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FEATURED Q&A

Will Remittance Levels to Mexico Continue Falling?

Q In August, remittances to Mexico fell to $1.9 billion, a drop of nearly 12 percent from the same month last year, according to the country's central bank. Meanwhile, unemployment among Latinos in the United States stood at 10.2 percent in July, higher than the country's 8.1 percent overall unemployment. Will remittances to Mexico continue sliding? What happened to the robust level of transfers in the first half of the year? How much does Mexico currently depend upon remittances for its overall economic health?

A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "Mexican migrants in the United States who send money back to Mexico principally work in four industries: construction, agriculture, retail and manufacturing—in that order. The last year saw the worst drought in the United States for many decades. Not surprisingly, the agricultural sector suffered. As a result, fewer Mexican migrant workers were employed. Construction and manufacturing have suffered since the 2008 crisis. Thus, the real surprise is not a slowdown in remittances now, but why there was not a huge drop in remittances during 2008-2011. We should not lose sight of three separate (but interrelated) themes: Migrant workers who send money to Mexico, Mexican migrants who live in the United States who do not send much money to Mexico and Latinos who are not from Mexico at all. One third of all persons of Latin American origin are not Mexican. Thus, the Latino unemployment rate does not necessarily translate into lower remittances to Mexico. For remittances, the most important element is the group of Mexican workers who need to send money. Remittances by Mexican workers account for less than 2 percent of Mexico's GDP. It is not negligible, but it is not very important. For example, remit-

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Bolivia to Meet With Investors as it Eyes Bond Sale

The government of Bolivian President Evo Morales plans to meet with investors next week as it considers the country's first global bond sale since the 1920s. The government aims to generate as much as $500 million through the sale. See story on page 2.

File Photo: Bolivian Government.

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NEWS BRIEFS

Mexican Lawmakers Approve Anti-Money Laundering Measure

The Mexican Senate on Thursday approved legislation to prohibit large cash transactions in an effort to combat money laundering, the Associated Press reported. The measure would bar cash payments of more than 500,000 pesos ($38,750) for purchases of real estate. It also would ban cash purchases of more than 200,000 pesos for items including vehicles, jewelry and lottery tickets. The lower house of Mexico's Congress passed the legislation earlier this year. It now goes to President Felipe Calderón for his signature. Calderón originally proposed banning all-cash transactions of real estate, vehicles and other large-ticket items in 2010, but Congress watered down the measures.

Guatemalan Soldiers Arrested After Protesters' Killings

Eight Guatemalan soldiers and a colonel have been arrested after last week's killing of indigenous protesters last week, BBC News reported. Prosecutors accuse the men of opening fire on demonstrators who had blocked a road in the province of Totonicapán in protest over electricity prices.

Brazil May Need to Hike Interest Rates to Curb Inflation: IMF

Brazil's central bank may need to increase interest rates from their current record-low level in order to curb inflation as growth rebounds in the region's largest economy, the International Monetary Fund said today. Brazilian Finance Minister Guido Mantega said recently that he sees no need to boost interest rates next year, but a central bank official said it would raise rates if inflation exceeded the ceiling of the bank's 6.5 percent target range.

Political News

U.S. Treasury Slaps Violent Salvadoran Gang With Sanctions

The U.S. Treasury has designated the violent MS-13 gang, which was established by Salvadoran immigrants in Los Angeles, as a "transnational criminal organization," allowing authorities to seize its assets, BBC News reported Thursday. The Treasury's move makes it illegal for Americans and banks to do business with members of the gang,

