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Migrants' Transfers

**Prepared by the Statistics Department
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I. INTRODUCTION¹

1. Migrants' transfers arise when individuals move their residence from one economy to another. They cover the movement of personal effects and financial assets between countries and changes in stock position of personal investments and debt arising from the change in residence status. Migrants' transfers do not cover other transactions by migrants, such as remittances or foreign investment (and divestment). Neither do they cover earnings or other transactions of travelers or seasonal and short-term workers in their host economies.

II. CURRENT TREATMENT

2. The *Balance of Payments Manual*, fifth edition (*BPM5*) provides that balance of payments entries accounted for by the change of residence of individuals and households are recorded with a contra-entry under "migrants' transfers" under "capital transfers" in the capital account. Capital transfers result in a commensurate change in stocks of assets of one or both parties to the transaction (*BPM5*, paragraph 295, also 344-345) without *quid pro quo*, i.e. a change in ownership without reciprocity. The *System of National Accounts 1993* (*SNA*) defines a capital transfer in a corresponding fashion, further emphasizing that "institutional units must be capable of distinguishing capital from current transfers and must be presumed to treat capital transferred during the course of the accounting period in the same way as capital held throughout the period" (*SNA*, paragraph 8.31). Migrants' transfers are treated as transactions because they are deemed to represent (the offset to) transactions between the migrant in her capacity as a nonresident and the same migrant in her capacity as a resident (or vice versa).

III. CONCERNS

3. Migrants' transfers record the movement of resources across international borders (or changes in stock data) that take place because the owner changes residence, not because of ownership changes. "In the strictest sense, these transfers are not transactions between two parties but contra-entries to flows of goods and changes in financial items that arise from the migration (change of residence for at least a year) of individuals from one economy to another" (*BPM5*, paragraph 352).² Therefore, including migrants' transfers in the capital account could be considered as misrepresenting the events that lead to their recording, since

¹ This paper was drafted by Jens Reinke.

² It has also been note that the term "migrant" is not defined in *BPM5* and its usage here is in conflict with its meaning in population statistics. In this paper, we will use the term "migrant" to denote any person changing their residence from one country to another, under the standard one-year rule. The term "migration" will refer to the process of changing residence.

no transaction involving change of ownership without *quid quo pro* takes place.³ In addition, personal effects are commonly considered consumption goods, not capital goods.

IV. POSSIBLE TREATMENTS

4. Under the heading of “migrants’ transfers” in *BPM5*, a variety of different flows are recorded, including the movement of personal effects and financial assets accompanying moving individuals, and the change in financial assets and liabilities resulting from changing residence. This paper analyzes the different flows and stock changes and reviews their treatment. It concludes by proposing that “migrants’ transfers” no longer be treated as a change in ownership with transactions recorded. Instead it is proposed that migrant transfers be included within the “other change of volume” account, adjusting stock positions between end periods. This proposal is outlined for the following three types of economic events:

1. Flow of goods (personal effects) accompanying a migrant;
2. Flow of financial assets accompanying a migrant; and
3. Change in stock positions due to the change in the residence status of a migrant.

5. The proposed changes are consistent with the suggestions of the *Annotated Outline* which suggests that “migrants’ transfers” not be classified as transactions but shown in the other changes in financial assets and liabilities account rather than as a capital transfer (page 168, see also pp 30, 118).

A. Movements of Personal Effects

6. When individuals change their residence from one country to another, their personal effects cross borders and are reported, in trade data, as exports in the country of emigration and imports in the country of immigration. The contra-entry in these cases is “migrants’ transfer” in the capital account.

Proposal:

Although a flow of goods is recorded, there is no change of ownership. Given this, it is proposed that the observed flow of goods not be classified as exports and imports in balance of payments statistics. Therefore, adjustments to trade data should remove ‘personal effects’ from the goods account of the current account. No contra-entry in “capital transfers” will be required.

³ For the purpose of this paper, a balance of payments transaction refers to ownership change of assets between a resident and a non-resident; a flow denotes the movement of assets from one economy to another (with or without ownership change); and an adjustment item explains changes in stocks not due to transactions (in this case, due to change in residence).

Alternative:

The flow of personal effects could be reported as exports and imports, but since personal effects are not capital assets, the contra-entry could be entered under “current transfers” and be called “migrants’ effects”. However, this would still misleadingly represent a change of ownership that does not take place.

7. The proposal is preferred because it avoids recording the movement of goods in the absence of a change of ownership.⁴ Personal effects do not constitute merchandise. The *SNA* mentions “migrants’ effects” and recommends their inclusion in the goods account (paragraph 14.92). If the proposal is accepted, for consistency, this recommendation would have to be changed.

