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Familial remittances before current account in Mexico, 1980-2006

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Resumen

Este trabajo intenta aportar una nueva dimensión a los estudios realizados en torno a las remesas familiares, donde su originalidad consiste en relacionarlas desde una perspectiva histórica con los saldos de la cuenta corriente. Este análisis macroeconómico se centra en algunas coyunturas y políticas económicas para el periodo que se estudia, en donde se enfatiza de manera especial en algunos años que caracterizaron a la economía del país por las crisis relacionadas con los déficit de la cuenta corriente y la escasez de divisas para afrontarlas. Al relacionar el peso de las remesas familiares en el financiamiento de la cuenta corriente, es posible observar a la vez su evolución e importancia.

Palabras clave: remesas familiares, cuenta corriente, análisis económico, México.

Abstract

Familial remittances before current account in Mexico, 1980-2006

This work tries to contribute with a new dimension to the studies about the familial remittances, where its originality consists in relating them from a historical perspective to the balances of the current account. This macroeconomic analysis focuses on some conjunctures and economic policies for the studied period, and emphasizes, in a special way, on those years when the country's economy underwent crises related to the deficits of the current account and the currency shortage to confront them. When relating the importance of the familial remittances in the financing of the current account, it is allowed to observe its evolution and importance.

Key words: familial remittances, current account, economic analysis, Mexico.

Introduction

The behavior of the current account of the balance of payments and its different forms of financing are an enormous concern for monetary authorities. It can be said that such current account is an important pillar in the economy of the whole country, as in this or that manner its results influence economic development. The deficit values that characterize most of the accounts part of the balance of payments are motive of constant worry. From this, the present work aims to contribute with a new dimension to the studies on familial remittances, whose originality consists in relating them, from a macroeconomic perspective, to the balances of the current account.

The analysis is focused on some conjunctures and economic policies with the most transcendence in the different years of the period analyzed. Observing the weight of familial remittances in the financing of the current account will make it possible to identify the evolution and importance of this relation and, therefore, to determine the macroeconomic role of remittances in the period of study (1980-2006).

It is important to point out that this work is of empirical nature,¹ whose analysis is based on statistics from the current account of the balance of payments presented by the Bank of Mexico (*Banco de México*). In this moment the very important subject of migratory process between Mexico and the United States is not approached, upon which, obviously, the perception of familial remittances depend to a good extent. It can be seen at first sight that there is no relation whatsoever between migration and the accounts of the foreign sector; as a matter of fact, there is scarcity of jobs that allow establishing a sort of bridge between migration and the balance of payment; nonetheless, it is considered that this bridge between them is indeed familial remittances.

Current account and familial remittances

Current account is defined as the registration of transactions that are carried out between a country and the rest of countries. This registration consists of an accountable balance that comprehends a year, whose purpose is systematically register the flow of goods, services, unilateral transfers and capital the residents of a country have with any foreign country (Banco de México, 1980). In this sense Dornbusch and Fischer (2004: 321-322) define 'balance of payments' as follows:

The balance of payment is the registration of the transactions of an economy with the rest of world. In it, there are two main accounts: the current account registers the trade of goods and services, as well as transfer payments. Services include transports, patents and interests' payments. The transfer payments consist in remittances, donations and subventions.

¹ The processing of statistical figures required its conversion to constant values; this is to say, they were deflated, for such end the Prince Index in the United States calculated for the year 1995 was taken, since we worked with information from the balance of payments, figures are in current dollars; likewise, dollar is considered a more stable currency than Mexican peso and the fluctuations in prices are lower in the United States, therefore, we decided not to convert them into national currency.

The analysis of the balance of trade by means of the accounts that compose it provide us with very important information on the evolution of a country's economy; for instance it explains the growing tendency of the external unbalance manifested as the chronic deficit of the current account and the lack of availability of internal resources to finance them. This notes are managed by means of double entries, this is to say, registering incomes and outflows.

The balance of the current account, in addition to provide information on the transactions with the exterior, is an excellent indicator to measure the capacity to acquire goods and services in the international markets. In Mexico, this index is of great importance for the economic development of the country, given the chronic deficit situation historically faced.

On the side of 'unilateral transfers', the Bank of Mexico, in accordance with the International Monetary Fund, defines them as "real and financial resources received and given without compensation from or toward the exterior by the residents of the country, and because of their nature do not have an implicit counterpart" (Banco de México, 1980: 164).

'Unilateral transfers' are composed by several categories: a) contribution from international organisms for technical assistance; b) commissions for plague eradication; c) fishing duties; d) donations; e) pensions; f) contribution to international organisms; g) income from consular offices; and h) familial remittances.² At the time this categories can be grouped into two entries: 'other transferences' that include the categories a) – g), and 'familial remittances'.

Therefore:

...current transferences from abroad comprehend all the operations carried out between the resident and non-resident institutional units, either private or public. A current transfer in currency is a transaction to make a payment, in cash or a transferrable deposit, without receiving any good or active different from money, nor

² According to the specifications for each entry, it is: a) contributions from international organisms, such as UN, for the development of specific programs in the country; b) fees to international fleets for granting them permission to fish in Mexican waters; c) transfers from private and foreign governmental institutions, received for activities of social security, teaching, etc; d) it refers to the Mexico – United States Agreement to eradicate plagues in its diverse programs, such as: aphthous fever, screw-worm and other; e) the perceptions foreign retirees living in Mexico receive from their governments are included; f) the contributions from the Mexican government through its secretariats of State, to all international organisms of which Mexico is an official member; g) fees and duties charged through the Secretariat of Foreign Affairs by means of their consular representations abroad, from the following entries: migration duties; fees from services such as: expedition, and resealing of passports, as well as providing visas for passports, legalization of signatures, notarial acts, visa of commercial invoices, etc; h) transfers of resources by means of remittances and gifts Mexican migrants send from the destination countries to their relatives.

receiving a counterpart in return. There is analytical consensus between the specialists in the balance of trade on the fact that both monetary and donation transfers impact on the available income, thus, fundamentally influence the consumption of goods and services of the households which receive said transfers, nevertheless, this first impact appears in the variables of the balance of payments (Chávez, 2006: 62).

A definition of the concept of familial remittances is that which considers that they are emigrant laborers' incomes (residents outside their national territory and which are registered in the entry of unilateral transfers), these are current, unilateral and voluntary transfers from abroad as an amount of money (national or foreign currency) or as objects (food, clothing, furniture, tools, et cetera), which the laborers directly send to residents in their place of origin, who commonly are their relatives. The laborer (sender) that sends remittances is considered resident (legal or illegal) in the recipient economy. IMF establishes, with ends of greater precision that the emigrant should be hired by a company or resident person in the recipient economy, which excludes self-employed people, if it is a self-employed person it is not registered as remittance, but as a private transfer. Likewise, it is considered that the stay duration of the emigrant in the destination country should be at least eight months.

