intermediaries of these resources and even among some International Organizations, that Mexico Remittances' statistics greatly underestimated the size of the flows involved.

a) Improved Coverage

During 2001, in the quarterly press releases of the balance of payments of Mexico, and in Banco de México's Annual Report and Inflation Reports as well, the central bank referred to this improvement in statistical coverage and stressed that, for some time, remittances' growth would be very high.

Intermediaries also improved their Remittances records.. This allowed them to have a better understanding of the following: a) the potential size of this growing market; b) the business opportunities it offered; c) the instruments that were needed in order to increase their market share; and d) the adjustments that have to be implemented to process a large number of transactions and to apply cross information systems aimed at avoiding irregular operations.



b) Incorporation of Informal Transactions to the Formal Market

A large number of transactions, previously made through informal channels, were gradually incorporated to the remittances formal market. **This greatly helps to explain the increase of Workers' remittances' figures since 2000.**

In this context, it is worth mentioning that a recent study by the World Bank states that the so called "Matrícula Consular" (Consular Card) that Mexican consulates in the United States provide to Mexican nationals in that country despite their migration status, has enhanced the growth of remittances sent through formal channels.¹ According to the World Bank, this card is widely accepted as an ID to open a banking account.

Total Cost of Sending Money from the United States to Mexico of an average Amount of 300 US dollars for a Sample of Firms by City of Origin (Dollars per Sending)

Annual Average	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
2005	10.1	11.7	11.9	9.7	10.6	10.3	11.0	10.7	10.9	10.7
2006	9.3	11.5	11.9	10.1	10.1	10.1	10.8	9.9	10.5	10.4
2007: Feb	8.7	10.8	12.6	10.3	8.8	9.8	10.6	8.3	9.6	9.9

^{1/} World Bank, Global Economic Prospects: Economic Implications of Remittances and Migration, 2006, page 139.

c) Cost of Remittances Transactions

Another factor that has contributed to increase remittances' flows to Mexico and to their formalization has been the substantial decrease in the cost of sending remittances. The factors that explain the reduction of such costs are among others, the following: a) the rapid growth of Mexican-origin population in the United States; b) a greater number of intermediaries offering the service and an increasing competition among them; c) better information available to the users about the costs of a number of instruments and intermediaries; and d) the greater use of international electronic transfers which has allowed faster and safer ways of sending money.

d) Regulation

On October 29th 2002, Banco de México issued a set of rules aimed at strengthening Worker Remittances' statistics. Such rules instructed all firms involved in the funds transfer business to register at Banco de México and to provide monthly information on the amounts of Workers' Remittances sent to Mexico, classified by Mexican recipient state. This made possible the production of high quality information on Workers' Remittances at a national and state level, which is used to compile the Transfers item of the Current Account of the Balance of Payments. At this moment, Banco de México is considering a new request to the firms, one that specifies the country of origin of the transfers. This way, it will be possible to identify remittances from Canada.

e) Amount of Remittances and Number of Transactions

The improvement in the coverage, together with a substantial increase in the number of migrants and the cheapening of such transactions, explain the sizable rise in remittances in recent years. **The growth of remittances has been coupled by a very similar increase in the number of transactions, thereby the average value of the individual transaction has remained in a steady range between 300 to 360 dollars for the last five years.**

Inflows of Workers' Remittances (Amount, Number of Transactions and Average Remittance)

	1995	1998	2000	2002	2003	2004	2005	2006	Jan-Feb 2007
Amount of Remittances ^{1/}	3,673	5,627	6,573	9,814	13,396	16,613	20,035	23,054	3,409
Number of Remittances ^{2/}	11,263	19,420	17,999	29,954	41,808	50,874	58,739	65,843	9,940
Average Remittance ^{3/}	326	290	365	328	320	327	341	350	343

^{1/} Millions of US dollars; ^{2/} Thousands of transactions; ^{3/} US dollars.

Banco de México's statistics on Workers' Remittances only considers transactions between individuals, which are subject to a number of strict controls by intermediaries. Intermediaries (banks and non-banks) have developed platforms to process such transactions, with cross information systems designed to identify and avoid irregular operations. The frequency of sending and receptions, as well as the amounts, can be

identified. Furthermore, as a working procedure of a number of remittances paying agents, they get to know their habitual customers.

f) Measurement of the Remittances Transactions

In recent years there has been a change in the instruments used to send remittances. The amount of remittances received by Mexico by electronic transfers has rapidly increased. Intermediaries have sought to provide electronic means which are more efficient, cheaper, safer and quicker.