B. Movement of Financial Assets

8. When individuals change residence to a new country, in many cases they will relocate financial assets as well as personal effects from the old to the new home economy. At present, this transaction in financial assets – transferring funds from a unit in the old to a unit in the new home economy – is recorded as a change in banks’ foreign assets or liabilities (according to the nature of the flow) with a contra-entry of “migrants’ transfers” in the capital account. However, there is not a change of ownership without *quid pro quo*, yet the current practice records a transfer.

Proposal:

The flow should be recorded as a financial account transaction, unrelated to the migration of the investor. This means that the transactions are recorded based on the residence of the transactor at the time the transaction occurs (and not related to her change of residence). When the migrant moves, stock positions are adjusted accordingly (see section 3 below). This proposal presents the two separate events (financial flow and change of residence) appropriately; all relevant analytical data relating to the migration can be gleaned from the adjustment of stock positions due to change of residence (if such supplemental information is provided).

Alternative:

The flows should be recorded as is current practice.

⁴ From a national accounting perspective, the practice causes conceptual discrepancies between GDP by expenditure and GDP by income or production approaches. For example, personal effects of a migrant that are included in exports (coming from previous consumption) but would add to GDP by expenditure approach but do not add to income or value added.

C. Change of Financial Positions

9. When individuals change their economy of residence, their international asset and liability positions change. In these cases, there is neither a change in ownership nor an observable flow, yet countries experience and should record the change in stock positions due to residence changes of individuals.

Proposal:

To account for changes in the stock position, the adjustments that reconcile flows and stocks should be recorded under “other changes in volume of assets”. This proposal is consistent with the *Annotated Outline* and draws on its chapter 8 (see specifically paragraph 8.7b). Supplementary information on changes in financial claims and liabilities owing to changes in residence of individuals could be desirable.⁵

V. COMPLEX CASES INCLUDING THIRD COUNTRIES

10. Increased international mobility may create situations more complex than the simple change of residence from a country of origin to a new country of residence. There are situations where third countries are involved. For example, an individual moves from her country of origin to another country to work for two years. Due to the short duration of the employment contract, she maintains assets in her country of origin (such as a house, financial savings etc). At the end of the two years, she accepts an offer for long-term or permanent employment in a third country. Now she decides to liquidate her assets in the country of origin and bring them to her new country of residence. The ensuing transactions are causally related to her change of residence, so should they be recorded as related to migration?

11. In current practice, transactions involving a third country are most likely to be reported as financial account transactions. The changes proposed in section 1, 2, and 3 above would establish a framework capable of handling such complex situations well. All financial flows would be recorded as financial account transactions while stock positions are adjusted when the residence of individuals changes.

⁵ One should note a particular problem experienced by a number of countries with a significant turn-over of expatriate residents, including countries hosting large expatriate labour forces in the course of a UN peace keeping engagement. For example, Canadian employees of UNMIL in Liberia or German employees of NATO in Bosnia would be residents in the country of their posting if they intend to stay for one year or more. In such cases, foreign workers are rarely expected to stay long (perhaps two or three years) and these workers maintain assets in their country of origin (and may even get paid there). Some countries hosting large expatriate communities have decided not to treat them as “full” residents, and therefore do not record their foreign assets as claims by domestic residents. This avoids the cumbersome (and perhaps unhelpful) inclusion of frequent large adjustment items in their data, but raises questions about data symmetry.

VI. CHANGE OF RESIDENCE OF OTHER ECONOMIC UNITS

12. Corporations and nonprofit institutions as well as individuals may change residence while economies may change their boundaries so affecting residence. These cases may be infrequent, but the same issues arise as in the case of individuals. Therefore, the same principles should be applied as outlined in sections 1, 2, and 3 above.

VII. COMPILATION ISSUES AND PROBLEMS

13. On a practical level, compilers may find it difficult to identify migration-related flows from foreign investment and remittance flows.

14. Prospective migrants may move financial assets in advance of their change of residence (e.g., to acquire a house in the new economy before they move) or they may relocate financial assets some time after their move (e.g., after selling a house in their old economy). In both cases the transaction is related to the change of residence, yet it does not coincide with their relocation.

15. In another case, individuals may be sending money to their relatives in another country on a regular basis (remittances). If they relocate to that country, they may send a large final payment (perhaps from liquidating savings, or selling consumer durables) either before or after their actual return date. They may also bring or send goods that would be declared as personal effects but may in fact include items to be given to relatives (thereby constituting remittances). Under current treatment, these flows may either be recorded as remittances, investment or migrants' transfers in the case of financial flows, and as remittances, trade in goods or migrants' transfers in the case of goods.

