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# *IMPROVING CENTRAL BANK REPORTING AND PROCEDURES ON REMITTANCES\**

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\* Paper presented by Jesús Cervantes G., Director of Economic Measurement, Banco de México, at the "Cross Border Banking Conference", sponsored by The Federal Reserve Bank of Dallas-San Antonio Branch, Sheraton Gunter Hotel in San Antonio Tx., Friday, May 11, 2007.

## ***I. Introduction***

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- ***In recent years, workers' remittances have increased their importance in Mexico's external accounts. In 2002, remittances were close to US\$10 billion; in 2006, they exceeded US\$23 billion; and during the first quarter of 2007, they added up to US\$5.4 billion.***
- ***In the last few years remittances have grown at a faster rate than other external inflows items. The rapid growth of remittances has resulted from a better capture and recording of the transactions, as well as from a genuine increase in the amount of remittances per se.***
- ***Given the increasing importance of remittances for Mexico's external accounts and as a source of income for a great number of Mexican families, their behavior must be reviewed.***

## ***I. Introduction***

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- ***This presentation reviews various aspects of the remittances process. The analysis covers the following aspects:***
- 1. The rapid growth of these flows in recent years and the factors that explain it;***
  - 2. The improvement in the recording of these transactions;***
  - 3. The regulation introduced by Banco de México to strengthen the quality and recording of the data;***
  - 4. The stability over the last few years of the average remittance amount;***
  - 5. The importance of these resources for the national economy and for the external accounts; and***
  - 6. The main results of some annual surveys carried out by Banco de México on Mexican migrants living in the United States who send remittances to México.***

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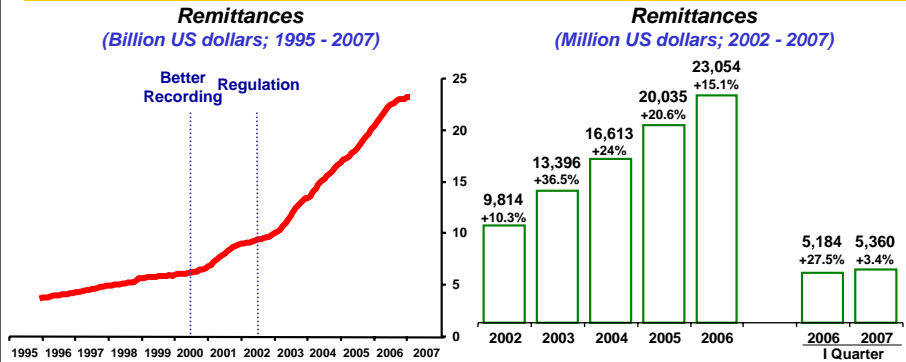
## ***II. Improvement in Data Capture and Recording***

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- ***In 2000, Banco de México began significant efforts to increase and improve the data capture and recording of workers' remittances. Just a few years ago, there was a widespread view in Banco de México, as well as among domestic and foreign experts and the intermediaries of these resources, that the official remittances data greatly underestimated the size of the flows involved.***
- ***During that year, Banco de México met continuously with the intermediaries, particularly banks, in an effort to better capture remittance transactions. This was done with the purpose of improving the quality of the information provided to the central bank on a voluntary basis. It also implied that new remittance intermediaries were added to Banco de México's statistics.***

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## II. Improvement in Data Capture and Recording



- *In 2000, Banco de México made public its intention to improve the capture of remittances data. Since 2001, in its quarterly balance of payments reports, and later, in its annual reports and quarterly inflation reports, the bank continuously referred to these improvements. It also stressed that, for some time, remittances' annual increases would be very high.*

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## II. Improvement in Data Capture and Recording

- *As mentioned, intermediaries involved in the remittances transfer business also improved their records. This allowed them to have a better understanding of the following: i) the potential size of the market and of the business opportunities involved; ii) the instruments they had to offer in order to increase their market share; and, iii) the adjustments that have to be implemented to process a large number of transactions and to apply cross-information systems aimed at preventing irregular operations.*

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### III. Increasing Share of the Formal Market in Remittances Transactions

- *One factor that helps to explain the substantial growth of workers' remittances since 2000 is the increasing use of formal channels to perform the transactions.*
- *In this context, it is worth mentioning that a recent study by the World Bank found that the consular registration card "matrícula consular" that Mexican consulates in the United States provide to Mexican nationals in that country without regard to immigration status, has greatly contributed to the increased use of formal channels to send remittances. According to the World Bank, the document is widely accepted as identification for opening a bank account. Also, the World Bank notes that the consular registration card is a valid ID document in 32 states across the United States, in 409 cities and in 280 banking institutions.\**

\* World Bank; Global Economic Prospects: Economic Implications of Remittances and Migration, 2006, P. 139.