Separately, the flow of external incomes from labor of border workers, this is to say, the workers who regularly cross the border to perform salaried tasks in the neighbor country (transmigrants or commuters) are not considered emigrant workers, as they do not lose their residence in their country; this generates some confusion as these incomes are included in the current account in the account of factorial services (since it is an income generated by a productive factor). In these entries one finds labor incomes of the border workers (Carriles, 1991), royalties, and reinvested revenues. These incomes are distinguished from remittances in two aspects: a) the worker who earns them does not lose their residence in their country and b) they are labor remunerations which compensate the performance of a labor service, so they are obviously factorial income from labor and not current transfers such as remittances.³

³ This part was retaken from the article by Fernando Chávez Gutiérrez, whose article is cited on the page 207 of *Análisis Económico* 46, who considers that according to the estimation of GDP (Gross Domestic Product) and GNI (Gross National Income), once GDP is calculated, these workers' incomes are considered incomes from foreign factors. Let us remember that "incomes from received and paid to the exterior factors represent a special sort of imports and exports and because of this it receives incomes, the country is exporting (selling) the services of this productive factor"; for a clear and didactic explanation of this topic see: Eloy González Marín, *La contabilidad nacional*, February 2004. Departamento de Economía, Universidad Autónoma Metropolitana-Azcapotzalco, p. 16.

Importance of familial remittances

The relative weight familial remittances have on unilateral transfers is determinant, this has been on the rise as from the 1980's decade until comprehending almost their total. The growth of familial remittances is not only observed in their participation in transfers, but in other variables as well, for instance, in the incomes it provides to current account, which compared to those from other sources are almost placed in the on top, with the exception of those from the oil exports.

In order to analyze familial remittances and their specific weight in transfers we managed the entry of transferences breaking it down into two lines; one of them corresponds to familial remittances, whereas the other deals with the grouping of the different *items* (other transfers) which have been mentioned in the previous paragraphs.⁴

Derived from the so important weight remittances have in transfers, any variation in them directly affects the line of transfers. In 1980 they comprehended 80 percent of them, however, in 1982 there was a descent in the reception of remittances of 7.4 percent. It is presumed that this was due to the uncertainty prevailing in the country before the economic crisis experienced that year and the exchange rate problems, where migrants preferred to save their income instead of sending them. In graph 1 the growing trend the remittances' participation has had along the period can be seen.

Remittances regained their growth in the two following years (1983 and 1984), nonetheless, in 1985 despite the incomes from transfers considerably grew (40.5), remittances decreased in 0.8 percent, which is explained by the effect of the migratory reforms started in the United States oriented to regularize illegal migrant and favor family reunions (IRCA and SAW). This fact echoed at the same time in the sending of remittances, as the families had relocated to the United States, the sending of remittances was halted. As a result, it is seen that in 1985 the percentage remittances represented in transfers was substantially reduced (see graph 1), from a participation above 80 percent in 1984, it was only 57.5 percent the following year, this situation privileged the participation of other transfers' entry. That same year the Bank of Mexico informed on an increment of 20 percent in the received transfers.

⁴ The Bank of Mexico separates it in two entries, the one who corresponds to familial remittances and the one of other transfers. In respect to expenditures, it also subdivides them into two entries: one is called familial remittances and the second is composed only by the country's contributions to international organisms.

It is worth mentioning that in 1985 there were registrations for current 521 million USD in transfers, which equal constant 737.96 million USD, as a result of the condonation of interests paid in excess to the international bank. From out of the new incomes received through transfers the behavior of the donations is distinguishable, which grew 82 percent as part of the international help Mexico received to face the consequences of September's earthquakes.

The perception of remittances continued increasing in the two following years (1986 and 1987), but mainly between 1987 and 1988, when they grew at a rate of 23.4 percent. Likewise, in 1987 an important increment in the entry of other transfers (47.7 percent) was registered, which was due to the donations from help received because of the damages caused by Hurricane Gilbert and the payment of insurance companies (graph 1).

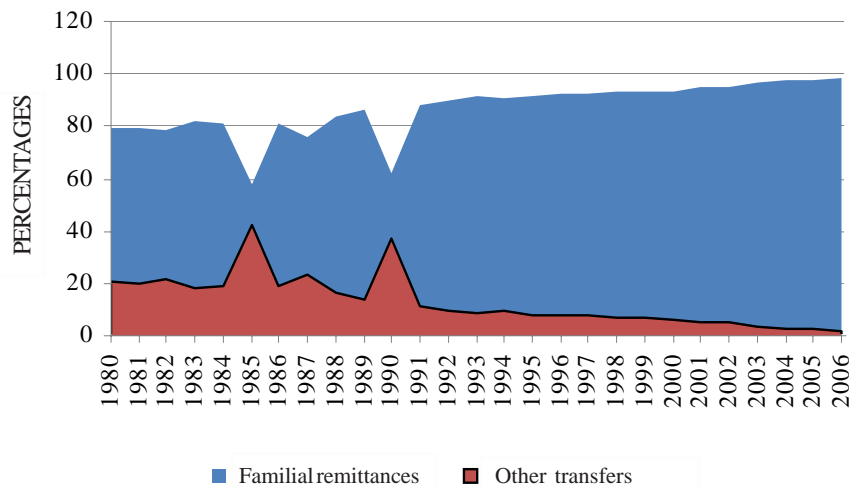
As a result of the greater remittances' growth, their participation in the income from transfers was 83.5 percent in 1988; conversely, the entry of other transfers reported an important decrement in incomes of 47.7 percent, derived from the fact that help was not any longer received from abroad. It is deduced that once the economy was stabilized that year, a feeling of greater confidence for sending dollars from abroad was generated, for the exchange market was opened. Another factor that also had an influence on it was the increment of Mexican migrants in the United States.

A similar situation was witnessed in 1990, when remittances grew 10 percent in respect to the previous year. Meanwhile, the entry of other transferences grew 310 percent. The Bank of Mexico informed about an increment in transfers from interests' refund; this situation reduced the relative participation of remittances to 62.5 percent, in spite of the 7-percent increment registered that year (see graph 1).