> "This designation allows us to strike at the heart of MS-13."
>
> — *John Morton*

which rakes in millions of dollars every year from drug trafficking and other illegal activities. "This designation allows us to strike at the heart of MS-13," John Morton, the director of U.S. Immigration and Customs Enforcement, told the Associated Press. In a statement, the Treasury called MS-13 "one of the most dangerous and rapidly expanding criminal gangs in the world today." The gang has 30,000 members and is involved in murder, racketeering, drug trafficking and sex trafficking from Alaska to Central America, the Treasury's statement said. "MS-13's criminal nature can be seen in one of its mottos, 'Mata, roba, viola, controla', or 'kill, steal, rape, control'," it added. MS-13, or "Mara Salvatrucha," was established in the 1980s by poor immigrants, most of whom were in the United States illegally, in Los Angeles. They had fled El Salvador's civil war, but when the war ended in 1982, many of them were deported back to El Salvador, taking the gang culture with them. MS-13's main rival, the Barrio 18 gang, was also founded in Los Angeles by Salvadoran immigrants. In March, the gangs agreed to a truce in El Salvador, which the Catholic Church mediated, reducing killings in the Central American country.

Economic News

Bolivia to Meet With Investors to Gauge Bond-Sale Demand

The government of Bolivian President Evo Morales is set to meet next week with investors as it considers the country's first bond sale since the 1920s, Bloomberg News reported Thursday. The meetings, which **Bank of America** and **Goldman Sachs** will organize, will take place in the United States, Europe and Latin America, the news service reported, citing investors who were unnamed because of the private nature of the talks. Record-low borrowing costs have encouraged emerging-market nations to issue global bonds, in some cases for the first time. Interest rates have fallen to near zero in the United States and Europe, leading investors to eye emerging-market debt. "People are looking at countries off the beaten path to pick up some yield," Alejandro Urbina of **Silva Capital Management** told Bloomberg News. "They're coming at a good time." Bolivia is planning to generate as much as $500 million by selling bonds yielding less than 10 percent, the South American country's finance minister, Luis Arce, told reporters in March. The country intends to use the proceeds to pay for electricity and mining projects. Paraguay's government is planning to sell international bonds for the first time by January, President Federico Franco said in September.

Arce

File Photo: Bolivian Government.

Company News

Mexichem Considering New Acquisitions After Raising $2 Billion

Mexican chemicals producer **Mexichem** is considering two more potential acquisitions after raising $2 billion in the past month, Bloomberg News reported Thursday, citing the company's chief

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executive officer. The possible purchases, one in South America and one in the United States, could be made within three months to a year, Antonio Carrillo told the news service in an interview. "Latin America is the place to grow," said Carrillo. "The drivers for our business are stronger in Latin America, and to a lesser extent the U.S." Mexichem, Latin America's largest manufacturer of plastic pipe, sold $1 billion in bonds in September and $1 billion in stock on Oct. 9. In the past six years, the Tlalnepantla, Mexico-based company has made more than a dozen acquisitions, which included the $581 million purchase of **Wavin NV** in May. Mexichem's debt sale was used for a bond repurchase and to pay off a credit line, but the sale of shares will not be used for refinancing, said Carrillo. Additional acquisitions are likely to boost the company's earnings, Fernando Pérez Lizardi, an analyst at **Corporativo GBM SAB**, told Bloomberg News. "Investors are attracted by the growth strategy and keep wanting these kinds of success stories," he said. Mexichem, which billionaire Antonio del Valle controls, has also been buying suppliers in an effort to cut costs and it has been discussing various joint projects. Juan José Suárez Coppel, the chief executive officer of **Pemex**, said last month that the state-owned oil company was poised to approve a joint venture with Mexichem. The chemical maker is also on track to meet its 2012 revenue target of $5.6 billion, said Carrillo.

Carrillo

File Photo: Baylor University.

Banco de Chile Reports $692 Million Profit for Year Through September

Banco de Chile, the South American country's second-largest bank on Thursday posted profit of 328 billion pesos ($692 million) for the first nine months of the year, Reuters reported. The bank's profit was flat from last year as higher operational costs and provisions offset a rise in revenue. The bank's profit for the same period last year amounted to 329 billion pesos. In September of this year, Banco de Chile reported profit of 43.3 million pesos, a 38 percent increase from August. Chile's Luksic family and **Citigroup** control the bank, which announced last month that it would propose a $529 million capital increase during a shareholders' meeting on Oct. 17. The bank's shares gained 0.39 percent at the end of trading Thursday on the Santiago stock exchange.

