

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)**

ISSUES PAPER (BOPTTEG) # 8A

RESIDENCE OF HOUSEHOLDS

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of the Australian Bureau of Statistics.**

Balance of Payments Technical Expert Group

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Residence of Households

Introduction

This paper considers the more complex cases relating to the determination of the residence of households and considers the proposal for a strict application of the one-year rule in all cases. It concludes that the application of the proposed principle of predominant centre of economic interest produces sound outcomes and that the use of the one-year rule is appropriate only in cases where it results in an outcome consistent with this principle.

Current international standards for the treatment of the issue

SNA/BPM5 provide guidelines for the partition of the globe into economic countries, the identification of institutional units and the determination of the relationship between an economic territory and a unit known as residence. Units are considered to be resident in an economic territory where they have a *centre of economic interest*. This applies to all units, although the nature of this centre of economic interest will differ from, for example, corporations to households.

In determining the residence of households, BPM5 states "a household has a centre of economic interest when it maintains a dwelling, or succession of dwellings, within the country that members of the household treat, and use, as their principal residence."

However, given that households are made up of individuals who can travel and live and work in countries other than their country of origin, the situation may not always be straightforward and the following further guidelines are given:

- Resident household members who leave for limited periods of time and return to the household continue being a resident of the economic country in the following cases:
 - travellers and visitors for business and personal purposes for periods of less than one year
 - people working abroad, including seasonal workers, border workers, staff of international organisations who work in the enclaves of those organisations, locally recruited staff of foreign embassies, military bases, etc, and crews of ships, aircraft or other mobile equipment.

- If an individual works for one year or more in a foreign country, returns to their original household infrequently (for example the individual spends eleven months in the foreign country and one month in their original country of residence each year) and sets up a household in the foreign country, they cease being a resident in their country of origin.
- Students and medical patients are treated as residents of their countries of origin as long as they remain members of households in their home countries even if their stays outside the economic country are longer than one year.
- For individuals with residences in more than one country, consideration should be given to such factors as tax status, citizenship, etc.

Concerns/shortcomings of the current treatment

In general the guidelines provided are adequate to determine exclusive residence of an individual or a household in a country. However, guidance is scattered through BPM5 and the Textbook.

Under current guidelines, students and medical patients are excluded from the one-year rule, that is they are deemed to remain as residents of their original country regardless of the length of time spent overseas. This exclusion can lead to inconsistency and ambiguity in the international treatment of these groups. Such inconsistency can arise because of difficulties in capturing students' movements as they often travel regularly between the country of study and the country of original residence. There may be instances where the student or medical patient is recorded as a non-resident by their original country of residence under the one-year rule and is recorded by the country where they are studying as remaining a resident of their country of origin. Students have close links to both their home economy and the economy in which they are studying and it can be difficult to determine where their centre of economic interest is.

With the increase in globalisation, there is a greater scope for individuals and households to have links to several countries, so cases of unclear residence are becoming more significant. Examples are people who have dwellings in two or more countries and commute between them, and people who leave their home for over a year but reside in two or more economies for less than one year, meaning that they may not be considered resident in any country.

A difficult case is that of workers who work overseas for more than one year and visit their home country infrequently, for example on an annual basis or every two or three years, but still maintain strong links with their home country.

Saudi Arabia and South Africa are examples of countries with a lot of migrant workers. Countries like India, Pakistan and the Philippines have a large number of people going overseas to work long-term. Workers' remittances contribute a significant amount towards consumption and domestic saving within these countries. If these long-term workers were treated as residents of their countries of origin rather than residents of their host countries, then their labour income and their consumption within the host countries would be treated as balance of payments transactions, rather than workers' remittances being recorded in the balance of payments transactions. Such a change in treatment would impact on the gross national income, but not GDP, of the countries affected. The balance on current account would also essentially be unaffected by the changed treatment.

The current standards are inconsistent with those used in the compilation of tourism statistics and in the conduct of population censuses.

The international standards for tourism as published in *Tourism Satellite Account: Methodological References* applies the principle of 'usual environment' for differentiating between a resident and a visitor. According to this principle, an individual is considered to be a resident of a country if they have lived in the country for the majority of one year. Foreign students are therefore considered to be residents of the country where they are studying if their length of study is greater than one year, since this is their usual country of residence.

The *Principles and Recommendations for Population and Housing Censuses*, which is the standard used to identify residence for population censuses, applies the principle of 'place of usual residence'. This concept identifies the geographic place where the person usually resides. This is usually interpreted as meaning that a person must stay continuously in a country for one year to be considered a resident of that country for the purposes of compiling population statistics.

Possible alternative treatments

It has been suggested that, for greater simplicity and consistency, the BPM could recommend a strict application of the one-year rule, meaning that overseas students and medical patients with an intention of staying in a country for one year or more could be treated as residents of that country.

There would be practical problems in implementing this rule with the type of source data that are available. Information such as expected length of stay is required. Also, overseas students regularly return home and often change their intentions. Users with an interest in education or health care data may be unhappy with this change. It would mean that international trade in education and health services statistics would be less accessible, with reduced estimates available in the Balance of Payments.