In 1991 there was a weak increment in remittances, which barely grew at a rate of 2.3 percent in respect to the previous year⁵ (graphs 2 and 3). Likewise, an important reduction in the entry of other transfers generated by resources' refund from the concept of interest payment was observed, so the remittances' relative participation in income from transferences increased to 88.4 percent. The low perception of remittances was explained by means of the hypothesis that there was certain possibility that those residents abroad with relatives in Mexico

⁵ When the absolute values of the remittances' amounts are observed, it is evident they underwent a constant increment. Nevertheless, the calculation of the growth rates allows observing the variations they have had along the period.

GRAPH 1
PARTICIPATION IN UNILATERAL TRANSFERS 1980-2006
(CONSTANT PRICES)

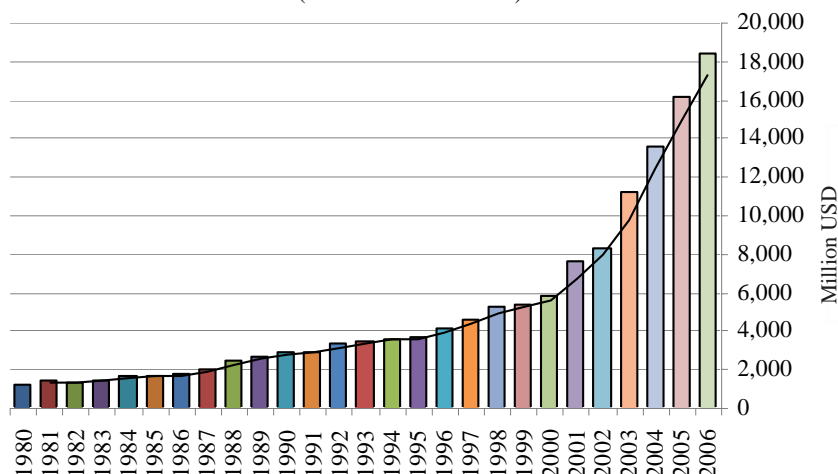


Source : own calculation based on information from Mexico's balance of payments, 1980 - 2006.

had decreased the number of visits as tourist. Hence, that could have been the reflection of a substitution toward the sending of funds. For the third years in a row, the dispatches of remittances through telegraph gained importance in respect to other forms of sending such as money order and personal check (Banco de México, 1992).

Remittances grew at a 12-percent rate in 1991 reaching 90 percent of the total transfers. The received amounts continued increasing in the following years although at a slower pace; on its own, the entry of other transfers descended. Another aspect that started to become evident, according to the Bank of Mexico was the fact that: ... we observe a loss in the field of funds' sending modalities via personal checks and money orders before the use of telegraphic drafts and cash. Thus, the amount of the former two decreased 40 percent, whereas the others, as a whole, increased 12 percent. On the other side, the average remittance in 1993 was placed at 361 USD (2.8 percent more than in 1992). In this respect, it is probable that due to security reasons the senders of funds are changing the remittances mechanism. Personal checks and money orders have

GRAPH2
EVOLUTION OF FAMILIAL REMITTANCES, 1986-2006
(CONSTANT PRICES)



Source : own calculation based on information of Mexico's balance of payments, 1980 - 2006.

been traditionally sent by mail, whereas transfers via telegraphic and bank drafts provide better security. On their own, as it is known, cash and gifts in kind enter the country with the resident travelers from abroad (Banco de México, 1993).

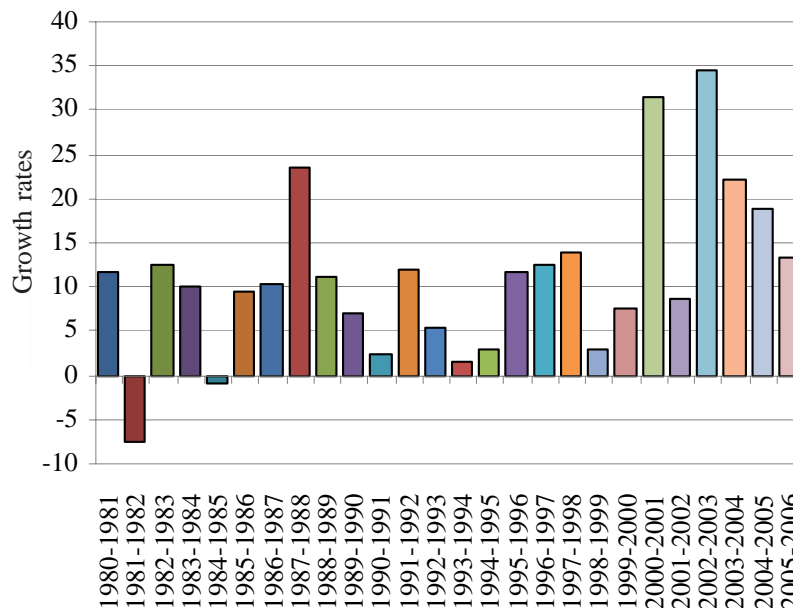
In 1994, the growth of remittances was 1.6 percent in respect to the previous year (see graph 3), important modifications in their reception began to be noticed; one of them was the incorporation of statistics in the operation of some banks, which started to enter in wholesale markets purchasing money orders, not directly from the final receivers, but from some intermediaries who operated mainly in rural zones in the absence of banks' offices (Banco de México, 1994). Likewise, the modality of cashing a money order was taken into account in some commercial establishments, which previously was almost impossible due to the mistrust they generated.

The account of transfers in 1995 registered an amount slightly above that of 1994, from which 92 percent corresponded to the entry of familial remittances, which totaled 3571.2 million USD, despite the increment in the remittances said year was 2.8 percent. It is distinguishable the amount of perceived remittances had increased so slightly, which makes us wonder why when crises occur the

perception of remittances does not increase, as the migration's response is not immediate, for it requires a process of maturing of the conditions to emigrate. It is also observed that there is a certain *impasse* between the migrants abroad, upon who factors of the psychological kind influence to send remittances which come from the uncertainty the country's economy, where the migrants prefer to save and wait for stability to resume their dispatches.

In this sense, it is observed that as from 1996 there is a constant increment in the sends of remittances, growth rates show a growth toward increment, which goes from 12 percent that year to 14 percent in 1998. Hence, we have that with the exception of 1999, when the growth rate decreased, for the year 2000 an important flow of transferences was registered; the flow was derived from the increment registered in remittances which were estimated in 6572.5 million USD. In 2001, the transfer balance registered an important remittances' entrance, which grew at a rate of 32 percent; the reached amount surpassed the

GRAPH3
GROWTH RATES OF FAMILIAL REMITTANCES, 1980-2006
(CONSTANT PRICES)



Source : own calculation based on information of Mexico's balance of payments, 1980 - 2006.

never-seen-before margins. Before this situation of constant growth, the Bank of Mexico stated:

Familial remittances represent the main entry in this account and are integrated by resources which the Mexican residents abroad send their relatives in Mexico. In the year of reference the balance of remittances reached 8895 million USD, an amount that equaled 69.5 percent of the value of the oil exports and 1.44 percentage points of the GDP of the year. It is convenient to point out that, as it was pinpointed in the press bulletins on the balance of payments issued along 2001, said year the methodology to estimate familial remittances incorporated measures in the registration of such transactions that the intermediary financial institutions perform. This is a reason that explains the very high result of the increment in incomes from remittances in relation to that registered in 2000 (Banco de México, 2001: 86).

