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Remittances Expected to Fall Sharply in 2008

by LADB Staff
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The Mexican government and private analysts are projecting a decline of as much as US$3 billion in the remittances from Mexican expatriates in the US. The growth in remittances has slowed down considerably in recent years, but until now there has been no net decline. In 2007, remittances reached about US$24 billion, a meager increase of 0.9% from 2006. But experts project an actual decline in 2008, with remittances falling to US$21 billion for the year, in large measure a result of a slowdown in the US economy.

With the Mexican economy so closely tied to the economic fortunes of the US, a projected US growth of only 1.5% to 2% is almost certain to have repercussions south of the border, including reduced demand in the US for Mexican products, a decline in the number of US tourists traveling to Mexico, and a drop in remittances.

The US housing crisis, which has caused a major slowdown in commercial and residential construction, is expected to have a significant impact on remittances this year. One of every four Mexicans residing in the US is employed in the construction sector.

Expatriates face uncertainty
In addition to the reduced job opportunities, many Mexican emigrants are opting to put their earnings into savings rather than send the money home. This is partly because of the uncertainties created by recent crackdowns on immigrants by the US federal government (see SourceMex, 2008-01-02) and some states like Arizona and Georgia (see SourceMex, 2006-03-08), said the Banco de Mexico (central bank).

The trend is worrisome to Mexican officials because remittances are one of the largest sources of foreign exchange for Mexico, along with foreign investment and oil exports. Earlier forecasts had projected remittances to remain flat, not to decline (see SourceMex, 2008-02-06).

The possibility of a decline in remittances in 2008 became evident in the first months of the year. In a recent report, the UN Economic Commission for Latin America and the Caribbean (ECLAC) said remittances sent by Mexican expatriates in the US amounted to US$9.5 billion in the first five months of the year, a decline of US$260 million from the same five-month period in 2007. The trend continued in subsequent months.

The Banco de Mexico recently reported remittances for the first six months of the year at US$11.6 billion, about US$258 million below the amount sent in the first half of 2007. In a later report, the central bank said remittances during July were down 6.9% from the same month in 2007. "Remittances are going to drop in 2008 in comparison to previous years because of the slowdown in the US economy," said Cesar Najera, an official with the Secretaria de Desarrollo Social (SEDESOL). "This will have negative repercussions on the families that depend on this money."
More than 7.5 million Mexicans, residing primarily in rural areas, depend on the remittances for 90% of their needs for food, education, and agricultural inputs, said the Mexico City daily newspaper El Sol de Mexico.

In its report, the Banco de Mexico confirmed that the poorest states in Mexico were feeling a disproportionate impact from the decline in remittances in the first half of the year. Leading the list was Aguascalientes, which received only US$143 million in January-June, about a 20% drop from the US$178 million in the first six months of 2007. In percentages, significant declines were also reported in Tabasco, Hidalgo, Chiapas, Colima, and Queretaro.

In value, Michoacan state saw the largest decline in remittances, which totaled only US$1.13 billion in the first half of the year, compared with US$1.52 billion in January-June 2007, said the central bank. The situation has prompted several states to consider providing funding directly to communities affected by the decline in remittances.

In Michoacan, state authorities are not only providing direct supports but also seeking ways to promote the creation of microenterprises in retailing and other services, said Ana Griselda Mercado, who heads the state department in charge of supporting Michoacan emigrants and their families. Mercado said state officials are deeply concerned about projections that remittances are going to decline about 3% this year.

Some rural communities in poor states like Tabasco and Chiapas are already feeling a major impact from the reduced flow of funds from relatives in the US. In these communities, as many as 75% of the residents lack the disposable income to acquire basic foodstuffs and take care of other needs such as health, clothing, housing, transportation, and education," said the Banco the Mexico.

Some experts agreed that the reduced funds could have a direct impact on nutrition levels in the country. "For every US$10 that expatriates send back to Mexico, US$9 are used to take care of food needs," said Raul Feliz, a researcher at the Centro de Investigacion y Docencia Economica (CIDE). "Therefore, a reduction of US$3 billion in remittances will necessarily affect the already high malnutrition levels in rural areas." Other experts noted that the decline in remittances is not entirely the result of the weak US ec

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