

Back to results < 6 of 3,704 >

CENTRAL AMERICA/MEXICO: Remittances to grow

OxResearch Daily Brief Service. (Jan 14, 2016).



Full text

Abstract/Details

Abstract Translate [unavailable for this document]

Hide highlighting

With the dollar strengthening against many local currencies, remittances are on the rise.

The strengthening of the dollar has seen remittance figures in Mexico and Central America rise recently. While the weight of remittances varies greatly across Latin America, Mexico is by far the most important recipient in the region. However, the weight of remittance transfers in the Mexican economy only has a significant impact in certain areas, while in several Central American countries, notably El Salvador, they are vital to overall private consumption.

Full text Translate [unavailable for this document]

SUBJECT:With the dollar strengthening against many local currencies, remittances are on the rise.

SIGNIFICANCE:The strengthening of the dollar has seen remittance figures in Mexico and Central **America** rise recently. While the weight of remittances varies greatly across **Latin America**, Mexico is by far the most important recipient in the region. However, the weight of remittance transfers in the Mexican economy only has a significant impact in certain areas, while in several Central American countries, notably El Salvador, they are vital to overall private consumption.

ANALYSIS: Impacts.

As the US economy gathers strength, remittances should continue to grow, albeit at single-digit rates.

While the economic relevance of remittances should decline in Mexico, it will continue increasing in Central **America**.

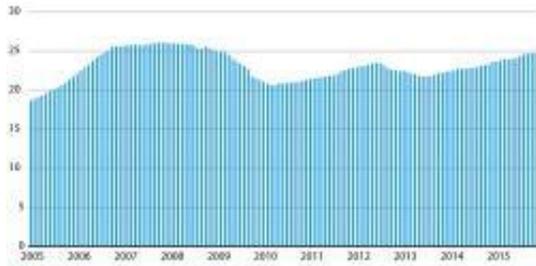
Governments are faced with the challenge of redirecting the use of remittances from spending to investment.

In 2014, remittances to **Latin America** and the Caribbean surpassed their pre-Great Recession peak of 2008 for the first time. In 2014, remittances to the region stood at 65.4 billion dollars, according to estimates by the Inter-American Development Bank (IDB), and they are on the rise.

Differing norms.

Single-digit growth in remittance revenue is now expected to be seen in most countries, with figures for 2015 likely to show an all-time high. Mexico is by far the largest recipient in the region, receiving more than one-third of the total. It is also the fourth-largest in the world, after India, China and the Philippines.

However, in Mexico's case, remittance growth has been uneven. In November, the total amount received over the preceding twelve months stood at 24.8 billion dollars, showing a near-uninterrupted upswing since mid-2013, but still below the 26.1 billion dollars achieved at the end of 2007.



Remittances, Mexico, 2005-15 (billion dollars, accumulated during the previous 12 months)
Source: Bank of Mexico

At least two factors explain the fluctuations of recent years in Mexico, when compared to the flows received in Central America:

Net migration of Mexicans to the United States has hovered around zero for a decade and may now be negative, due to a significant fall in Mexican fertility rates and much greater obstacles for Mexicans hoping to bring their families to the United States.

While nearly all Mexicans that migrate go to the United States (98.1% of the total, according to IDB data), migration from Central America is more diversified. The United States is the destination of 76.2% of Central Americans, with 16.4% going to other countries in Latin America and 2.4% going to Canada.

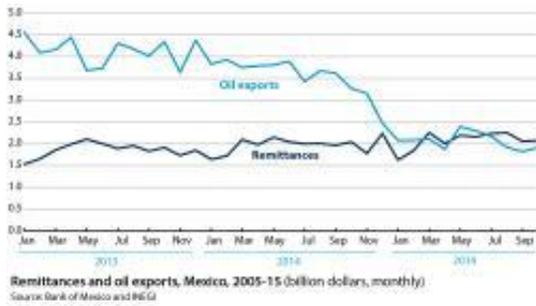
Mexico: regional rather than national impact.

The relevance of remittances as a source of foreign exchange is increasing in Mexico, while another important source – oil – has plunged due to the fall in international prices. These are not expected to pick up any time soon (*see PROSPECTS 2016: Global oil market - November 6, 2015*).

It is telling that, from March to October, the monthly inflow of remittances was in the 2.0-2.3-billion-dollar range, while exports of oil products were within 1.8-2.4 billion. In October the respective figures were 2.1 and 1.9 billion dollars.

Oil revenues go to state-owned Pemex and to the federal government, while remittances are unrequited transfers to individuals. However, few expected that remittances would eventually become a greater source of hard currency than oil.