By 2002, the situation of the transference balance continued being quite favorable, with 10303.7 million USD. Familial remittances represented 95 percent of the transfers. In 2003, the amount received from remittances reached 13895 million USD, which accounted from more than 95 percent of the transfers and registered the highest growth rate of the period under study (34.4 percent). By 2004, the importance of familial remittances called the attention of both the governmental sectors and the topic's scholars, as the very Bank of Mexico declared:

The surplus registered in the balance of transfers in 2004 was 17,123.13 (million USD). The main components of this account are still the remittances that the residents abroad send their relatives in Mexico. This amount was very similar to that of FDI in the year and was equivalent to 78 percent of the crude oil exports' value, as well as 2.5 percentage points of GDP. In 2004, 50.9 million transactions were performed by means of familial remittances' sending and the average amount per remittance was 327 USD (Banco de México, 2004: 86).

In 2005, remittances comprehend 97.8 percent of the total of the transfers received in the country. The Bank of Mexico distinguished their importance as follows:

... the amount of familial remittances surpassed the flow of foreign direct investment and equivalent to 71 percent of the value of the exports of crude oil and to 2.6 percentage points of GDP. In the year of reference there were 58.7 million of remittances' dispatches and their average value was 341 USD (Banco de México, 2005: 43).

Finally, in 2006, the income from remittances reached 23054 million USD, which implied a growth of 3019 million USD and of 15.1 percent in respect to the previous year; in spite of the remittances' growth rate significantly decreased along the year. The institution stated:

a) the improvement in the coverage of the remittance operations influenced on the rise of said stats in previous years, yet its effect has been gradually lessened; b) the greater problems faced by Mexican migrants to emigrate toward the United States, as a result of the increased border surveillance; and c) the additional difficulties the migrants have faced in the United States undocumented Mexican migrants to find a job, before stricter official controls in a context of economic deceleration (Banco de México, 2006:40).

The macroeconomic importance of the remittances is still on the rise and already surpasses the surplus balance of the balance of trade of oil products, as well as the flow of foreign direct investment. Likewise, said resources' income was equivalent to 2.7 percentage points of GDP. In the year of reference there were 65.8 million of remittances' dispatches, with an average value of 350 per sending (Banco de México, 2006).

Hence, it can be seen both the weight remittances have in unilateral transfers and their evolution and variations in their growth rate; the objective has been to show from a historic perspective a general panorama of the importance remittances have gained. In the following sections the evolution of the current account and the weight remittances have on it will be shown.

Current account's evolution

Speaking on economic growth and the factors that foster it imply entering into a vast analytic terrain that goes beyond this work's reaches. In this sense, it could be argued that the weak growth Mexican economy has experienced for two decades is related to the external sector's performance, where the current account's financing —which has taken along time different shapes— from capital income has been insufficient to complement the growing requirements proper to development. In this sense, it can be stated that the key factor that restricts economic growth is found to a good extent on the external restrictions this sector imposes (Fujji, 2000).

Among the studies focused on explaining the causes and nature of the unbalances present along time in the external sector of Mexican economy, that by Villarreal (2000) is distinguishable, the author conceives them with "structural nature and characteristic of the economies undergoing development". This deficiency explains the structural dependence (as he calls it) on foreign capital (investments and loans) as the only financing mechanism of said unbalance. Therefore, the scarce or weak role played by other sources of income, such as exportations or income from tourism and those from migrants' remittances, have been insufficient to meet the need of financing the importations the very process of development requires, being in the need of drawing to long term capital.

Likewise, from the point of view of the neoclassic version of economic growth, the model by Solow (Ledesma, 2004) has been widely considered, as it states that the product is determined by the expansion of the offer of factors, capital and labor, which depends on the economy's saving rate, which determines the capital *stock*. This vision has been amply surpassed and the models of endogenous growth have appeared, where differently from the stated by the neoclassical, the explanation of a sustained growth of the income per inhabitant excludes the exogenous variables, in order to attribute it to the economic and technological conditions the economic agents face, which can stimulate or not a heavier investment, the development of new technologies or both things. The diffusion of technologic development around the world will make it possible the convergence of the per capita growth rates and even of the levels of per capita income. This is to say, that it predicts that those economies whose capital per inhabitant is initially low (poor regions), will grow at superior rates than those economies where it is higher (wealth regions).

The current theory of endogenous growth holds the supposition that capital revenues are not decreasing, ergo, it questions the hypothesis that the product per inhabitant tends to converge, and there would be the need to consider the role the balance of payments has in the countries, as this directly and indirectly affects the dynamics of growth. This is generated by the implications present before the weakness of the balance of trade because of adverse tendencies in the long term in the behavior of imports and exports, which has been occurring in Mexico for some decades and that has echoed in the recurring economic crises. The very fact that the economic growth was above the equilibrium of the current account (a situation that was also experienced in Mexico), made the former's unbalance more acute, therefore, the capital requirements were so great that the internal resources turned out to be insufficient to finance them, so the country had drawn

to foreign resources to finance them at very high interest rates, which became heavy burdens for growth, contributing to aggravate the deficit state of the current account. All of this has become a vicious cycle.

Consequently, the high interest rates have acted adversely, as besides contributing to aggravate the deficit state and reduce cash availability, have propitiated that investment on productive actives will be discouraged, as it occurred in the 1990's decade, when this was preferably oriented toward monetary actives. As a consequence, the need to adjust economic growth to the balance of payment's requirements was stated, where there would be the need to define an economic growth rate congruent with the equilibrium of the balance of payments (Fujji, 2000). In this sense, we try to explain the high interests rates Mexican economy experienced, where foreign savings played a quite important role to complement the needs of public and private financing which induced said growth.

On the other side, there has been certain discussion on the role remittances have as financing source. This hypothesis is discussed owing to the fact that the most part of the remittances is destined for consumption, reason why it is considered they have no impact on growth; nonetheless, we have to consider that remittances have a multiplying effect, since a part of them is considered as saving destined for investment, conversely, the financial costs they generate (in contrast with other entries) are minimal.