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### IV. Reduction in Remittance Transfer Costs

- *Another factor contributing to the growth of remittances inflows to Mexico, as well as to its increasing formalization, has been the substantial cost reduction of remittance transfers.*

*Total Cost of Money Transfers from the United States to Mexico of an Average Amount of US\$300 according to a Sample of Firms by City of Origin  
(US dollars per Transfer)*

Years	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: March	9.6	10.3	11.7	9.2	8.7	8.9	9.7	7.8	9.3	9.5

Source: Profeco. \* Annual average, except for 2007.

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## ***V. Main Factors that Explain the Reduction in Remittance Transfer Costs***

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- *The main factors that have helped to reduce the costs of remittance transfers to Mexico are the following:*
  - a) An increasing number of intermediaries offering the service, and the growing competition among them;*
  - b) The rapid growth of Mexican-origin population in the United States;*
  - c) Better information available to migrants abroad about the costs of different instruments and intermediaries; and*
  - d) The increasing use of electronic international money transfers, allowing for faster and safer transfers.*

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## ***VI. Regulation on Remittances***

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- *On October 29, 2002, Banco de México issued a set of rules aimed at strengthening remittances statistics. This was based on the bank's legal capacity to regulate fund transfer services carried out by credit institutions and any other agent professionally involved in such activity (Article 31 of Banco de México's Law).*
- *All firms dedicated to fund transfer services were instructed to register at Banco de México and to provide monthly information on the amount of workers' remittances channeled into Mexico, classified by recipient state.*
- *This data is used to compile the transfers item of the current account of the balance of payments.*

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## VII. Amount of Remittances and Number of Transactions

- *The improvement in data recording, together with a substantial increase in the number of migrants and lower transaction costs, explain the rapid growth in recent years of remittance inflows to Mexico.*
- *The growth of remittances has been coupled with a similar growth in the number of transactions. Thereby, the average value of individual transactions has remained in a steady range between US\$300 and US\$360 in the last decade.*
- *The stability of the value of the average transaction supports that remittances are resources received by Mexican families.*

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

	1995	1998	2000	2002	2003	2004	2005	2006	I Quarter 2007
Amount of Remittances <sup>1/</sup>	3,673	5,627	6,573	9,814	13,396	16,613	20,035	23,054	5,360
Number of Remittances <sup>2/</sup>	11,263	19,420	17,999	29,954	41,808	50,874	58,739	65,843	15,440
Average Remittance <sup>3/</sup>	326	290	365	328	320	327	341	350	347

<sup>1/</sup> Million US dollars. <sup>2/</sup> Thousands transactions. <sup>3/</sup> US dollars.

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## VIII. Instruments Used to Send Remittances

- *In recent years, the instruments used to send remittances have changed significantly.*
- *The amount of remittances received by electronic transfers has increased considerably. In an environment of growing competition, intermediaries have tried to offer electronic transfer means that are more efficient, less costly, safer, and faster.*

### Remittances Inflows (Million US dollars)

	1995	1998	2000	2002	2003	2004	2005	2006	I Quarter 2007
Total Remittances	3,673	5,627	6,573	9,814	13,396	16,613	20,035	23,054	5,360
Money Orders	1,456	1,871	1,434	687	1,623	1,883	1,867	1,357	267
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	5,002
Direct Transfers*	299	444	488	320	255	234	273	347	91

\* Transfers of goods and cash.