Featured Q&A

Continued from page 1

tances account for 10 percent of the GDP in Nicaragua, nearly 20 percent in El Salvador and a third of the GDP in Haiti."

A Mario Trujillo, president and CEO of DolEx Dollar Express, Inc. in Lawrenceville, Ga.: "First, the easier observation, Mexico's economic health is highly dependent on family remittances, especially during these difficult economic times and with tourism and oil also under pressure. Second, the better indicator of family remittances should be the number of electronic transactions (down about 1.2 percent in August versus the same month last year), as well as electronic transactions' dollar volume (down about 12 percent year-on-year in August). While employment in the United States is a primary driver of remittances, the unemployment rate has been fairly consistent from a year ago, so we don't see this driver as the primary cause for the dollar volume decline, at this time. The peso/dollar exchange rate, on the other hand, is about 10 percent higher this summer than in the summer of 2011, meaning that sending a 10 percent lower dollar amount will deliver the same amount of pesos in Mexico to sustain similar spending or consumption levels. We think this is a primary driver of the dollar volume declines. However, we are also seeing an overall slowdown during the last three months in these metrics in Mexico using constant peso/dollar rates, of about 3 percentage points year-over-year, but not the 12 percent decline at first glance. Without an improvement in the employment situation in the United States and in particular in real estate construction, we expect flat to single-digit declines to continue for the near future."

A David Landsman, executive director of the National Money Transmitters Association in Great Neck, N.Y.: "Mexican per capita purchasing power continues to grow at a faster rate than ours, so yearly increases in remittance volumes would naturally be expected to level off over time, especially compared to what those growth rates used to be. Nevertheless, I see no reason to believe that remittances per se will be any less important to Mexico in the foreseeable future. Mexico is still a relatively poor country when compared to the United States. Remittance levels, however, are a separate matter. Back in April, the Bank of Mexico said remittances were on track to increase 6 percent in 2012. However, because of the drought in the United States, there were quite simply fewer crops to pick and process. Was the 12 percent decline in remittances completely attributable to the drought dragging down the numbers? Not all Mexican immigrants work in agriculture, so perhaps things have been slow elsewhere, as well. Housing starts, for example (and the U.S. economy, in general), have been pretty sluggish. Had there been no drought, a 6 percent increase might have

> "Remittance levels may not always follow broad economic trends."
>
> — *David Landsman*

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Featured Q&A

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been considered a pretty good performance. This is a healthy reminder that remittance levels may not always follow broad economic trends."

Rogelio Ramírez de la O, president of Ecanal in Mexico City: "The 11.6 percent fall in remittances in August is explained by large drops in July and August compared to large increases in the same period last year. Although there is a weak downward trend from high growth in the third quarter of 2011, when such inflows appeared to reach a peak, more data is necessary to establish how weak the new trend is. It is clear, however, that even in the best case of continued growth at modest rates, remittances are no longer on a sharp rise. This is explained by weakness in U.S. housing and construction, even if a revival may have started this year. At the core is weaker growth in U.S. incomes and higher savings rates, combined with greater difficulties for migration. The effect of stagnant or falling remittances in Mexico is significant, insofar as remittances last year were $22.8 billion, while the current account deficit was $11.1 billion. If Mexico were to grow at rates higher than 3.5 percent without significantly improving competitiveness, this deficit would expand very rapidly (as the trade deficit in July and August suggests). At that point, remittance inflows would become even more important than at present. Still, their contribution to household incomes in Mexico is much more significant than the mere foreign exchange they contribute; they represent 10 percent or more of GDP in states like Michoacán and Zacatecas and lower, but very significant, shares in Puebla, Oaxaca, Chihuahua and Durango. As many states also face very substantial government debts which augurs badly for public works and local employment. Falls in remittance inflows will aggravate the lack of jobs with negative social consequences."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

WHAT'S KEEPING YOU UP AT NIGHT?

The **Latin America Advisor** gets **answers** to the **questions** that informed executives are asking, every business day, so that you can rest easy.

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