

1-13-1999

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Recommended Citation

LADB Staff. "Mexican Deposits in U.S. Banks Increase to US\$38.87 Billion." (1999). <https://digitalrepository.unm.edu/sourcemex/4021>

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Mexican Deposits in U.S. Banks Increase to US\$38.87 Billion

by LADB Staff

Category/Department: Mexico

Published: 1999-01-13

An uncertain domestic economy and a weak banking system prompted many Mexican individuals and companies to place their capital in US institutions rather than in Mexican banks in 1998. Statistics published by the US Federal Reserve Bank showed deposits from Mexican nationals in US banks grew to US\$38.87 billion last year, an increase of 12% from 1997.

The statistics, in the December issue of the Federal Reserve Bulletin, said Mexico ranked first among Latin American countries in placing deposits in US banks. The next three were Brazil with US\$27.824 billion, Argentina with US\$21.654 billion, and Venezuela with US\$20 billion. A report published in early January in the Mexico City daily newspaper La Jornada said the flight of Mexican capital to US institutions has increased gradually each year since the devaluation of the peso in December 1994. Mexican deposits in US banks, which totaled US\$24.560 billion in 1995, grew by more than 27% the following year. In the two-year period between 1996 and 1998, Mexican deposits in the US increased by 21%, the newspaper said.

La Jornada said the funds placed by Mexican individuals and companies in the US could greatly benefit the Mexican economy if they were instead kept in the country. For example, the newspaper said, the Mexican deposits in US banks are more than 44 times higher than the amount of money allocated in the 1999 federal budget for social programs. Under the budget approved by the Chamber of Deputies in late December, about 8.427 billion pesos (US\$799 million) has been allocated for anti-poverty initiatives.

La Jornada also noted that Mexican deposits in US banks were more than five times higher than the US\$7.4 billion in revenues obtained from exports of crude oil in 1998. Furthermore, these deposits surpassed Mexico's reserves of foreign currencies, which reached US\$30 billion as of year-end 1998.

Finance secretary downplays trend

Responding to the US Federal Reserve statistics and the report from La Jornada, Finance Secretary Jose Angel Gurria Trevino said the growth in Mexican deposits in US institutions is not a major concern for the Mexican government. He said this is part of a trend of financial integration in North America, which has allowed an easier flow of funds across the US-Mexican border. "According to the rules of the game, if you create confidence in the Mexican economy, you will also see an increase of foreign funds coming to our country," Gurria told reporters.

Meanwhile, the US\$30 billion in foreign reserves reported at the end of last year represented an increase of US\$2 billion from year-end 1997. The increase is twice the growth of US\$1 billion in reserves targeted by the Banco de Mexico (central bank) for 1998. However, last year's increase in foreign reserves is insignificant compared with the growth of US\$13.5 billion during 1997, said the daily newspaper El Economista.

Furthermore, the newspaper said, the increase in foreign reserves will be more than offset by payments of loans due the International Monetary Fund (IMF) in 1999. Mexico is scheduled to pay US\$5 billion to the IMF this year. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 13, reported at 10.54 pesos per US\$1.00] (Sources: El Economista, 01/06/99; La Jornada, 01/06/99, 01/07/99; Reuters, 01/12/99)

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