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## IX. Structure of Remittances by Instrument

- **Currently, 98% of the value of remittances and of the number of transactions are obtained from accounting records of intermediaries; that is, the records of banks and firms that provide the transfer services. The remaining 2% are direct transfers, resources in cash and kind (goods) registered by Banco de México for many years through its Survey of International Travelers.**

**Remittances Inflows**  
(Percentage Structure)

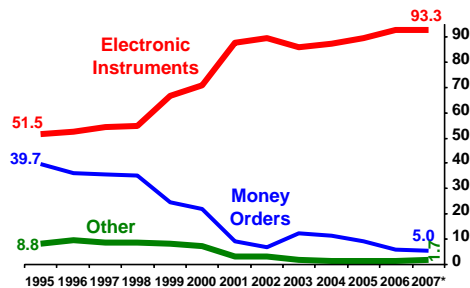
	1995	2000	2001	2002	2004	2005	2006	I Quarter 2007
Total Remittances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Money Orders	39.7	21.8	9.0	7.0	11.3	9.3	5.9	5.0
Checks	0.7	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Electronic Transfers	51.5	70.6	87.5	89.6	87.3	89.3	92.6	93.3
Direct Transfers	8.1	7.4	3.4	3.3	1.4	1.4	1.5	1.7

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## X. Remittances Data Produced by Banco de México

- **Banco de México's remittances data include only transactions between individuals. These transfers are subject to a number of strict controls by intermediaries to identify and avoid irregular operations. Intermediaries are able to identify the frequency of the sending and receiving transactions, as well as the cumulative amounts received by single individuals.**
- **Since almost all measurement of remittances by Banco de México is based on accounting records, it provides solid support to this statistics. This has been acknowledged by the international organizations involved in the methodological aspects of measuring and analyzing these flows, such as the IMF, The World Bank, and IADB.**

**Remittances Inflows**  
(Percentage Structure by Instrument)



\*First quarter.

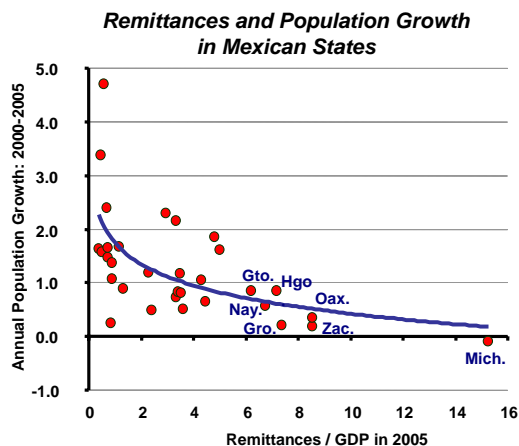
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## XI. Population Growth, Migration and Remittances

➤ Combining population growth figures from 2000-2005 for Mexican states with the data on remittances, the following result is obtained: Those states where remittances as a share of GDP are the highest, are the same in which population growth numbers have been the smallest or even nil.

➤ In 2005, the two states with the highest ratios of remittances to state GDP (Michoacán and Zacatecas) were also those where the annual population growth was zero in 2000-2005.

➤ The inverse relationship between the two variables reflects strong migration to the United States from Mexican states that receive the largest relative amounts of income from remittances.



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## XII. Main Features of the Remitter and Recipient of Remittances

➤ In order to have a better understanding of the profile of individuals sending remittances, as well as of those receiving them, Banco de México conducted three surveys in several cities along the northern border. The surveys were applied to Mexican migrants living in the United States when they arrived to Mexico in December to visit their families.

➤ The first survey was conducted in December 2003 (2,013 questionnaires in four cities); the second in December 2004 (3,008 questionnaires in five cities), and the third in December 2005 (8,756 questionnaires in seven border cities: Tijuana, Nogales, Mexicali, Ciudad Juárez, Reynosa, Nuevo Laredo, and Matamoros).

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## **XII. Main Features of the Remitter and Recipient of Remittances**

- a) **Relatives in the United States at Arrival.** Three out of four respondents stated that they already had relatives in the United States when they first arrived, and almost everyone reported to have lived with them at arrival. On the other hand, 60 percent responded that when they decided to migrate they had a job in Mexico.

### **Situation of Remitter at the Moment of Migration**

	Percentage Structure:		
	TOTAL	Male	Female
<b>When you decided to migrate to the United States</b>			
<b>a: Did you have a job in Mexico?</b>			
Yes	60	62	47
No	40	38	53
<b>b. Did you already have relatives living in the United States?</b>			
Yes	79	78	85
<b>At arrival, did you live with them?</b>			
Yes	95	95	95

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## **XII. Main Features of the Remitter and Recipient of Remittances**

- b) **Sending Frequency.** Almost 70% of the people interviewed stated that they send money to their relatives in Mexico on a regular basis, whereas 17% of the respondents said that they only give money to their relatives when they visit them.