The beginning of the 1980's decade was to a good extent influenced by the *oil boom*, as well as by the accelerated growth it imprinted on economy by then, when the participation of public expenditure largely induced economic growth. This growth was at the time accompanied by considerable amounts of public and private investment which required both foreign capital and abundant importations. All of this generated that the foreign capital flows and good entered aplenty in the country, which caused a new dynamism not only in the manufacturing sector, but also in a particular manner in the energetic sector. Internal demand was also affected, which increased in an accelerated fashion, exercising pressures upon the offer, a fact that generated the increment in importations (Cárdenas, 1997).

In respect to the current account's behavior and the main accounts that compose it (balance of trade and income account), it can be argued that at the beginning of 1980's decade the unbalance of the external sector became widely evident, early in this period the growing tendency in the deficit of the current account is observed. In 1981 it grew 41 percent. In Graph 4 it seen that, between 1980 and 1982, the deficit in current account reached 6.5 percent of GDP.

Derived from the financial problems and currency scarcity, in 1983 and 1984 there was a positive balance in this account, an unseen situation since the mid 1950's and, which obviously, took place under very different circumstances, since we face the beginning of the 1980's crisis, when the consequences of the economic growth's contraction heavily impacted on the whole of Mexican society. As a result of this situation, the proportion the deficit represented in current account was increasing in the 1980's decade and the first half of the 1990's, when it reached proportions above 7 percent of DGP.⁶ Likewise, it is observed that as from 1996 the participation of the deficit of current account in GDP has been decreasing, the four years of the period are noteworthy.

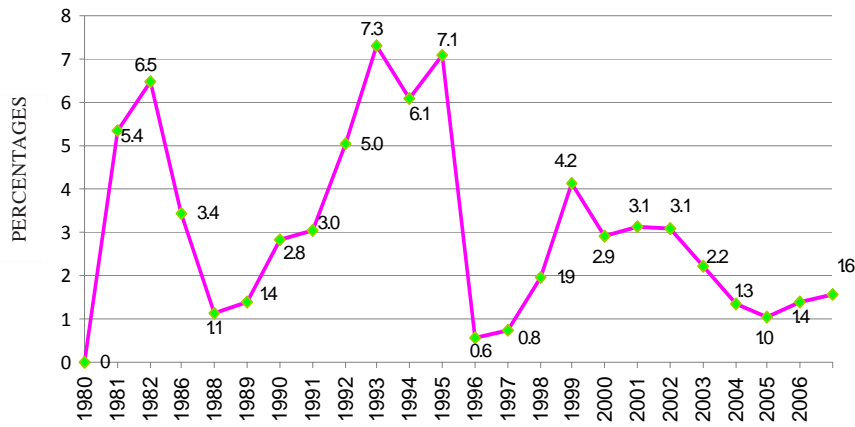
When we relate this to the migratory movements toward the United States it can be said that, as a result of the crises, these were accelerated. The surplus of the current account was considerably reduced in 1985; however in 1986 there was another deficit situation, where the oil shock experienced said year and the aggravation of currency scarcity negatively impacted again economy; this forced the re-adoption of a series of measures to afford the situation, among them there were the restrictions imposed on importations, as well as a greater imposition of the control of changes, which was reflected on the favorable balance of the current account in 1987, after this year and thus far, there has not been a surplus in this account (graph 5).

As for the behavior of familial remittances and their specific weight in the current account, the changes occurred along time can be seen in graphs 5 and 6. It is important to point out that in graph 6 the values corresponding to the remittances in each of the accounts that integrate current account have been subtracted, in such manner that this allows us to see the importance of them in each one of them.

Indeed, we observe that the participation of the transfers in the current account is virtually absent in the period—with the exception of 1985 and 1990, when incomes from other transferences grew extraordinarily—, which was fundamentally caused by the fact that they are mainly composed by remittances. Also is distinguishable the fact that despite remittances have preserved growing incomes along the period, their relative importance is not so stressed after 2000, as data from the different accounts are slightly altered and show the same tendency as in graph 5. As from 2001 it is seen this changes, for the current account's negative balance—where remittances are included— appears in a

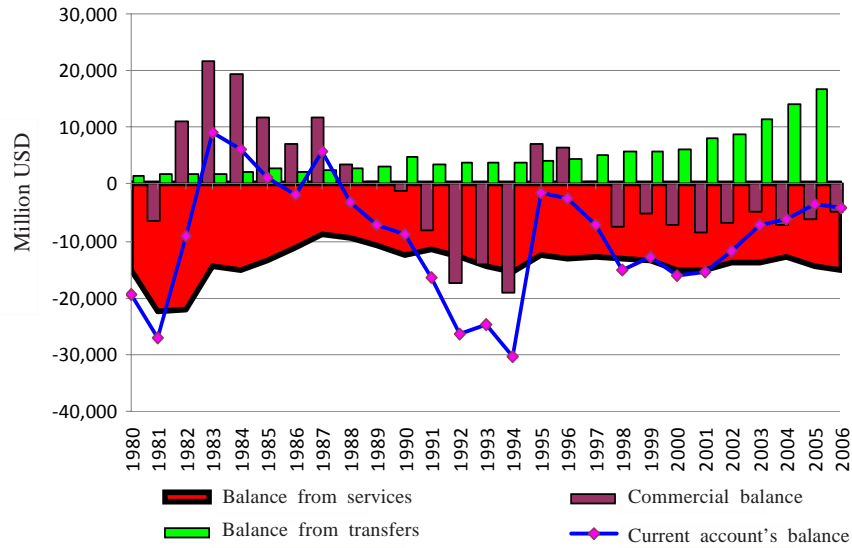
⁶ The years 1983, 1984, 1985 and 1987 have been omitted, as along them, current account had positive balances.

GRAPH4
CURRENT ACCOUNT'S PROPORTION RESPECT TO GDP, 1980-2006
(CONSTANT PRICES)



Source: elaborated from Bank of Mexico's information, INEGI and International Financial Statistics.

