



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

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Remittance statistics in Italy. A short note on current practice

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1. INTRODUCTION

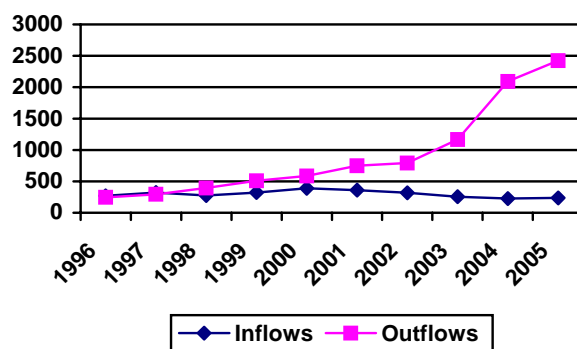
This note briefly illustrates the methodology and the data sources currently used in Italy for the compilation of remittance data, in the domain of balance of payments (BoP) statistics, by highlighting the points of strength and weakness of the approach.

The document adopts the "narrow" concept of "remittances", by considering the latter as the equivalent of the item "workers' remittances" of the BoP. Consequently, other remittance-related BoP items such as "compensation of employees" or "migrants' transfers" are excluded; non-BoP cross-border private transfers carried out by non residents temporarily staying in Italy (i.e. short-term workers) are also outside the scope of the analysis. Moreover, since inflows of remittances have become negligible in Italy, as it will be recalled later, the main focus of the note is on outflows.

2. REMITTANCES IN ITALY

Italy's role in international migration has significantly changed over the last two decades. After having been a major origin of migration flows, it has become an important place of immigration. Therefore, even if still on a comparatively reduced scale, Italy joined traditional European migrant recipient countries, such as Germany, France and the UK. The country's BoP reflects this inversion of the migration pattern and also the outstanding pace of growth of flows (see Figure 1). In 2005, outflows of workers' remittances exceeded inflows by 2,192 million euros. Outflows increased by 886% in the ten-year period 1996-2005, up to 2,425 million euros, or 0.2 % of GDP.

Figure 1 - Evolution of Italy's workers' remittances. 1996-2005. Millions of euro.
Source: UIC.



Remittance transfers are realised through a number of categories of registered (banks, money transfer operators - MTOs, Post Offices, etc.) and non-registered agents or systems (cash transport, informal networks, etc.). A comprehensive picture of the market shares of the various channels is currently not available. However, MTOs are clearly the channel most frequently used by immigrants, even if the "payment behaviour pattern" of the various migrants' groups is greatly diversified (e.g. Chinese tend to transfer funds to their home country via bank transfers). In Italy, there are around 30 non-bank firms authorised to engage in this particular business; the market is very concentrated, with the first five operators already covering 74% of total remittances outflows in 2005. Informal/illegal modes of transfer are also wide spread; according to unofficial estimates, they may account for half or more of total remittances.

3. ITALY'S BOP COLLECTION SYSTEM: GENERAL FEATURES

Italy's BoP is compiled by the country's central bank. Data collection issues are managed by the Ufficio Italiano dei Cambi (UIC), an operational arm of the Bank of Italy. In general, the core of the current collection system is an ITRS (*International Transaction Reporting System*), complemented by sample surveys for specific components (transport, travel, portfolio and foreign direct investment). The role of surveys is expected to increase in the future, with a gradual switch to "direct reporting", i.e. the collection of information directly from (a sample of) the involved resident transactors.

The collection system for workers' remittances has been updated in 2005. The following two paragraphs illustrate the main features of, respectively, the previous and the new system.

4. THE PREVIOUS COLLECTION SYSTEM FOR REMITTANCES AND ITS SHORTCOMINGS

The old system, for the compilation of workers' remittances, relied on the reporting of cross-border settlements, through two sources:

- a. reporting of resident banks on the settlements they carried out on customers' behalf. Since a simplification threshold of 12,500 euro applies, settlements below this amount can be reported by banks as a lump sum, with no distinction about the nature of the transaction; the part of these settlements concerning remittances is estimated on the basis of historical data.
- b. direct reporting of non-bank agents on settlements not channelled through the resident banking system, e.g. settlements carried out through accounts held abroad by the agents. In practice, since an exemption threshold of 12,500 euro applies, in the case of remittances, given the typical small size of transactions, the source is of little relevance.

