



# Remittances Statistics: First Meeting of the Luxembourg Group

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## Workers' remittances, current private transfers and compensation of employees in the German Balance of Payments Statistics

### **A. General Remarks**

### **B. Current data sources and data published for the components of the future items "personal transfers" and "personal remittances"**

- 1. Workers' remittances**
- 2. Current private transfers**
- 3. Compensation of employees (net)**

### **C. Weaknesses of the current system**

### **D. Measures to improve the current statistics**

### **A. General remark**

The increasing interest in international workers' remittance flows between developed and developing countries in recent years throws new light on an item in the current account, which, at least in developed countries, did not attract much attention in the Balance of Payments so far. This "lack of interest" can be explained by the fact that workers' remittances, as a sub-item of the BOP standard classification, is of minor importance for countries like Germany compared to other items of the current account, let alone of all items of the financial account.

For instance, Germany remitted EUR 2.9 bn. to other countries in 2005, an amount equivalent to only 6.2 % of total current transfers debits or 0.03% of total current account debits. It is therefore understandable that methodological or collection problems regarding remittances normally do not initiate in-depth discussions or investigations by BOP compilers in developed countries, in particular against the background of the steadily decreasing resources forcing them to focus the attention on problems/developments which have a greater effect on the overall results or are of specific economic relevance for these countries.

Therefore, for BOP compilers of important source countries of international remittance flows, the upcoming discussion in the Luxembourg Group on remittances, like former discussions in other forums like the UN Technical Subgroup of the Movement of Natural Persons, give an opportunity for a critical analysis of the sources used and methods applied to measure cross border remittances. This stocktaking exercise in countries like Germany could inspire the work on the intended compilation guide for remittance data and may encourage these countries to leave well known paths and implement new methods if necessary.

The necessity is given by the fact, that currently applied methods in developed countries are inconsistent with regard to collection and reporting. Due to this fact and because of the possible lack of clarity of what should be included, the published data seem to measure

remittance flows incompletely and are not comparable across countries. So clarification on definitions and guidance on collection and estimation of remittances is needed. Regarding the definition of remittances, major work was done by the Technical Subgroup. The new compilation guideline is now in the scope of the work of the Luxembourg Group and will help to implement more harmonised collection and estimation methods in sending and receiving countries. However, if improvements in the statistical measurement of these flows in the Balance of Payments should be made in the medium-term, mainly changes/investments in the currently applied concepts of the sending countries seem to be essential because the conditions to achieve quick results are much better here than in the majority of the developing countries.

In this process it will be not unlikely that countries like Germany will have to learn from practices of receiving countries like Mexico or the Philippines, because they already apply more sophisticated methods than some of the donor countries. The reasons are the same as for developed countries in other fields of the BOP. Remittances are a very important source of external funding for developing countries and the accurate measurement of remittance flows are of basic interest to assess macroeconomic impacts for their economies.

## **B. Current data sources and data published for the components of the future items "personal transfers" and "personal remittances"**

### **1. Workers' remittances**

Since the implementation of the Foreign Trade and Payments Act and the corresponding regulation in 1961, which form the legal basis of Balance of Payments Statistics in Germany, the collection of data on workers' remittances is embedded in the general reporting requirements. These requirements stipulate that all payments above the relevant reporting threshold (at present 12,500 EUR) must be reported to the Bundesbank.

In Germany it was assumed throughout the years and regardless of the respective amount of the threshold (DM 500, DM 1,000, DM 2,000 etc.), that remittances of migrant workers to their home countries exceeded the threshold only in rare cases. Accordingly, a method was implemented to estimate these flows for the German Balance of Payments.

#### **1.1 Sources**

The current sources which are used to estimate remittance flows debits are:

- monthly collective reports by selected banks which play an important role in transferring money of guest workers to their home countries. Some of them are branches of foreign banks (primarily Turkish but also from other countries like the Philippines). The reports comprise cash deposits with a beneficiary abroad
- in addition some of these banks report monthly collective reports about cash deposits or transfers of foreigners into accounts held by foreign banks
- data from the German Labour Agency about the number of employed and unemployed foreigners subject to social insurance contributions (corrected by cross-border and seasonal workers).