GRAPH5
CURRENT ACCOUNT WITH REMITTANCES' PARTICIPATION
(CONSTANT PRICES)

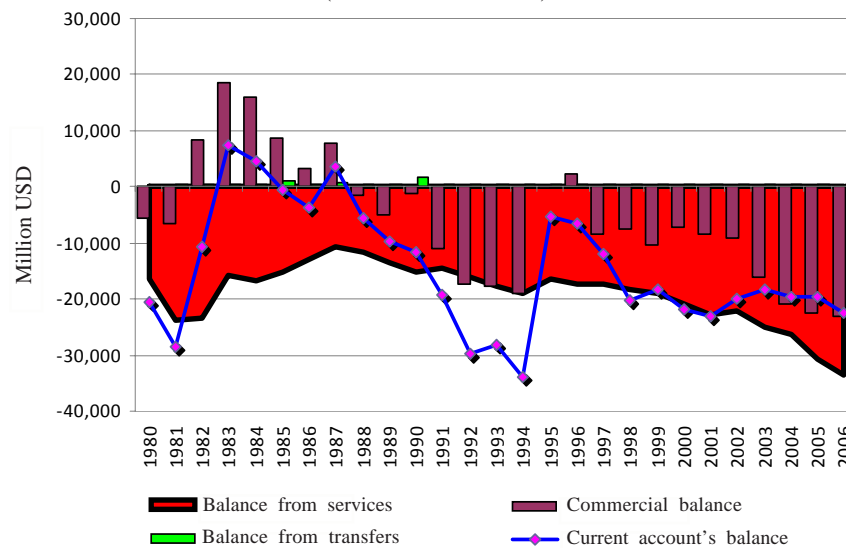


Source: elaborated from Bank of Mexico's information.

decreasing manner, when we subtract the remittances it becomes increasing, the same occurs with the balance of trade, being even more acute in the balance of the account of services. The aforementioned allows us to deduce that even if remittances have had a growing behavior it is not until 2001 when they acquire a heavy impact on the reduction of the current account's deficit.

Separately, it is noteworthy the fact that in the 1980's the main deficit from current account basically came from the account of factorial services, from humongous payments of interests from foreign debt. Indeed, the payment of interests from foreign debt was in 1980, 80 percent of the deficit from the account of factorial services and 49 percent of the deficit of the current account; by 1982 it already reached 89 percent of the factorial services' deficit, in 1983 and 1984 they were 97 and 96 percent, respectively. It is worth noticing that surplus balances in the balance of trade were sufficient to totally afford those payments and altogether with transfers allow the current account to have a favorable balance. Similarly, along 1995 and 1997, the surplus balance of the balance of trade financed 67 and 65 percent of the payment of interests, respectively.

GRAPH6
CURRENT ACCOUNT WITHOUT REMITTANCES' PARTICIPATION
(CONSTANT PRICES)



Source: elaborated from Bank of Mexico's information.

As from 1988, current account once again was deficit, the economy entered into a new dynamics motivated by the reactivation and structural reforms which led to a change in the country's developing model, as a result of the measures started in the early 1980's decade, such as the process of liberalization of external trade, economic deregulation and the reforms put forward to foster foreign investment—which had been restricted in previous years—, in addition to them, so that the current account had such result, considerable payments of interests from foreign debt also influenced. The deficit changed from constant 3061 million USD to constant 7151 million USD in 1989, this is to say, it grew at a 134 percent rate.

This problem of deficit of the current account is still latent. During the 1990's decade it grew in notoriety until 1994, a year when it reached the record figure of constant 30485 million USD. This generated heavy pressures on the balance of payments and created the instability climate that unleashed the devaluation of the exchange rate in December 1994. This crisis' repercussions were felt. It was necessary to carry out adjustments to the exchange rate and apply measures oriented to afford the problem of foreign debt. This turned into a lower rhythm of the economic activity. The adopted measures had the expected results, which were reflected on a considerable reduction of the current account's deficit, it changed from constant 485 million USD to constant 1577 million USD in 1995, which means a 94.8 percent reduction (see graph 5).

From the crisis experienced in 1995, whose origin is to be found in the unbalance of the external sector and the vulnerability of the financial markets, there was a series of precaution measures, because of this the deficit amounts of the current account have tended to be more moderate in relation to those registered in the first half of the 1990's decade. During the second half of the 1990's decade this account's deficit situation was moderate, which is related to a greater dynamism of foreign trade, as well as the huge volumes from familial remittances' transfers. Likewise, there is a descent in the current account's deficit, which is due to a good extent to certain difficulties the economy undergoes to support its growth rhythm before the recession experienced in the United States since 2000, which has been reflected as a loss of exportations toward said country. It is observed that the reorientation also influences on the United States' foreign trade, where China has displaced Mexico as a second commercial partner. After 2001, there is a relative improvement in the current account, whose deficit appears as decreasing, which is mainly related to the oil exportations' dynamism on the one side, and on the other to the important

resources received from familial remittances. Even so, the account of services still generates the heaviest expenditures registered in the account (see graph 5).

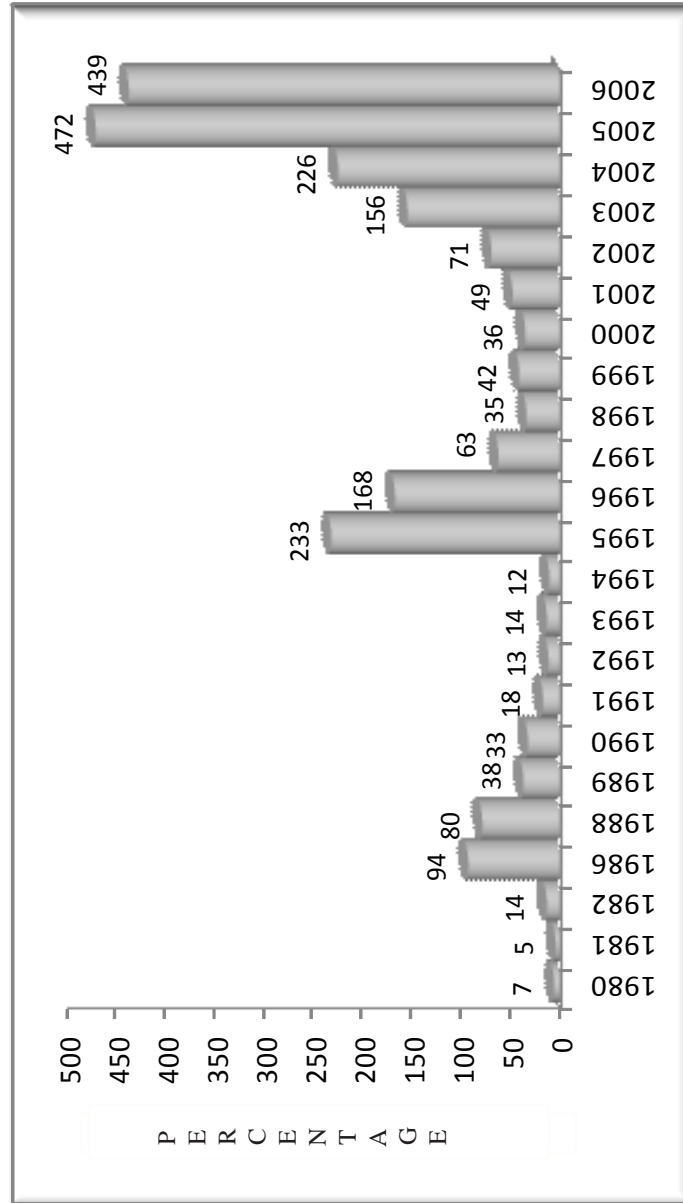
Current account's deficit and remittances

