



Wednesday, March 01, 2017 3:47 PM ART **Exclusive**

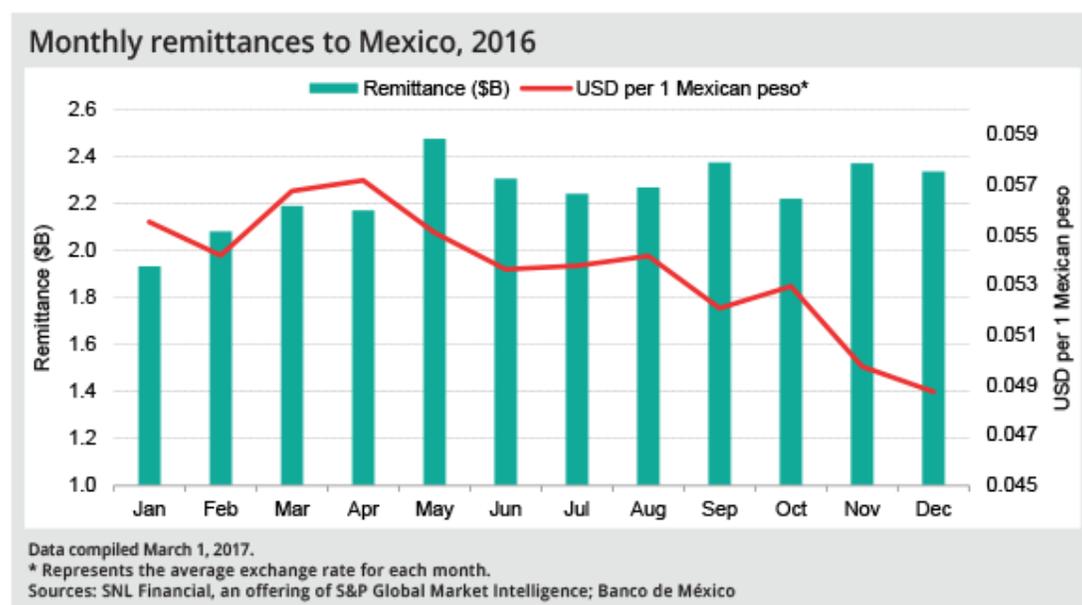
## Amid political risk, U.S.-Mexican remittances still seen rising

By Eazaz Khan and Helgi Gudmundsson

After hitting a record high in 2016, remittances from the U.S. to Mexico are expected to continue flowing in the year ahead at a more moderate pace amid lingering risks for such transactions, industry experts say.

At \$26.97 billion, remittances from the U.S. to Mexico hit an all-time high in 2016, marking a 28% rise in peso terms compared to a year earlier and an 8.8% rise in dollar terms. That trend appeared to *continue* heading into 2017, with remittances for the month of January rising 6.3% year over year to \$2.06 billion.

As data compiled by SNL Financial show, remittance levels were elevated both during the summer and Christmas holiday seasons, which experts say is a similar pattern to prior years; however, they also accelerated toward the end of the year, as the peso slumped markedly against the U.S. currency.



### Driving U.S. labor market

Remittances have been on a steady increase since 2011, in pace with the gradual recovery of the U.S. economy following the financial crisis in 2008, Ricardo Aceves, senior economist at FocusEconomics, told S&P Global Market Intelligence.

"Therefore, the fundamental driver of remittances growth, not only in Mexico but overall in Latin America, is the strengthening of the U.S. labor market, the increase in real wages in that country and lower transactions costs," Aceves said in an email to S&P Global Market Intelligence. The election of Donald Trump as U.S. president, who has threatened to restrict remittances to Mexico, and the subsequent weakening of the Mexican peso, also affected the hike in remittances towards to the end of 2016.

"Workers have taken advantage of the situation to boost the peso value of their U.S. dollar remittances, and they also have front-loaded them on concerns about the implementation of measures by the new U.S. administration that could hinder future transactions," Aceves added.