Inflows of Workers' Remittances (Millions of US dollars)

	1995	1998	2000	2002	2003	2004	2005	2006	Jan-Feb 2007
Total Remittances	3,673	5,627	6,573	9,814	13,396	16,613	20,035	23,054	3,409
Money Orders	1,456	1,871	1,434	687	1,623	1,883	1,867	1,357	184
Checks	26	62	9	10	6	0	0	0	0
Electronic Transfers	1,891	3,250	4,642	8,798	11,512	14,496	17,895	21,350	3,165
Direct Transfers*	299	444	488	320	255	234	273	347	61

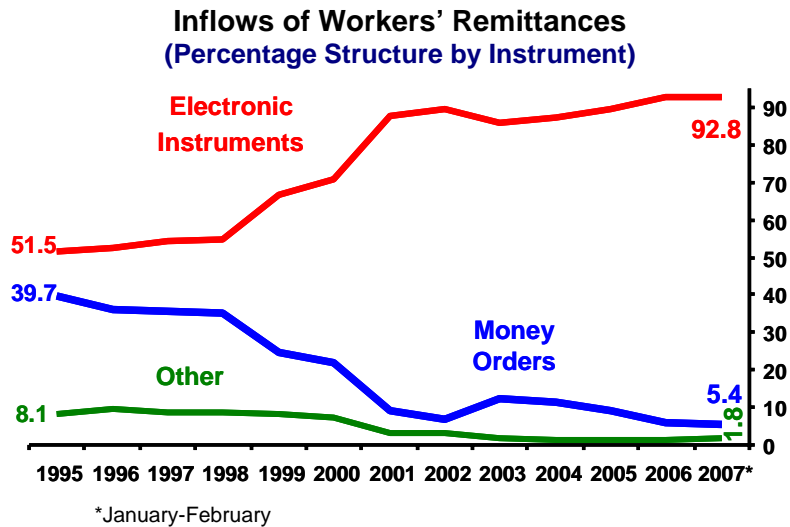
* Transfers of cash and goods.

g) Instruments Used to Send Remittances and Percentage Structure of Those Resources

Currently, 98 percent of the total remittances and the number of transactions recorded by Banco de México comes from the accounting records of intermediaries; i.e., the banks and firms that provide the transfer services. The remaining 2 percent are direct transfers; i.e., resources in cash and kind (goods) that Banco de México captures through its continuous Survey of International Travelers.

Inflows of Workers' Remittances (Percentage Structure)

	1995	2000	2001	2002	2004	2005	2006	Jan-Feb 2007
Total Remittances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Money Orders	39.7	21.8	9.0	7.0	11.3	9.3	5.9	5.4
Checks	0.7	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Electronic Transfers	51.5	70.6	87.5	89.6	87.3	89.3	92.6	92.8
Direct Transfers	8.1	7.4	3.4	3.3	1.4	1.4	1.5	1.8



h) Worker Remittances' Statistics are Supported by Accounting Records

It is important to note that the fact that almost all measurement of Workers' Remittances of Banco de México is derived from accounting records provides solid statistics. This has been acknowledged by international organizations involved in the methodological aspects of measuring and analyzing remittances. The International Monetary Fund, the World Bank, the Inter American Development Bank and the US Treasury Department have all expressed that the remittances figures produced by Banco de México constitute adequate statistics on the subject.

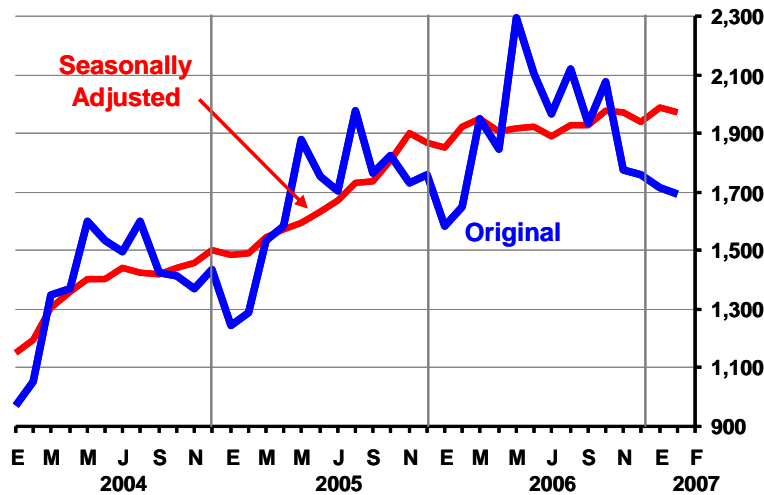
III. OTHER ASPECTS

Workers' Remittances have greatly contributed to the welfare of the recipient families: a) they have had a positive effect on income levels and, therefore, on the consumption levels of households; b) they have become an important source of resources for families to invest in human and physical capital. Also, by allowing recipient families to increase their consumption of basics, remittances help to improve their health conditions; and, c) remittances have allowed recipient families the access to better financial conditions and, thus making it possible for them to soften their consumption levels and to invest in small businesses.

During 2006, the annual rate of growth of Remittances has decreased. From the first to the fourth quarters of 2006, such rate was 27.5, 19.7, 10.6, and 5.5 percent. In the first two months of 2007 this rate was also 5.5 percent. This deceleration is probably related to recent developments in the United States which have led to a reinforcement of migration controls.² In addition, the effect of the improved statistical recording of previous years on the rapid growth of remittances, seems to be fading away.