Nevertheless, the impact of remittances in Mexico is heavily concentrated in certain states (not necessarily the poorest), which have developed a tradition of heavy northward migration:



In the third quarter of 2015, the most important recipient of remittances was the Pacific state of Michoacan, which received 10.1% of the total.

The central state of Guanajuato came a close second with 9.4%. That state has enjoyed significant prosperity in recent years due to the booming automotive sector (*see MEXICO: Auto industry enjoys strong momentum - April 17, 2015*).

In third place was the relatively wealthy Pacific state of Jalisco (with 8.8%), while Mexico City, and the neighbouring (heavily industrial) State of Mexico, together accounted for 10.3%.

In contrast, the poorest state, Chiapas, got just 2.5%.

While Chiapas has the highest proportion of poor families in Mexico, poverty is pervasive nationwide and has remained stubbornly high (contrary to the plunge observed in many emerging economies) due to mediocre economic growth (*see MEXICO: Indigenous strategy will not reduce poverty - September 29, 2015*).

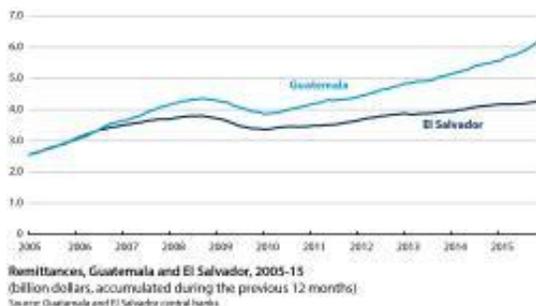
Remittances therefore represent a crucial financial boost for poor families, especially in recent months due to the significant drop of the peso against the dollar. Since November 2014, the amount of pesos received per dollar has increased by 32%.

Relevance for Central America .

While the nominal amount of remittances sent home by Mexicans living abroad dominates the landscape in **Latin America**, their relevance is much greater in many Central American countries.

Remittances have seen an explosive growth in Guatemala since 2010. Figures for the whole of 2015 show remittance income reaching 6.3 billion dollars, tripling the amount received in the early 2000s.

That figure makes the country the second-largest recipient of remittances in **Latin America**, taking in the equivalent of around 392 dollars per capita, nearly twice as much as Mexico. That increase is helping to boost Guatemala's private consumption significantly.



Another important recipient of remittances in nominal amounts (coming fourth in **Latin America**) is El Salvador. Its upward trend has also been clear from the beginning of 2010, although it has not been as pronounced as in Guatemala, and has plateaued at times.

Nevertheless, the amount of remittances – at around 4.3 billion dollars in 2015 – is enormous given the size of the economy, representing about 16.4% of GDP. The inflow represents 660 dollars per capita.

In mid-December, the Reserve Central Bank of El Salvador published a set of rules, which became operational at the start of 2016, providing a framework for the transfer of remittances. The aim is to increase the transparency of operations, boosting competition among the 39 companies that currently operate in the market.

Honduras also stands out in Central **America** as a large recipient of remittances. As in the case of Mexico, the source is migrants that are heavily concentrated (more than 90%) in the United States.

Contrary to the case of its northern neighbour, the migrant population continues to grow significantly (statistics presented by the Central Bank of Honduras indicate an increase of 23.4% from 2011 to 2015). The total inflow of remittances during 2015 should be around 3.7 billion dollars, providing a per capita average, roughly similar to that of Guatemala, of around 415 dollars.

CONCLUSION: As the US economy keeps growing and the 'normalisation' of monetary policy by the Federal Reserve sees the dollar maintain its strength, remittances should continue the upward trend observed in recent years. The dollar's potency with respect to most domestic currencies (El Salvador's dollarisation insulates its economy from exchange rate fluctuations) should boost the purchasing power of recipients.

Copyright Oxford Analytica Ltd. 2016. No publication or distribution is permitted without the express consent of Oxford Analytica.



Cite

Email

Print

More

 Add to Selected items

Ask a Librarian!

Related items

Search with indexing terms

Subject

 Economic conditions

- Foreign exchange rates
- Economic growth
- Immigration
- Regions

More...

Location

- Central America
- Mexico
- Latin America
- Caribbean area
- China

More...

Search

ebrary e-books

1.  South-South Migration and Remittances

2.  Remittances and Development

3.  Beyond Small Change : Making Migrant Remittances Count

Ask a Librarian!



Need help? Try Ask a Librarian! M-F 0800-1600 PT.

[Contact Us](#) [Terms and Conditions](#) [Accessibility](#) [Privacy Policy](#) [Cookie Policy](#)

Copyright © 2016 ProQuest LLC.