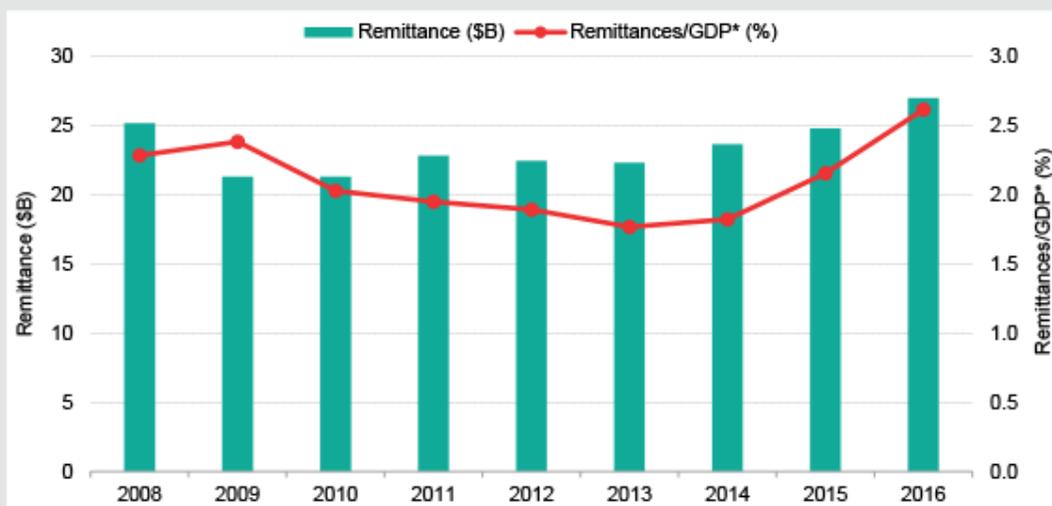
### Moderate growth, risks in 2017

Aceves estimates that remittances will continue to grow in 2017, but at a more moderate rate, as the U.S. economy is close to full employment and the need for new workers is shrinking. Two factors could change the scenario, however, he noted.

"A positive risk is that that the U.S. economy could receive a boost from the fiscal stimulus plan that the new administration envisages. However, a downward risk to this scenario is a more severe immigration policy and a souring of relations between the U.S. and Mexico, given Trump's rhetoric during his campaign that he could utilize restrictions on remittances," Ricardo Aceves said.

Companies that facilitate person-to-person, or P2P, payments across borders have [voiced concerns](#) that the immigration policies pledged under the Trump administration could have a "disastrous" impact on the remittance industry. President Trump has [suggested](#) that Mexico should pay for his proposed border wall with new restrictions on remittances or halting them until Mexico pays a one-time \$5 billion to \$10 billion payment to ensure that money continues to flow into the Mexican economy.

### Annual remittances to Mexico, since 2008



Data compiled March 1, 2017.  
 \* Nominal GDP figures used as provided by the EIU.  
 Sources: SNL Financial, an offering of S&P Global Market Intelligence; Banco de México; EIU

#### Bank impact limited, but economic risks remain

For Mexico's banking sector, however, any slowdown in remittances is unlikely to impact their deposit levels. As experts note, the vast majority of monies received in such transactions does not land in individual bank accounts.

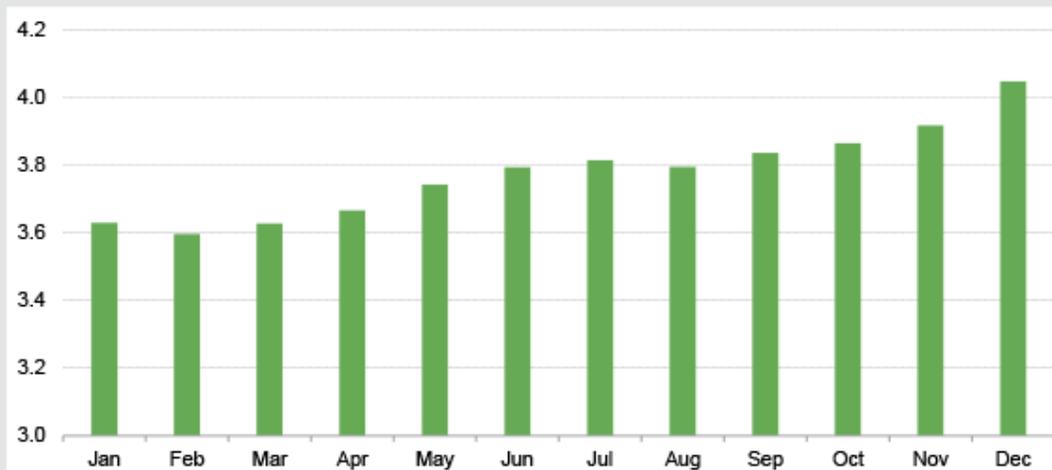
"While a few of the banks are involved in the remittance business, the overall effect of those flows on Mexican banks is limited because 85% of remittances are spent directly on consumption and don't go into accounts," Carlos Serrano chief economist for Mexico's Grupo Financiero BBVA Bancomer SA de CV noted.

"Depending on households' level of income, a portion of remittances are saved, thus benefiting the banking system," Aceves noted. "However, economic evidence and literature have shown that households spend most of the remittances on basic needs (food, clothing, etc.) and little is left over for savings."

Still, changes in the flow of remittances will "have an impact on the economy," Serrano said. As result, Mexican banks may see an indirect impact should a slowdown or halting of remittance flows knock Mexico's already-slowing economy, with real GDP growth expected to *recede* to 0.90% in 2017 from above 2% a year earlier. However, the direct impact on their business is limited.

While most remittance funds do not stay in bank accounts, Mexican financial institutions still benefit from the fees collected from the transfers. As Aceves noted, some 98% of transactions are conducted through electronic transfers with commercial banks, with a far smaller proportion coming in via money orders or cash.

### Aggregate monthly average deposits at Mexican banks, 2016 (Mexican pesos trillion)



Data compiled March 1, 2017.  
 Source: Banco de México

## Product Tips



Click [here](#) to access the 2016 Mexico Banking Report.  
Click [here](#) to view country level information for Mexico.

*As of Feb. 28, US\$1 was equivalent to 19.94 Mexican pesos.*