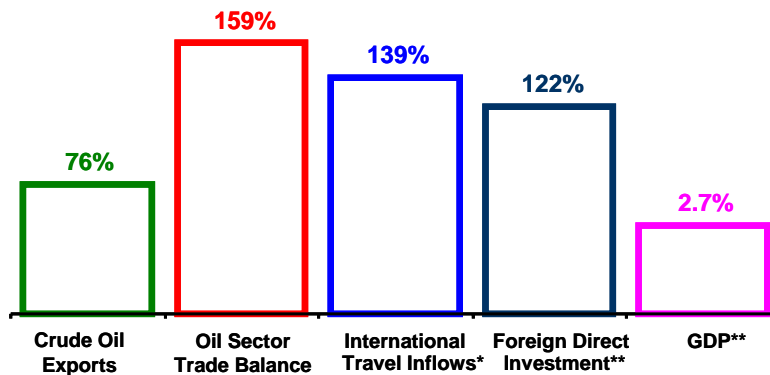
^{2/} The reinforcement of migration controls has raised deportation fears in the migrant community, which, in turn, keep some workers away from working areas where they are more exposed, and also make employers more reluctant to hire illegal migrant work force. On the other hand, the expectation that a migration reform could bring a new opportunity for legalization (with associated costs), could result in a higher savings propensity for those who feel they may qualify for residence.

Workers' Remittances
(Millions of US Dollars per Month; Seasonally and Non-Seasonally Adjusted Data)



The amount of Workers' Remittances in the first two months of 2007 represented 76 percent of the value of crude oil exports (4,503 millions of US dollars), 159 percent of the oil trade balance (2,142 millions of US dollars) and during January 139 percent of international travel inflows (1,235 millions of US dollars).

Workers' Remittances in the Period January-February 2007 as a Percentage of:



* January 2007. ** 2006.

Even though Banco de México's main involvement in the subject of workers' remittances has been with the measurement aspects for balance of payments purposes, since February 2004 it has participated in a program aimed at facilitating transfers payments by banking channels. This program is known as **Directo a México** and constitutes a joint effort between the Federal Reserve System and Banco de México. This system links the payments systems of participant banks in both countries, with the intermediation of the two monetary authorities. The system operates only in cases of transfers from the US to Mexico, and it requires both, senders and recipients of the money, to have a banking account in their country of residence. However, in the case of remittances, this restriction has been important because in most cases individuals who send or receive money tend not to have formal relations with banks. The very small amounts transferred for remittances purposes (0.1 million US dollars in 2004, 0.9 in 2005,

3.7 in 2006, and 2.3 in the first quarter of 2007) shows the abovementioned limitation. This system is probably the cheapest available in the market and delivers the money with only one day lag. For purposes other than remittances, it has been a success.

During the week previous to Christmas in the last four years, Banco de México has conducted a survey in the border with individuals of Mexican origin visiting the country to spend the holidays there. Approximately, 25,000 interviews have been made. **The Main Features of Mexican Remitters** can be summarized as follows:

- 83% of those interviewed stated that their parents, wife/husband and children were the main beneficiaries of the remittances.
- Three out of four respondents said that they already had relatives in the US when they first arrived. Almost all of them reported to have lived with them at arrival.
- The same proportion stated that they send money to Mexico on a regular basis. On average, they remit 11 times a year, but frequency as well as the average amount are much higher when the recipient is the wife.
- The average value of remittances is highly correlated with the level of income of the sender. With men earning higher incomes than women and also with a bigger propensity to remit.
- More than one third of the respondents have an income between US\$1,500 and US\$2,500 per month and two thirds earn more than US\$1,500 per month.
- When visiting Mexico, individuals deliver an amount higher than the monthly normal remittance.
- As the age of the sender or the number of years abroad increase, the average amount of the remittance tends to decrease.
- The amount remitted is smaller when the senders have other dependents in the US.
- The main use of the remittances is consumption (including education). However, half reported that their relatives have used part of the resources in improvement or acquisition of a house.
- The proportion who reports to have a banking account is high (70 percent). However, it must be noted that as the individuals who were interviewed were crossing the border they were presumably, legal residents of the US.

Finally, It is worth to mention that **Compensation of Border Workers** in the Balance of Payments of Mexico comprises the net income earned by Mexican nationals who live in Mexico but cross the border on a regular basis (daily in most cases) in order to perform a working activity in the United States (mainly in border cities). This item is recorded as "Income" in the current account and it differs from that of **Workers' Remittances** due to the fact that, in the former, individuals are resident of their original country, whereas in the latter, they are residents of the country where they work. In the first case, inflows are recorded as "Income", in the second, as "Transfers". To measure the **Income of Border Workers'** item, Banco de México conducts a survey in several cities bordering the United States. Individuals are interviewed when they enter Mexico and only if they state that they are residents of Mexico and that the main purpose of their visit to the United States is to perform a working activity. In 2005 the **Income of Border Workers'** was 1,882 millions of U.S. dollars and in 2006 it was 1,678 millions.