16. Under this proposal, "migrants' transfers" will no longer appear as a classification line in the standard balance of payments presentation. Goods shipped by a migrant would either be treated as personal effects (and therefore be excluded from the current account) or as current transfers (assuming there are no business assets included). The most viable source for this classification would be the declaration of purpose by the transactor, as reported in shipping or customs documents. If goods are shipped as personal effects, they should be excluded from goods imports and exports; otherwise (e.g., when declared as donation to relatives), they are recorded as import or export with a contra-entry under current transfers.⁶

⁶ It should be noted that the separation of personal effects and remittances in kind is not perfect. In particular, a migrant returning to her home country may ship goods before she returns or after her return. Goods sent before her return could be declared remittances to her immediate family. After her return, when she lives in one households with her immediate family, and all are therefore resident in the same country, remittances will not be possible by definition (although she could receive "personal effects").

17. In the case of financial flows, transactions will be classified using established criteria: transactions involving flows that change the transactor's claims and liabilities are included in the financial account and transactions that involve a change of ownership without *quid pro quo* are transfers (and will be classified as remittances if sent from household to household).

Questions for Discussion

1. *Should migrants' transfers be removed from the capital account along with the contra-entries in the current and financial account?*
2. *Should the changes in assets and liabilities of individuals who change their residence be recorded under "other changes in volume of assets"?*
3. *Should the recording of financial account transactions be based on the residence of the transactor at the time the transaction occurs, unrelated to the migration of the transactor?*
4. *Should there be supplementary information on "classification changes due to change of residence" under "other changes in volume of assets"?*
5. *Should the same principles apply to corporations that change their residence (either due to relocation or to boundary changes)?*

Sources

Annotated Outline, particularly chapters 3, 8, and 12.

Balance of Payments Manual, fifth edition, (BPM5), particularly chapter 17.

System of National Accounts (1993), particularly chapters 8, 10, and 14.

NUMERICAL EXAMPLES

In this appendix, three examples are given to illustrate the proposals in the main text. Selected items from the balance of payments and international investment position are presented covering international flows and stocks only; national accounts would contain further entries.

1. Movements of personal effects

Hassan changes his residence from Panama to Belarus and ships personal effects with a declared value of 100. Customs data in Panama shows an export of 100 and customs data in Belarus shows an import of 100.

Under the proposed methodology, both countries will make an adjustment to trade data. Panama will lower export values by 100 and Belarus will lower import values by 100; both countries will remove the line showing “personal effects” from their merchandise trade data.

There are no balance of payments entries.

2. Movement of financial assets

Anna changes her residence from Togo to Sri Lanka. She sold her house and placed the proceeds in a bank account in Togo. After arrival in Sri Lanka, she opens a bank account there and wires all her financial assets of 100 from her bank account in Togo to her account in Sri Lanka. Both accounts are held in her name. She has no other assets.

Under the proposed methodology, Togo will record a foreign liability (100) and Sri Lanka a foreign asset (100) the moment Anna changes her residence. Subsequently, in a second step, a transaction takes place when Anna wires her assets to a bank in Sri Lanka. Household claims on Togo fall and foreign currency is exchanged between banks in Togo and Sri Lanka. In the following illustration, entries related to the first step are shown underlined while those of the second step are in *italics*. Although there are two steps, both are assumed to take place during one reporting period and the Togolese banking sector starts out with foreign currency and deposit assets of 1000.

Togo

	Start of period	Transactions	Other changes	End of period
Assets				
- currency and deposits				
Banks	1000	-100	0	900
Households	0	0	0	0
Liabilities				
- currency and deposits				
Banks	0	-100	<u>100</u>	0 (<u>100</u> -100)
Households	0	0	0	0

Sri Lanka

	Start of period	Transactions	Other changes	End of period
Assets				
- currency and deposits				
Banks	0	100	0	100
Households	0	-100	<u>100</u>	0 (<u>100</u> -100)
Liabilities				
- currency and deposits				
Banks	0	0	0	0
Households	0	0	0	0

3. Change of financial position

Simple case:

Dimitri moves from his residence Bahrain to Iceland. He has assets of 30 in Bahrain and 50 in Iceland, both held in bank accounts in his name. He moves neither personal effects nor financial assets during his relocation.

Bahrain

	Start of period	Transactions	Other changes	End of period
Assets	50	0	-50	0
Liabilities	0	0	30	30

Iceland

	Start of period	Transactions	Other changes	End of period
Assets	0	0	30	30
Liabilities	50	0	-50	0

Third country case:

Francesca moves her residence from Jamaica to Singapore. She owns equity in a Japanese corporation worth 80.

Jamaica

Assets (start of period)	Transactions	Other changes	Assets (end of period)
80	0	-80	0

Singapore

Assets (start of period)	Transactions	Other changes	Assets (end of period)
0	0	80	80

Japan will only record the change if bilateral positions are compiled since total liabilities are unchanged.

Japan – liabilities to Jamaica

Liabilities (start of period)	Transactions	Other changes	Liabilities (end of period)
80	0	-80	0

Japan – liabilities to Singapore

Liabilities (start of period)	Transactions	Other changes	Liabilities (end of period)
0	0	80	80