



Remittances Statistics: **First Meeting of the Luxembourg Group**

June 2006

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BANK OF ALBANIA

REMITTANCES: ALBANIAN EXPERIENCE

Luxembourg, June 2006

1. Introduction

Remittances from expatriates in foreign currency, which were of vital importance for the majority of the Albanian population, became more than a typical phenomenon for Albania in the recent years and one of the main items that financed the great imbalance between the export of goods and the import of services. It is a well-known fact that the immigration phenomenon on a large scale became evident for the very first time by mid 1990. Since 1992, even earlier, these remittances that in the terminology of the balance of payments are known as "remittances from expatriates" became more and more significant besides the high level of state transfers at that time.

Though not reliable and correct data are available, it is estimated that in the neighboring countries live and work about 800 thousand Albanians, that represent all the categories of population.

The Albanian reality of the early '90s and the last year situation, speak for an immigration tendency of the free labor force. Notwithstanding the advantages and disadvantages, such a phenomenon has absorbed to a great extent the poverty of the Albanians. The small size of the country made the standard of living, consumption, savings; investments reflect immediately evident improvements on one hand and render possible the external equilibrium of the economy on the other hand.

In the course of 1992-1997, entered in the form of current transfers USD 2.8 billion, of which 1.9 billion are a contribution of the Albanian migrants. It is estimated that after reaching the climax in 1996, the remittances from expatriates reduced by half in 1997 because of the pyramid schemes phenomenon. In spite of that, another recovery of these remittances in similar was shown on the following years.

Indeed, remittances flows are increasingly important relative to other foreign exchange-earning activities, representing around 14 percent of GDP, 65 percent of trade balance.

<i>in million of USD</i>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
CURRENT ACCOUNT BALANCE	(62)	(254)	(65)	(133)	(163)	(218)	(421)	(407)	(358)	(561)
Trade Balance	(678)	(535)	(604)	(663)	(821)	(1,027)	(1,155)	(1,336)	(1,592)	(1,827)
Exports	244	159	208	275	255	305	330	447	603	659
Imports	(922)	(694)	(812)	(938)	(1,076)	(1,332)	(1,485)	(1,783)	(2,195)	(2,486)
Workers'remittances	500	267	452	368	531	615	632	778	1,028	1,161
Rem to Imp (%)	54%	38%	56%	39%	49%	46%	43%	44%	47%	47%
Rem to TB (%)	74%	50%	75%	56%	65%	60%	55%	58%	65%	64%
Rem to GDP (%)	15%	11%	16%	11%	14%	15%	14%	13%	14%	14%
GDP	3,360	2,375	2,768	3,490	3,709	4,114	4,505	5,859	7,549	8,380

Source: Bank of Albania

2. METHODOLOGY ON REMITTANCES

The concept “remittances” is the transfer of resources monetary or in kind by a migrant to his home country. The ideal conditions would be that all these flows were sent by formal channels. In fact part of these inflows can be recorded and others cannot. Inflow of money on foreign exchange remitted by Albanian migrants is partly channeled through banking system and the rest is cross bordering in cash. There are many reasons:

- The geographic vicinity is the main and the most important one.

Migrants are mainly located to the neighboring countries (Italy and Greece) and visit their family twice a year bringing the money in cash instead of transferring them through banks. They don't pay any commission or fees.

- The banking system is not enough developed in Albania.

Few banks have their branches all over the Albanian territory. The rural area does not have the same access to banking system as the urban one.

- The culture of trust of the people has to the banking system.

Excluding the inflows channeled through the banking system, the foreign exchange inflows are statistically immeasurable. This foreign exchange flow is converted into domestic currency (ALL) either in banking system and bureau of exchange or other informal market which usually offers better rates. From a simple analysis this foreign exchange inflow would be used as outflow to finance the imports of goods and services and to increase the financial assets.

The methodology relies on two basic suppositions:

First: the Albanian families use the received money from their family abroad to buy goods and services. They need to convert them in Albanian Lek (ALL) in order to use them in Albanian market

Second: As the exchange rate is in fluctuation the foreign exchange market is in equilibrium, which means that, the amount of foreign exchange inflows is equal to the outflows.

Our explanation is as follows:

FOREIGN EXCHANGE INFLOWS = FOREIGN EXCHANGE OUTFLOWS

Cash remittances (unknown)	Cash imports**
Cash exports*	Cash travel(debit)*
Cash travel(credit)*	Purchases of ALL by households***
Purchase of foreign currency by households***	

* Not channeled through banking system

** total imports-imports through banking system-trade credit-aid)

***from banks and exchange of bureaus

Hence,

Cash Remittances (CR) = Cash imports + Cash travel debits + Purchases by households of ALL - Cash exports - Cash travel credits - Purchases by households of foreign currency