The guidelines for determining centre of economic interest can often be inconclusive when individuals have strong links to more than one country. The Draft Annotated Outline of the new BPM suggests the adoption of the principle of a predominant centre of economic interest, which recognises that individuals may have multiple centres of interest but should be classified to the territory with which they have the strongest connection. For most cases this would be approximated using the practical method of the one year or more rule. However, there are complex cases where alternative guidelines need to be specified. The application of the proposed principle of predominant centre of economic interest appears to produce sound outcomes.

Students set up households and sometimes work in their country of study. While this represents the establishment of a centre of economic interest, they generally have no intention of maintaining this centre of economic interest beyond the completion of their studies. Their predominant centre of economic interest remains in their home country. The one-year rule does not give a good indication of predominant centre of economic interest in this case, and students should remain as residents of their country of origin regardless of their time spent overseas.

If, at any time, it is established that a student intends to stay in a country beyond the completion of their studies, their predominant centre of economic interest shifts from their country of origin to the country where they intend to settle. Similar arguments apply to medical patients.

The standards applied in compiling tourism statistics and in the conduct of population censuses do not appear to reflect the principle of predominant centre of economic interest as suggested in the draft annotated outline. It is difficult to see how alignment could be achieved without undermining the usefulness of the economic statistics. It may be possible to influence the standards applied to tourism and population statistics to achieve greater consistency, perhaps by a broader application of the principle of predominant centre of economic interest. BOP statisticians could work with the relevant areas to achieve this, with the IMF taking the lead role internationally. It is possible that population numbers measured by censuses and surveys could be reconciled with those implicit in the economic statistics and the differences recorded as memorandum items. This could have an advantage in, for instance, the estimation of *per capita* measures in economic statistics, where distortion could be avoided by the use of adjusted measures of population in the denominator consistent with the concept of population implicit in the numerator.

In the case of long-term workers, it is clear that there is more than one centre of economic interest. Additional guidelines to assist in determining residence of long-term workers are required where it is considered that the one-year rule is not a good indication of the predominant centre of economic interest. The disadvantage of not applying the one-year rule is the possibility of inconsistent results. However, the issue of long-term workers seems to be confined to a limited number of identifiable pairs of countries, and it should be possible for the two countries involved to discuss how these individuals are to be treated, and to reach a bilateral agreement. This will reduce the possibility of inconsistent treatment of long-term workers by different countries.

Factors that may be taken into account in determining the predominant centre of economic interest include:

- a permanent dwelling is maintained by the worker in their home country
- spouses and dependant family members remain in the home country
- substantial payments are made to family members remaining in the home country
- major saving and investment is conducted in their home country
- the period of validity of residence permits, work permits or work contracts
- the worker has a right to abode after a qualifying period
- where the labour income is taxed

Many of these indicate if the worker has an intention of returning to their home country permanently or not.

A similar issue to that of long-term workers is the case of ship's crew. Ship's crew often spend long periods of time on board the ship. The Draft Annotated Outline suggests the application of the one-year rule, which would mean that the crew would have their residence change to the country of operation of the ship or of residence of the operator of the ship. It would be difficult to argue that the crew establish a centre of economic interest in the country where the ship is operating or in the country of the ship's operator. The crew usually maintain a long-term residence in their home country, remit a significant portion of their salary to their home country, and have an intention to return to their home country. The application of the principle of predominant centre of economic interest indicates that residence of the ship's crew remains in their home country.

In the cases of individuals with links to several countries, the application of the principle of predominant centre of economic interest appears appropriate. While the idea of splitting the residence of an individual between countries may appear attractive, the data needs for splitting not only transactions but stocks of financial assets and liabilities make this an impractical proposition. The only sensible option seems to be to take all the relevant factors into account, then make a decision as to the individual's predominant centre of economic interest and to allocate residence to that country.

Questions/points for discussion

Do BOPTEG members agree that the principle of predominant centre of economic interest should be adopted to determine the residence of households?

Do members agree that the use of the one-year rule is appropriate only in cases where it results in an outcome consistent with the principle of predominant centre of economic interest?

Do members agree that maintaining the coherence and analytical relevance of economic statistics compiled within the SNA/BPM framework is more important than alignment with tourism and population statistics, but that work should proceed with relevant standard setters to encourage changes to these standards to achieve greater alignment?

Supplementary information

A general discussion of residency issues can be found in the following paper *Residence*, prepared by the Statistics Department International Monetary Fund, BOPCOM-02/59, <http://www.imf.org/external/pubs/ft/bop/2002/02-59.pdf>

A discussion of the South African situation in relation to migrant workers can be found in the paper, *The Concept of Residence with a Special Reference to the Treatment of Migrant Workers in the Balance of Payments of South Africa*, prepared by the South African Reserve Bank, BOPCOM-03/18, <http://www.imf.org/external/pubs/ft/bop/2003/03-18.pdf>

A discussion of the Hong Kong situation in relation to migrant workers can be found in the paper, *Non-Permanent Workers*, prepared by the Census and Statistics Department Hong Kong SAR, China, BOPCOM-03/19, <http://www.imf.org/external/pubs/ft/bop/2003/03-19.pdf>

The Indian situation in relation to migrant workers is discussed in the paper *India's Worker Remittance: A Users' Lament About Balance of Payments Compilation*, by Michael Debabrata and Muneesh Kapur, BOPCOM-03/20, <http://www.imf.org/external/pubs/ft/bop/2003/03-20.pdf>

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