To assure that the mentioned bank reports contain also information about cross border payments below the threshold, special agreements between the banks and the Bundesbank were made.

## 1.2. Calculation method

In a first step, to differentiate between workers' remittances and payments for other reasons, percentage rates for each receiving country are applied to the amounts reported in the case of payments on accounts abroad. These rates were originally calculated on the basis of questions asked at the counter about the purpose of the payment.

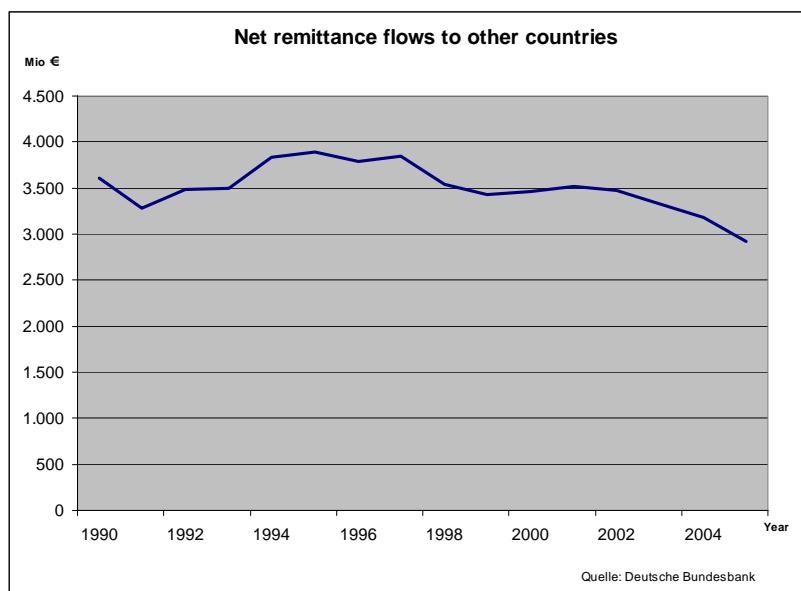
On the basis of this "corrected" information from the collective reports for the receiving countries, the remittance flows per capita are calculated by dividing the reported values by the number of non-residents reported by the labour agency.

To cope with the problem that not all remittances are captured and that payments for other purposes are included it is further assumed, that every (registered) guest worker in Germany remits a minimum amount of EUR 1,200 and a maximum amount of EUR 2,000 to his home country each year. Accordingly, the average amount per capita is calculated on the basis of bank reports and compared with the minimum/maximum amount. If the reported amount lies in between the min/max amount, the reported value per capita is used. In case the reported amount is below/above, the min/max amount is used. Multiplying with the number of registered persons per nationality yields to the total amount per country.

This estimation is done once a year and the estimated values are then used for the following year, distributed evenly over the months.

## 1.3. Results

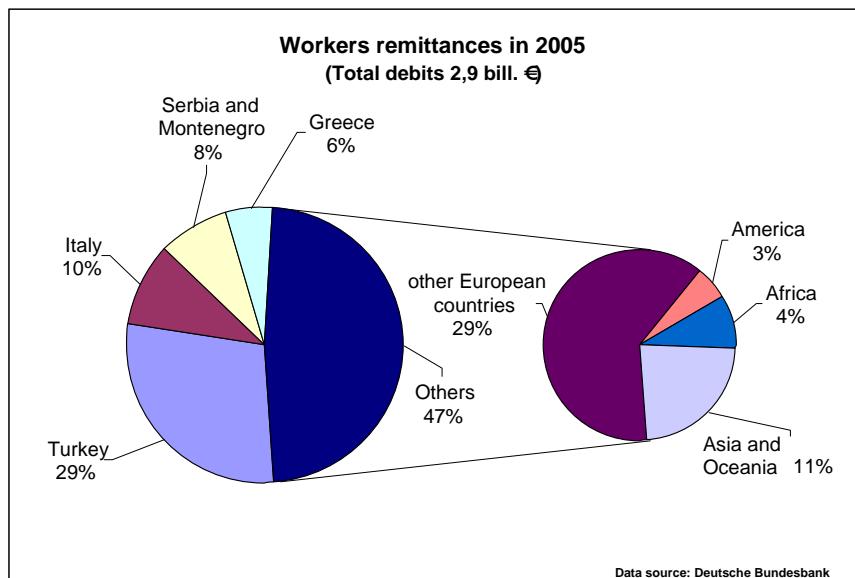
The results for this estimation for the totals and the country breakdown can be seen from the following charts.



