Expatriates Sent Record Amount of Remittances to Mexico in 2016

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Expatriates Sent Record Amount of Remittances to Mexico in 2016

by Carlos Navarro

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Policies on immigration recently enacted or proposed by US President Donald Trump and his allies in Congress are beginning to have a major effect on remittances to Mexico from Mexican expatriates. Trump, who won election in November 2016, has threatened to tax remittances as a way to finance the construction or expansion of a huge barrier along the US-Mexico border, which he said would discourage undocumented immigrants from crossing into the US (SourceMex, Jan. 18, 2017).

Trump frequently mentioned a tax on remittances during his presidential campaign, and his election resulted in an avalanche of money transfers to Mexico by expatriates during November and December. Because of this, remittances rose by nearly 25% in November and by 6.2% in December, bringing the total for 2016 to a record US$26.9 billion, the Mexican Central Bank (Banco de México, BANXICO) reported. The remittances involved almost 92 million money transfers, with the average remittance estimated at US$295, a slight increase from 2015, BANXICO reported. More than 95% of the funds were sent from the US, and slightly more than 1% from Canada.

The previous record was set in 2007, with expatriates sending back just over US$26 billion. The total that year surpassed estimates indicating that remittances would reach US$25 billion (SourceMex, Aug. 15, 2007).

The year-to-year increase of 8.8% was the largest in the past decade, surpassed only by the growth of 18% registered in 2006.

“This is not an insignificant development,” said Proceso.com, which publishes the weekly news magazine Proceso. “The money that Mexican expatriates sent home, primarily those who live in the US, surpassed petroleum exports, which amounted to about US$18.7 billion” in 2016.

According to the Proceso report, remittances also edged out 2016 revenues from tourism, which had reached US$17 billion as of November and were expected to surpass US$20 billion for all of 2016.

Analysts said the result of the US presidential election was the driving force behind the spike in remittances. “After Republican candidate Donald Trump won the presidential election on Nov. 8, Mexicans in the US, both documented and undocumented, became increasingly concerned that the new president would follow through with his campaign promise to impose tight restrictions or enact a tax on remittances,” said Juan José Ling of BBVA Research. According to BBVA, close to 12 million Mexicans reside in the US; almost half of them—between 5 and 6 million—do not have legal status.

US tax on remittances proposed

Trump’s allies in Congress have initiated the process to impose the tax. On Feb. 8, Rep. Mike Rogers, a Republican from Alabama, said he intends to introduce a measure that would impose a 2% tax on remittances. Rogers, a member of the House Committee on Homeland Security,
acknowledged that sole purpose of the tax would be to pay for construction of the barrier proposed by Trump. He said the tax would be just one of several sources of revenue to pay for the ambitious project.

“In order to jumpstart construction of the wall, I will sponsor a bill, the Border Security Funding Act of 2017, which will require illegal workers to pay a fee on money they send away to their home countries,” Rogers said in a guest piece in the news site Alabama Today. “This bill will also strengthen penalties for any country benefitting from illegal immigrant work in America.”

Rep. Jim Sensenbrenner, a Republican from Wisconsin, on Feb. 15 introduced a companion legislative initiative dubbed Build Up Illegal Line Defenses with Assets Lawfully Lifted (BUILD WALL) Act of 2017. This legislation would require the US attorney general to provide a detailed report on the amount of annual profits brought into the US by Mexican drug cartels, as well as a study of how the Department of Justice can increase assets seized from such cartels.

Additionally, the BUILD WALL Act would use money forfeited by drug traffickers to fund increased border security on the US-Mexican border. According to a news release by Sensenbrenner’s office, the reinforced security could include a wall, another type of physical barrier, and/or a technology-supported solution. “Border security is imperative for a safe, prosperous nation and lawmakers must take a serious approach to solving the issues of illegal immigration and drug trafficking,” Sensenbrenner said. “If we do nothing, we put the people of this nation at risk, as well as allow illegal immigrants to take away jobs, opportunities, and social funding from US citizens—all at the expense of the American taxpayer. The BUILD WALL Act is a creative solution to a complex problem, and I encourage my colleagues to support it.”