### **Proportion of People who Send Remittances**

	Percentage Structure	Monthly Remittance*
<b>Send Remittances to their Relatives:</b>		
On a regular basis	69	344
Only when visiting	17	558
Do not provide money	14	
<b>Total</b>	<b>100</b>	

\* US dollars.

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## XII. Main Features of the Remitter and the Recipient of Remittances

- c) **Beneficiaries of Remittances.** Results show that remittance transactions are carried out between individuals with a family link. According to the joint results of the three surveys, 88% of the senders identified their parents, wife, and children as the beneficiaries of the transactions. On average, one transfer is done per month, but the frequency as well as the amount of the remittance are much higher when the wife is the beneficiary.

### Remittances Beneficiaries and Number of Transfers per Year

	Average 2003-2005 <sup>1/</sup>		
	Beneficiaries <sup>2/</sup>	Transfers <sup>3/</sup>	Monthly Remittance
Parents	68.4	10.9	257
Spouse	11.8	20.3	590
Siblings	7.8	8.1	199
Grandparents	3.5	7.9	162
Children	2.6	11.6	296
Parents in Law	2.1	9.8	200
Uncle/Aunt	2.1	7.7	195
Cousins	0.5	6.8	190
Other	1.2	8.8	243
<b>Total</b>	<b>100.0</b>	<b>12.03 (1.2)*</b>	<b>308</b>

<sup>1/</sup> Based on the sum of the three surveys.

<sup>2/</sup> Percentage structure of answers.

<sup>3/</sup> Number of sendings per year.

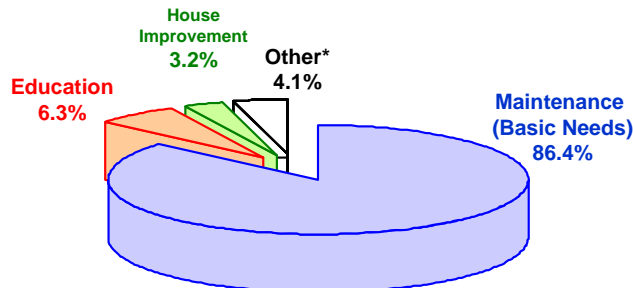
\* Number of remitters per beneficiary.

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## XII. Main Features of the Remitter and Recipient of Remittances

- d) **Use of Remittances.** Remittances are mainly used for consumption, including expenditure on education.

### Uses of Remittances December 2005



\*The item Other is comprised of:

- Community improvements: 0.2%
- Small commercial transactions: 0.4%
- Other: 3.1%
- Does not know: 0.4%

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## **XII. Main Features of the Remitter and Recipient of Remittances**

- e) **Average Remittance and Worker's Income.** The average amount of the remittance is directly related to the income of the Mexican worker in the United States. Almost two thirds of the respondents stated that their monthly income is above US 1,500 dollars.

### **Income Level and Average Amount of Remittance** (US dollars)

Monthly Income	Monthly Remittance*	Percentage Structure
Up to 1,000	265	13.3
From 1,001 to 1,500	302	23.6
From 1,501 to 2,000	351	26.4
From 2,001 to 2,500	314	10.3
More than 2,500	425	26.4
<b>Total</b>	<b>344</b>	<b>100.0</b>

63.1%

\* US dollars.

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## **XII. Main Features of the Remitter and Recipient of Remittances**

- f) **Years of Residence and Average Remittance.** As the age of the sender or the number of years of residence in the United States increases, the average amount of the remittance tends to decrease.

### **Years of Residence in the U.S. and Amount of Remittance**

Years of Residence	Average Remittance *
Up to 5	435
From 6 to 10	379
From 11 to 15	343
From 16 to 20	314
More than 20	330
<b>Total</b>	<b>344</b>

\* US dollars.

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## XII. Main Features of the Remitter and Recipient of Remittances

- g) Economic Dependents in the United States and Average Remittance.** Three out of four individuals interviewed reported to have economic dependents in the United States. The amount remitted is smaller when the sender has other dependents in the United States. Also, the value of the remittance diminishes as the number of dependents increases.