The decrease of total workers' remittances in the last years is caused by the drop in the number of foreigners registered by the labour agency since 2003. One reason could be the ongoing outsourcing of jobs to low-wage-countries as a consequence of globalisation. In Germany it is not unusual that the displacement of jobs is accompanied by attractive golden handshake programs by companies. Foreign workers often use the money to bridge over the

time to retirement and return to their home countries. Others use the money to start their own business at home. Another or additional reason could be, that the current method does not reflect adequately the possibility, that registered (legal) workers are more and more replaced by illegal foreign workers.

Regarding the country breakdown it can be seen from the graph below, that traditionally Turkey (€800 mill.), Italy (€280 mill.), Serbia and Montenegro (€240 mill.) and Greece (€160 mill.) are the major recipients of workers remittances from Germany. Regarding the other European countries, important remittance flows go to Croatia and Poland (€100 mill. each). In Asia Vietnam and Iran (€33 mill. each) are of greater importance, in Africa Morocco and Tunisia (€35 and 13 mill. respectively). America, as can be seen, is of minor importance as destination for German remittance flows.



A similar estimation for workers remittance credits is not yet made (see also point C below).

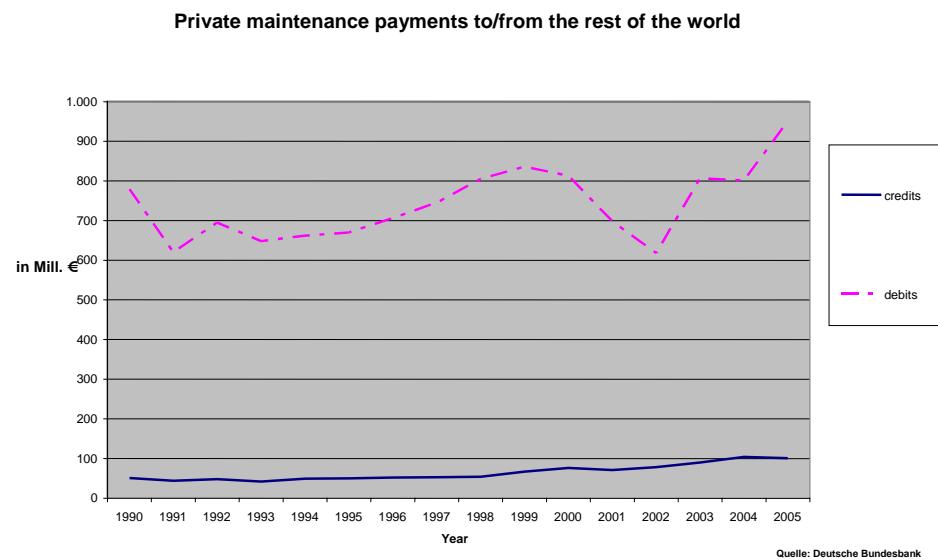
## 2. Current private transfers (household to household)

Current private transfers are collected via the regular collection system, i.e. only payments exceeding the exemption threshold of EUR 12.500 are reported. However, for transactions below the threshold an estimation method is applied, but this method was not specifically developed for private transfers. In fact it is applied to most of the transaction codes of the German coding system which must be used by the reporters to classify their transactions. The reported codes are used to compile the standard BOP-items. Depart from this estimation, no other corrections/estimations are made.