This approach implied serious shortcomings, mainly connected with the specific settlement procedures of MTOs. As mentioned, most remittances, at least those legally channelled, are realised through MTOs, with only a marginal part directly carried out at bank counters or other intermediaries. Nonetheless, MTOs settle the net balances of transfers through the resident banking system. Typically, the first destination of these cross-border settlements is a "clearing centre" located in developed countries, e.g. in the European Union, from where the payments are forwarded to the final destination, generally in developing countries.

This procedure involves that the old source could not provide an acceptable geographical distribution of flows. In particular, the old source overestimated flows towards countries where the mentioned clearing centre were established and underestimated the flows towards the actual countries of destination of remittances.

5. THE NEW COLLECTION SYSTEM FOR REMITTANCES

These shortcomings of the old system suggested a change of methodology, looking at the possibility of a systematic direct reporting of MTOs. In 2005, contacts were established with some firms of the sector and a feasibility test was started. Subsequently, an experimental transmission of data, about transactions carried out in 2004 and 2005, was successfully conducted. The official, mandatory, reporting of MTOs was then inaugurated in February 2006, after a meeting with the representatives of all firms involved, where the collection was presented in detail. MTOs have been very co-operative in all phases of the project.

The survey collects data on all person-to-person cross-border transfers carried out by all MTOs resident in Italy. Data concern the number and the amount of transfers, from Italy to abroad and vice versa. Data are transmitted by-monthly but are disaggregated with monthly figures. They are usually delivered with electronic means (text file with a fixed format). For outflows, data are broken down by Italian province of residence of the sender and country of destination of the recipient. Moreover, in order to allow reconciliation or cross-checks with bank reports, MTOs have to inform about the amount of the transfers carried out through resident banks for the (cumulative) settlement of remittances, with the indication of the bank involved and the country of the non resident corresponding bank.

With the new system, remittance data are produced integrating the bank settlement source with the direct collection from MTOs. The level of remittances is derived from the former, whereas the geographical disaggregation is carried out on the basis of the latter source. Table 1 shows workers' remittance figures geographically broken down, both with the old and the new source. The improvement is quite evident, with figures much more consistent with the known composition of the population of immigrants by country of origin. For

example, outflows to Ireland, a major clearing centre for MTOs, decrease from 885 to 1 million euros, whereas those to Romania increase from 24 to 409.

Table 1 - Italy's outflows of workers' remittances. Comparison of the geographical allocation obtained with the old and the new system. 2005. Millions of euro and percent composition. Source: UIC.

Country	Old system		New system	
	Amount	%	Amount	%
China	208	8.6%	576	23.8%
Romania	24	1.0%	409	16.9%
Philippines	251	10.4%	155	6.4%
Morocco	9	0.4%	155	6.4%
Senegal	3	0.1%	100	4.1%
Ecuador	28	1.2%	59	2.4%
Netherlands	70	2.9%	20	0.8%
USA	169	7.0%	19	0.8%
Germany	523	21.6%	17	0.7%
France	23	0.9%	17	0.7%
Ireland	885	36.5%	1	0.0%
Singapore	38	1.6%	0	0.0%
Other countries	194	8.0%	897	37.0%
TOTAL	2,425	100.0%	2,425	100.0%

6. SCOPE FOR IMPROVEMENT

Despite the start of the collection of data from MTOs has significantly improved the quality of statistics on remittances, several problems are still in place. In particular:

- a) MTOs cannot always reliably distinguish, among the customers sending money abroad, short-term workers (i.e. non resident in Italy, staying in the country for less than one year) from permanent immigrants (i.e. resident in Italy). MTOs ask customers about the place of usual residence or get this information from their identity documents, but a precise assessment, consistent with BoP definitions, cannot always be assured;
- b) even if MTOs claim that the great majority of transfers they deal with are person-to-person transfers to families of origin, it cannot be excluded that some of the transfers are not remittance-related (e.g. transfers to pay the purchase of goods, other person-to-business payments, money laundering, etc.).

As said, the new collection in principle should allow reconciliation between bank reports and data from MTOs. In the near future, as soon as enough data are accumulated, it is planned to perform this task and, possibly, to revise, not only the geographical allocation, but also the level of remittances.

It is also planned to try covering also informal transfers, but, for the time being, no feasible methodological solution has been envisaged.