Generally speaking there are quantitative and qualitative changes of the utmost importance in respect to the relation between remittances and current account. At first, we could say it had certain important fluctuations in the 1980. In graph 7 the years 1983, 1984, 1985, and 1987 were eliminated, since they are the years when the current account produced positive balances. After 1995 such situation did not occur; even if the conditions where these results took place are different, as these positive results were the outcome of drastic adjustments applied through the economic policies oriented to find the country's macroeconomic balance, these changes were produced by the debt crisis and by the problems faced before currency scarcity and the difficulty to export the oil surplus, whose price went downward. Before this situation foreign purchases were avoided, against the own economic and social growth.

Seeing the spectacular increment registered by the current account in 1980, remittances only covered seven percent of said deficit. The economy continued growing at high rates in 1981. The growth registered in the current account's deficit was 41 percent in respect to the previous year. In this context, incomes from familial remittances, in spite of registering a 11.2 percent increment, had a lower coverage than the previous year (fiver percent).

Derived from the problems foreseen for the country's economy, as from 1982—currency scarcity, the payment of interest from the huge debt, pressures on the balance of payments, but above all, the announced reductions in the prices of oil in the international market—, the authorities took steps oriented to reduce the current account's deficit. As a result, this deficit was reduced in 65.8 percent; on the familial remittances' side, despite the experienced reduction (7.4 percent), their coverage was broadened in 14 percent.

GRAPH 7
 FAMILIAL REMITTANCES' COVERAGE IN CURRENT ACCOUNT, 1986-2006
 (CONSTANT PRICES)



Source: own calculations based on the Bank of Mexico's balance of payments.

In 1983 a favorable balance was experienced in current account, familial remittances influenced on this fact, for the increment registered in them was 16.8 percent of said surplus. Although current account remained with a favorable balance, this was reduced in 1984 in 31.5 percent in respect to the previous year. Conversely, remittances grew at a 9.9 percent rate. In this sense it could be said that incomes from remittances allowed generating 27 of the current account's favorable balance.

The downward tendency in the surplus balance registered in current account continued in 1985, this was reduced in 81.5 percent in respect to 1984. On their own, incomes from remittances registered a reduction of 0.81 percent; however, there were incomes of 1639.4 million USD, which meant 144.8 percent of the current account's positive balance.

By 1986 the presence of a new crisis was evident, so the measures taken by the government were oriented to solve the financial problem, which represented the payment of interests from the debt and the lack of resources to afford it, current account's deficits were mainly generated in the account of services. On the other side, the need to regain economic growth was imperative, facing these financial difficulties and the excess of payment dispatched abroad, once again a new deficit was registered in current account; it reached 1910 million USD. On their own, remittances had an increment of 9.5 percent, changing from 1639 million USD in 1985 to 1794.2 million USD in 1986. The results indicate that the coverage margin achieved by remittances was quite broad, as they comprehended 94 percent of the deficit in current account, which was due to the fact that the registered deficit was rather moderate in relation to previous years, since it was virtually the same as the balance of factorial services, from this it can be deduced that remittances managed to finance payments to interests.

As a result of the measures taken in order to correct the unbalances of foreign accounts, the effect of the debts' renegotiations encouraged the trust in the country; as well as the shock plans established by the end of the year by means of the coordination of the different sector of society brought some fresh air manifested as a current account's favorable balance of 5682 million USD in 1987, in spite of the massive capital outflow that caused the fall of the Mexican stock exchange. Familial remittances registered an increment of 10.4 percent changing from 1794.2 million USD in 1986 to 1980.7 million USD in 1987; these incomes represented 34.9 percent of the favorable balance registered in current account.

By 1988, current account registered a deficit again. From this year and until 1996 this account did not manifest a favorable balance, not even under pressures from the balance of payments, as it occurred in 1995. The deficit registered in did not reach the magnitudes it had had in the past. On the side of familial remittances, it is seen they registered a considerable increment: in that year circa 2500 million USD were received, which means an increment of 80 percent in respect to the previous year, the amount of remittances made their coverage reached 80 percent possible, nonetheless, this coverage was below that reached in 1986.

By 1989, the deficit in current account was virtually doubled, the economy entered into a new dynamics motivated by the reactivation and the structural reforms that led to a change in the country's development model, as a result of the measures which had started in the mid 1980's decade. The process of foreign trade liberalization, as well as the changes generated to foster foreign investment and attract capital flows, generated the need draw to greater imports' volume, which had been restricted in previous years; payments to the debt also influenced this result. The deficit changed from 3061 million USD to 7151 million USD in 1989, which means an increment of 133.6 percent. As for the remittances' behavior, there was an increment as they changed from 3445.3 million USD in 1988 to 2710 million USD in 1989, which means an increment of 11.2 percent. The fact that the deficit had started to rise generated that the remittances increments did not become broader in coverage, as this, conversely, was reduced in 38 percent.

The increment in deficit continued in 1989 and kept growing until it reached alarming levels in 1994. In 1990, the deficit in current account increased 21.6 percent; on their own, remittances also registered an increment as they reached 2909.7 million USD, which means they grew at a 7.1-percent annual rate, which turns out to be inferior to that manifested in the current account's deficit. As a result, remittances' coverage was reduced again in relation to the previous year, it reached 33 percent. This downward tendency continued until 1994.

The inverse relation between current account's deficit and familial remittances is glimpsed in the fact that as the deficits continued stressing, the effects of the increments registered in remittances becomes null, derived from the fact that they at different rates; for instance, in 1991 current account's deficit almost duplicate its value, as it grew at a 88.4-percent rate, whereas remittances did so at a lower rate (2.3 percent) as they changed from 2909.7 million USD in 1990 to 2975.4 million USD in 1991. This caused a reduction in remittances of 18 percent.

By 1992, there was an increment in the current account's deficit of 62 percent in respect to the previous year; in absolute figures it reached 26535 million USD. Before this situation it was very difficult that the remittances' financial capacity could have been broadened; in spite of the 12-percent increment in incomes from remittances, its coverage was reduced to 13 percent.