While the Sensenbrenner initiative obtains funds from the assets of criminal organizations rather than remittances, the taxing of money transfers remains a major concern in Mexico.

“It is difficult to estimate the impact of a possible tax on the flow of remittances to Mexico,” Grupo Financiero BBVA Bancomer said in an analysis. “Nevertheless, we must note that remittances are highly inelastic, given that a great share is devoted to current consumption. Therefore, we believe the impact on the flow of remittances would be tied to the magnitude of the tax that will be imposed. In this case, a tax of 2% could result in the reduction of about US$540 million annually.”

**Thinking outside the box**

Even as Mexicans continue to send a large share of the remittances via services like Western Union and through commercial banks, an increasing number of money transfers are sent under the radar and might be difficult to tax. A report published by the Government Accountability Office (GAO) cited several logistical challenges for the administration, including the increasing use of mobile applications to send funds back to relatives.

Some institutions in Mexico are considering new ways for expatriates to transfer funds to Mexico. One of these plans has been proposed by the administrators of retirement savings (Asociación Mexicana de Administradoras de Fondos para el Retiro, AMAFORE), in cooperation with Universidad Anáhuac in Mexico City. Under this plan, Mexican expatriates would be able to use the retirement-savings system to transfer money to Mexico, thus avoiding having to pay the 2% tax.

“We are considering a scheme that would use a savings plan started by migrants through a retirement fund with good terms to convert US dollars into pesos,” said AMAFORE president Carlos
Noriega. “We would find the best interbank rate, recognizing that this is a deposit intended for pension that would be exempt from taxes.”

According to Noriega, Mexicans in the US would be able to open an AFORE (Administradoras de Fondos para el Retiro) account by using an application on their cellular phone. Users could verify their identity with a voting card issued by Mexico’s electoral institute (Instituto Nacional Electoral, INE). They would then take a photograph of themselves to complete the transaction.

Banking sources point out that transfers could also occur between two US-based bank accounts, even if one of the parties is physically present in Mexico or another foreign country. US banking laws, however, could make the latter transactions easier to track. “Financial institutions and government agencies are legally required to have know-your-customer, counterterrorist financing, and anti-money-laundering programs in place, as well as the ability to quickly seize transactions meeting certain criteria, such as a match to an Office of Foreign Assets Control-sanctioned location or individual,” said a report from K&L Gates, a law firm that has offices across the world.

At the same time, there is bound to be resistance from US financial institutions and money-transfer operations like Western Union and MoneyGram to the tax proposals supported by the Trump administration and Congressional Republicans. The money-transfer operations often work in concert with full-service banks or retail chains.

“In the short term, a tax implies reduced business for the senders of remittances, as smaller amounts would be transferred, and this is going to affect their profits and earnings,” said Alfredo Coutiño, Latin America director at Moody’s Analytics.

According to Coutiño, the weakening of the peso versus the US dollar would normally also be considered a factor in the increase in the value of remittances, as expatriates would send more pesos per dollar with the exchange rate. The currency factor, however, had very little to do with the recent increase. “It’s possible that the US threat to confiscate or tax remittances led Mexicans to send more money to Mexico. The increase, however, had nothing to do with the depreciation of the peso. Rather, the decline in the peso was a direct consequence of the threats by the Trump administration.”

Some analysts believe expatriates will continue to send remittances to Mexico at the same rate as in 2016 despite the concerns about Trump’s policies toward migrants. In an analysis in mid-February, the Merrill Lynch investment bank said two factors would contribute to the trend: an improvement in the US job market, particularly the sectors where migrants work, and the continued flow of migrants to the US. The report acknowledged that migration has slowed down in recent years and that many Mexicans are returning home. Still, flows are expected to continue. Some of the factors that could limit the growth of remittances are the Trump administration’s crackdown on undocumented immigrants, including increased deportations.

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