Besides estimated residual of cash remittances, there are also remittances reported by banking system and Western Union (RB). 80 percent of remittances flows received through banks and financial institutions are converted on the parallel market, and therefore are included in our estimated matrices, so in our calculation only 20% of this inflows are added up to our estimation on remittances (CR), which is applied to balance of payments as follows:

$$RE = RC + 20\%RB$$

On BoP it is applied:

$$RE * 0.9 = \text{workers' remittances}$$

$$RE * 0.1 = \text{compensation of employees.}$$

Weakness of the methodology

1. Given the large scale of Albania's informal economy, unaccounted inflows may be either money remitted by migrants abroad or any other type of flow coming from informal economic activities. This means that is not excluded the possibility that in this big basket, called "remittances from emigrants", apart from the remittances of emigrants, to be included other foreign currency inflows. It is rather difficult for the Bank of Albania to assess the degree of foreign assets that this kind of activities addresses to the economy.
2. As in our methodology the remittances are estimated as the residual, including all the other informal activities and unidentified transaction, the net errors and omission is supposed to be small to zero. In fact the net errors and omission represent a significant positive flow. Actually there is a deviation in our first assumption we were based on our methodology that all the foreign currency money is converted in the domestic currency to be used in the Albanian market. Essentially, to buy an apartment or a house, Albanians use Euro instead of ALL because the housing market is in Euro. So the part of the inflows of the foreign exchange used for housing are not converted in the

market, hence it is not captured in our matrices. This part of inflow can be shown in the other residual “net errors and omission”.

3. This second issue can bring another one related to remittances definition:

According to the BPM5 definitions, the money remitted by the migrant to his family is recorded as workers' remittances. On the other side, the money remitted by a migrant for the purpose of investing in form of housing is foreign direct investment and should be recorded in the financial account. In fact, it is very difficult to distinguish between those two kinds of the money transfers as the Albanian migrants do transfer the money either to the construction companies or their family.

3. SURVEY ON HOUSEHOLD

A new, source of information on remittances is the household survey. The first survey was conducted by the Bank of Albania and carried out by national statistical office (INSTAT) in December 2005 to January 2006, covering remittances received by households during the calendar year 2004. The survey covered 1033 households whose responses were extrapolated using the results of the latest LSMS survey.

The survey showed that remittances have become a critical source of income for households, reaching 33 percent of disposable income of an average family recipient and almost 40 percent in rural areas. The recipients of remittances are from all social groups, including middle income class (60 percent) as well as the low income class (27 percent). Our estimates show that the level and severity of poverty are significantly reduced among those households receiving remittances, with greater influence on severity rather than the level of poverty. Remittances are mostly used for imported consumer goods, services, and for the purchase or construction of houses. A very small share is saved or invested in businesses, mainly in agricultural sector. In this view, I do want to stress the fact that the actual methodology fits with the qualitative

results of the survey, therefore the amount reported only one third of what we have calculated in our estimation. However, compared to the actual estimation method the results of the survey have many advantages. The survey provided geo-referenced data on the distribution of remittances in Albanian territory. Secondly, it relates remittances to the socio-economic characteristics of the receiving families, useful for measuring the economic and social impact of remittances.

Weakness of the survey

Some of the reasons behind the fact that the household survey was underestimated can be:

1. The survey was carried one year after the period surveyed. Consequently, to report accurately the respondents had to remember the detail of their receipts over two full years. This kind of surveys should have been conducted within a short time after the end period because people cannot adequately remember all amounts (in cash and kind) received over a 12 months period.
2. Respondents may not wish to disclose the full amount of their income, including the part accounted by remittances.
3. Many Albanians live or work abroad illegally. In some cases, their activities are related to the informal sector in Albania. The family may not wish to acknowledge their receipts if they know the nature of their relatives' work situation and income.

4. PLANS FOR IMPROVEMENTS

The Bank of Albania has continuously emphasized the importance of accurate estimation of capital inflows in the form of emigrants' remittances. Improving our knowledge about remittances remains critical for the assessment of policies, which directly impact the developing role of remittances in the economy. The improved information is needed not simply to assist policies on

remittances but also financial infrastructure (e.g. by reducing transaction costs) and to understand the impact on poverty. For better statistics we have been assisted by IMF missions to bring ideas on improving the methodology in defining remittances closer to the international standards.

Particularly because remittances are a predominant item in the Albanian balance of payments, several surveys should be conducted to the households who receipt money from their family abroad in quarterly basis.

The underlying assumptions of the estimation model also should be reviewed annually. For example, in addition to unexplained financing of goods and services imports, Bank of Albania is conducting a survey on construction companies to find what portion of the current housing boom is being financed by unreported transactions between residents and nonresidents.

Also, there is a close cooperation with our main economic partner, Italy, as one of the main destinations of the Albanian emigrants, to harmonize our methodologies in order to improve the estimation accuracy of remittances. As the study team¹ has found out, emigrants in Italy have a high banking utilization rate – more than 50 percent have bank accounts. On the Albanian side, this figure drops to less than 20 percent. Emigrant families' access to banks is suboptimal despite the considerable geographical expansion of commercial banks in recent years. In contrast with other remittance-receiving countries, banks in Albania still have only a small market share in remittance services. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

¹ Convergence program (World Bank)