### Value of Remittance according to the Number of Economic Dependents of the Remitter in the United States

	Percentage Structure	Monthly Remittance *
<b>With economic dependents</b>	<b>74.5</b>	<b>304</b>
one	7.8	353
two	16.2	309
three	19.9	300
four	17.1	295
five	7.6	286
six or more	5.7	292
<b>With no economic dependents</b>	<b>25.6</b>	<b>458</b>
<b>TOTAL</b>	<b>100.0</b>	<b>344</b>

\* US dollars.

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## XII. Main Features of the Remitter and Recipient of Remittances

- h) Working Activity of the Remitter.** 23% of the respondents stated that they worked in a variety of jobs such as plumbing, electricity, forge, doormen, etc. The best paid activities are chauffeur, automotive mechanic, and construction. Finally, remitters stated that they work 11 months a year on average.

### Working Activity of Remitters

Working Activity	Percent Structure	Monthly Income **	Months of Work***
Various jobs*	23.1	2,205	11.3
Construction	18.6	2,301	11.0
Agriculture	16.5	1,626	10.3
Factory	6.3	1,968	11.6
Gardening	5.7	1,808	10.8
Chauffeur	5.5	2,958	11.8
Restaurant	4.8	1,841	11.5
Automotive mechanic	2.9	2,396	11.5
Store	2.9	1,962	11.3
Other	13.7	2,364	11.6
<b>Total</b>	<b>100.0</b>	<b>2,135</b>	<b>11.2</b>

\* Plumbing, electricity, forge, doormen, etc.

\*\* US dollars. \*\*\* Number of months worked during the year.

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## XII. Main Features of the Remitter and Recipient of Remittances

- i) **Schooling Level of Remitters.** Three out of four respondents interviewed declared to have a schooling level below the Mexican equivalent to High School. Also, only 5.6 percent said to have attended graduate or post-graduate studies. In general, the results show that the level of income and the amount of the remittance grow as schooling increases.

### Schooling of Remitters

Schooling Level	Percentage Structure	Monthly Remittance	Monthly Income *
No formal instruction	5.0	307	1,806
Incomplete primary	12.1	341	1,968
Complete primary	24.5	371	2,029
Incomplete secondary	7.8	260	1,966
Complete secondary	25.6	336	2,182
Incomplete preparatory	3.8	323	2,066
Complete preparatory	13.5	341	2,262
Complete Technical	2.0	313	2,391
Incomplete graduate	1.1	512	2,661
Graduate	4.1	428	2,945
Postgraduate	0.4	548	3,771
Total	99.9	344	2,135

\* US dollars.

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## XII. Main Features of the Remitter and Recipient of Remittances

- j) **Bankarization of Surveyed Individuals.** The proportion of those interviewed who said to have a banking account in the United States was quite high, around 70%. However, it is very probable that in the surveys conducted by Banco de México, most of the migrant respondents were individuals who are legal residents in the United States.

### Bankarization of Remitters

Has a Banking Account in the United States	Percentage Structure	Monthly Remittance*	Monthly Income *
Yes	70.2	322	2,335
No	29.8	397	1,656
Total	100.0	344	2,135

\* US dollars.

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### **XIII. Final Comments**

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- ***A number of factors have stimulated the migration of Mexicans to the United States:***
  - ✓ ***Rigidities in the labor market;***
  - ✓ ***A weak dynamism in the creation of well-paid jobs in the formal sector of the economy; and***
  - ✓ ***The high and increasing number of Mexicans with family links in the United States, which reduces the cost of migration.***
- ***It is reasonable to expect that it will take a relatively long time for wage differentials between Mexico and the U.S. to be reduced substantially, and for migration to stop being attractive for Mexican workers.***
- ***Migration to the U.S. is evidence of the need of implementing still pending structural changes, which would allow the opening of productive and well-paid working opportunities in Mexico.***

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### **XIII. Final Comments**

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- ***On the other hand, the positive effects of remittances of Mexican migrants in U.S. on the welfare of recipient families must be stressed :***
  - ✓ ***They have had a positive impact on their income levels, and therefore, on consumption;***
  - ✓ ***Remittances have allowed poverty alleviation in significant segments of the population;***
  - ✓ ***They are an important source of resources for families' investment in human capital, including health, and even in physical capital; and***
  - ✓ ***They have allowed families to have access to better financial conditions and, in that way, to soften their consumption patterns, allowing them to invest in micro-businesses.***

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