In 1993 current account registered a reduction of seven percent, whereas remittances' coverage increased a percentage point in respect to the previous year. On the other side, the deficit from 1994 current account is the greatest ever registered. It totaled 30485 million USD, if we see in relation to its growth rate in respect to the previous year; this was 23.5 percent, which means that the increments were accumulated for several years. As for remittances, we observe they remain at almost the same level as the previous year: 3571.2 million USD, so their coverage was reduced to 12 percent.

By the end of 1994, a new crisis, which had its origin in the unbalances of the external sector, was unleashed. Facing it, it was necessary to carry out adjustments to the exchange rate and apply a series of corrective measures. This resulted in a slower rhythm of economic activity and before currency scarcity it was necessary to reduce the level of exportations, which was reflected on a considerable reduction of the current account's deficit, which changed from 30485 million USD to 1577 million USD in 1995, which is a reduction of 94.8 percent. Conversely, remittances registered incomes worth 3672.7 million USD. In this sense, income from remittances represented 233 percent of the current account's deficit.⁷

From the crisis experienced in 1995, which brought a series of precaution measures, the deficit amounts have tended to be more moderate in relation to those registered in the early 1990's. Nevertheless, they have not completely disappeared. By 1996, the deficit was 2437 million USD, meanwhile, remittances surpassed this amount, as they registered an income of 4104 million USD, which give them a coverage of the deficit of 168 percent. With this so large coverage from remittances it was possible to cover and generate additional resources to finance other entries. However, this was reduced to 63 percent in 1997, this was the consequence of the increment of the deficit in current account, which almost increased 200 percent in respect to 1996.

This process did not stop there, for the growing tendency in the generation of current deficit continued; it changed from 7279 million USD in 1997 to 15021

⁷ In the graph that contains this information we decided to leave it at a maximum of 200 percent in order to preserve the scale in relation to other years' participation.

million USD in 1998. Likewise, remittances had an outstanding performance, in said year they surpassed 5000 million USD. In 1998, the country was considered as the principal recipient of familial remittances in Latin America and was among the top positions at worldwide level. However, the remittances' capacity of deficit coverage was decreased to 35 percent.

In 1999, the deficit in current account was reduced in 14.7 percent, whereas familial remittances continued on the rise as they reached an amount of 5406 million USD, which places them at a coverage of 42 percent.

By 2000, the deficit in current account was increment again and reached the amount of 16072 million USD, this increment represents a rate of 25.5 percent. On their own, familial remittances reached an amount close to 6000 million USD, the increment registered in them was 7.6 percent in respect to the previous year; nevertheless, their coverage was reduced to 36 percent, which became the increment registered in current deficit. Likewise, the descent in the current account's deficit in 2001 was 4.5 percent, conversely, familial remittances increased in a considerable manner changing from 5816.4 million USD to 7655.1 million USD, which means a growth rate of 31.6 percent in respect to the previous year. As a result, their coverage was 49 percent.

The downward tendency in current account continued until 2006, this is related to certain difficulties experienced by the economy to support its growing rhythm before the recession in the United States since 2000, which has been reflected on a loss of dynamism in exportations toward said country, where China has displaced Mexico as second commercial partner.

The descent in the deficit of the account in 2002 was 31.9 percent, while remittances continued growing; it is observed they reached 8317.3 million USD, which represents an increment of 8.7 percent and deficit coverage of 71 percent. Reductions in the deficit were constant until 2005, whereas remittances every year register substantial increments. For instance, in 2003, the deficit in current account was reduced in 39.1 percent, meanwhile, the remittances surpassed said deficit in 155.7 percent. The reduction experienced in the deficit in 2004 was 15.9 percent, conversely, remittances' coverage was 225.9 percent of such deficit. By 2005, current account's deficit was reduced close to a half (43.2 percent); on their own, remittances were 472.2 percent of said deficit. In 2006, there has been another deficit in current account, which increased in 22 percent in respect to the previous year. Nonetheless, the proportion represented by remittances in said account is still very high, since it comprehends 439 percent of the current account's balance, this is, more than four times.

Final comments

The role of remittances has been analyzed in function of entries that compensate the deficit in current account. It is important to pinpoint that the participation levels tend to manifest much stressed variations and their explanation would require us to go deep in the analysis and interpretation of the multiple factors that have unleashed and conditioned the evolution of both magnitudes. On the current account's side, it would imply to deepen into the study of foreign trade's evolution and all that is related, as well as the financial issues and the relations established within the international environment that directly influence and affect its behavior, particularly the account of financial services. This is related to the fact that it is in these two accounts (the commercial one and that of financial services), where the unbalances of current account are.

On the remittances' side we would have to deepen into the study of those factors that determine the reception of such flows, such as migratory flows, and the different channels and mechanisms used in their sending and estimation, as well as their impact on the macroeconomic variables and on the recipient households. However, this work's objective was to present from a macroeconomic vision the weight these entries have in the financing of the current account's deficit.

It is observed that even if familial remittances had some variations in the received amounts, their reception showed a constant upward tendency. Likewise, it was observed that their linear tendency was amply modified since 2000, as from that year on they have grown in an exponential manner. Among the most important factors that have influenced on this increment distinguishable are the new estimation methodologies, the increment of migratory flows caused by the recurrent crises which have accompanied Mexican economy, the establishment of migrants' networks along a migratory trajectory between both countries, the adoption of the model of neoliberal trend and the effect of the structural reforms applied with this intention, as well as the demand for workforce in the United States; all of this has taken place within the framework of globalization that has characterized international economic relations, where migratory movements have been worldwide stressed, in spite of the restrictions which increasingly restrict workforce mobility. Notwithstanding these aspects are not approached in this work.

Familial remittances have a very important weight on the entry of unilateral transfers under which they are registered, in reality; their participation level has an overwhelming relative weight. Likewise, from a very general vision it is observed that the changes in the balances of current account are linked to the models of development assumed, where the chronic deficit and the different situations experienced along the period by Mexican economy. In this sense, the relative weight of familial remittances has presented different scenarios. One observes, mainly in the 1980's decade the reception of remittances was not significant in providing resources to compensate the account's unbalances. This situation presented drastic changes since the mid 1980's decade and in a particular manner in the second half of the 1990's decade. With the beginning of the new century, incomes from remittances have impressively surpassed the deficit of current account.

Finally, it can be argued that the relation that can be established between current account and familial remittances is closely linked to migratory processes, for it is evident that the crises' boosters in Mexican economy are located on the external unbalances. Before these crises altogether globalizing dynamics, migratory flows have acquire impressive magnitudes; obviously these migratory flows are the ones which determine the reception of remittances in countries such as Mexico. This reflection leads us to open new research lines by means of which it can be proven to which extent the migratory flows are related to the behavior of the economic cycles, and with them, additionally, the reception of remittances.

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