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**Presentation**

**MEASURING REMITTANCES IN THE WESTERN HEMISPHERE**

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## MEASURING REMITTANCES IN THE WESTERN HEMISPHERE

Thank you

It is a pleasure to be here this morning, and I am very grateful to the organizers for this invitation to address such a large and distinguished audience on the topic of the measurement of remittances in Latin America.

My presentation shall in fact center upon two distinct aspects: first, given the very special nature of remittances, I shall briefly enumerate some of the problems associated with their statistical measurement. Secondly, I will avail myself of this opportunity to describe the outline of the project designed and financed by MIF and CEMLA in order to address these shortcomings and improve the reliability and comparability of statistics on remittances within the region.

As you may know, CEMLA is the regional association of central banks for Latin America and the Caribbean. For many reasons the growing phenomenon of remittances is engaging greater attention from central banks, and some of these reasons are linked to the increasing autonomy of central banks in recent years with respect to the attainment of their appointed responsibilities.

But first and foremost is a practical matter: central banks in our region are the primary compilers and main purveyors of economic and financial statistics to the market. While the scope of this responsibility may vary from country to country, it encompasses at the very least, monetary, financial and balance of payments statistics, and in many cases extends to national accounts and price indices.

In the narrow terminology of payments systems analysis, what we commonly call remittances are in fact “small-value, cross-border transfers”. As such they are of limited interest from a systemic viewpoint, in that their clearance and settlement does not normally pose a threat to the stability of domestic payments systems, which is in many instances throughout the region a direct central bank responsibility.

It is their cross-border nature which makes them interesting to central banks, since that makes them fall squarely in the province of the international balance of payments. Remittances also occur within borders (for example, from the North to the South of Italy), but do not provoke very much interest in that context. In addition, the fact that as unilateral transfers they are non-debt-creating flows adds to their fascination.

SLIDE 1

The balance of payments is very much central bank territory, though, since it has impact on the exchange rate and the level of reserves, which are both primary preoccupations of the monetary authority. This in itself is a strong justification for greater central bank scrutiny of remittances as flows that are increasingly influential in the determination of the both. As a growing component of the balance of payments, therefore, remittances warrant more focused attention and greater precision in their measurement.

But their impact goes beyond the narrow confines of the exchange market, and ventures into the mainstream of macroeconomic and social policy. For central banks who have adopted inflation targeting as a monetary policy regime, inflation forecasting must take into account the pass-through from movements in the exchange rate.

From a national accounts viewpoint, remittances increase the national disposable income of the receiving country over and above its gross domestic product. If remittance flows are underestimated, the estimation of such key variables as the national savings rate may be prone to systematic error. And since monetary policy must also take into account the deviation of actual from potential GDP, this is also an important consideration for inflation targeting regimes.

For central banks who still act as financial agent for the Treasury, the availability of foreign exchange for debt service should be of major interest (despite the fact that today the dollar is at an anomalous discount rather than the traditional premium). The fact that remittances appear to be a-cyclical with respect to the receiving country provides an element of stability, which should reflect on creditworthiness and country risk.

And from a social and development stance, the direct impact of remittances on poverty reduction at the microeconomic or household level, and their potential as a tool for financial sector inclusion of lower-income segments of the population, should not escape the attention of central banks.

SLIDES 2, 3, 4, 5 & 6.

The case for a better understanding and improved measurement of remittances is strong, although there are several important obstacles to be overcome in order for progress to be made. These can be of a conceptual, operational or co-operational nature.

First of all there are problems of definition as to exactly what remittances consist of. Current definitions still reflect the immediate post-war mentality of restricted capital and labor mobility, which was a very different situation from the world we live in today.

Today, along with everything else, the family has also gone global. Cross-border households are increasingly common, generating income where there is work to be found and spending it closer to home where the frailer members remain. Remittances are just a way of getting the money to where it is most needed. Although stretched almost beyond recognition, the family remains the basic unit of society, as both the basic productive and consuming unit in the market economy, and where the purest form of socialism is practiced.

The traditional conceptual framework provided by the IMF's 5<sup>th</sup> edition of the Balance of Payments Manual is somewhat ambiguous regarding the migratory status and sources of income of the remitter, and provides latitude to the compiling country with respect to the emphasis it may wish to place on different components. In fact there are moves afoot to revise some of these definitions, and the United Nations Statistical Division, which chairs the Technical Subgroup on the Movement of Natural Persons (also known as Mode 4) is taking a lead role in this respect.

Next, there are practical problems with respect to market coverage in the presence of informal operators, the absence of international transactions reporting systems (ITRS) in many countries, innovative techniques for “getting the money there” (e.g. ATM cards) and incomplete regulation.

Even if definitions were to approach reality, there is still the problem of putting in place the diverse mechanisms by which the information must be recorded and reported. The methodologies currently employed differ from country to country, resulting in the familiar problems of aggregation (summing up over countries that employ different methodologies), global discrepancy among reporting countries and lack of bilateral data between countries

Another important aspect is the identification problem: even if all inflows are successfully recorded, there is difficulty in identifying their exact purpose, whether as a true “family” remittance, a self-remittance for investment, or a payment for goods or services provided.

Finally, we must recognize that the improved measurement of remittances requires a collaborative approach. This must take place at the international level, the local public sector level and at the general stakeholder level.