With a view to the future definition of personal transfers it should be emphasized, that the transaction codes currently used for private transfers do not allow to distinguish between transfers between households and other private transfers.

## Results

Following from what was said above, the results presented below contain all private maintenance payments (credits/debits) regardless whether they are transferred/received by households, non-profit organizations or private companies.



The drop in outgoing payments in 2001 was caused by the raise of the exemption threshold from DM 5,000 to EUR 12,500. The low value in 2002 can be explained by the flood in the summer of that year in the eastern parts of Germany. Part of the money which is usually donated by households or private organisations for projects/aid in developing countries or disasters in other parts of the world was donated to help people in the affected regions in Germany. The peak in 2005 reflects increasing payments in connection with the Tsunami and increasing flows to Africa.

## 3. Compensation of employees

Similar to workers remittances is the situation in the case of compensation of employees. The salaries paid are normally below the respective threshold and therefore not captured by the reporting system. Furthermore, even if a single transaction exceeds the threshold, the reporters are often not aware about their obligation to report because from their point of view the payments often take place between two resident accounts (for instance wages of German employees from foreign embassies, foreign military forces or international organisations like the ECB).

Hence, the Bundesbank uses indirect sources to estimate compensation of employees on a gross and a net.

### 3.1. Sources

The sources currently used are:

- Statistics of the Federal Employment Office (number of cross border/ seasonal workers and the respective country of the employee)
- Statistics of Federal Statistical Office (quarterly calculation of average gross income (credits/debits for neighboring countries)
- Statistics of Federal Ministry of Finance (compensation of German employees working for foreign military forces stationed in Germany)
- Statistics of Federal Foreign Office (compensation of foreign employees working in German embassies abroad)
- Annual reports of International Organizations (compensation of German employees)
- Partner country data for receipts of German workers employed in CH, LUX, NL, FR

### 3.2. Calculation Method

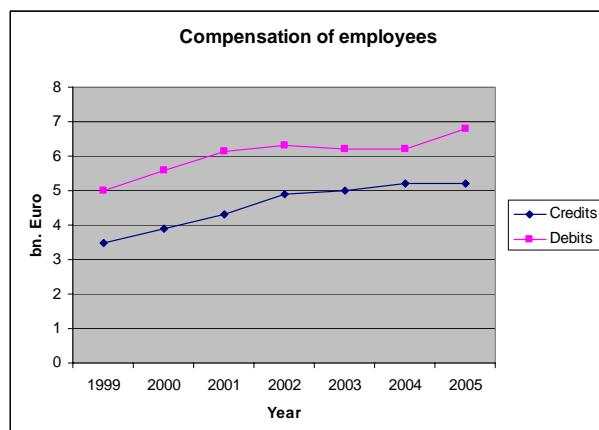
For the determination of compensation paid to border and seasonal workers (credit and debit) the FSO calculates an average income, separately for cross border and seasonal workers. This calculation is based on social insurance data. The average wage is multiplied with the number of employees from foreign countries/Germans employed in Germany/foreign countries. To this amount the contribution of the employer to social insurance is added. For German receipts from CH, LUX, NL and FR we use the respective information from our partner countries. We assume that the authorities abroad normally have more complete information about Germans working in their countries than we have.

To come to the net income, the total contribution to social insurance and taxes on income<sup>1</sup>, dependent on the “Convention for the Avoidance of Double Taxation” with different countries, is deducted by the FSO from the gross value. Finally, a correction for travel is made by the Bundesbank.

Regarding income received from foreign military forces and international organizations, no additional corrections are made, i.e. the information is taken without adaptations from the sources mentioned above. In the case of income paid/received by embassies in Germany/abroad, information from the national accounts are used. Here again, the FSO uses an average income and the number of employees.

### 3.3. Results

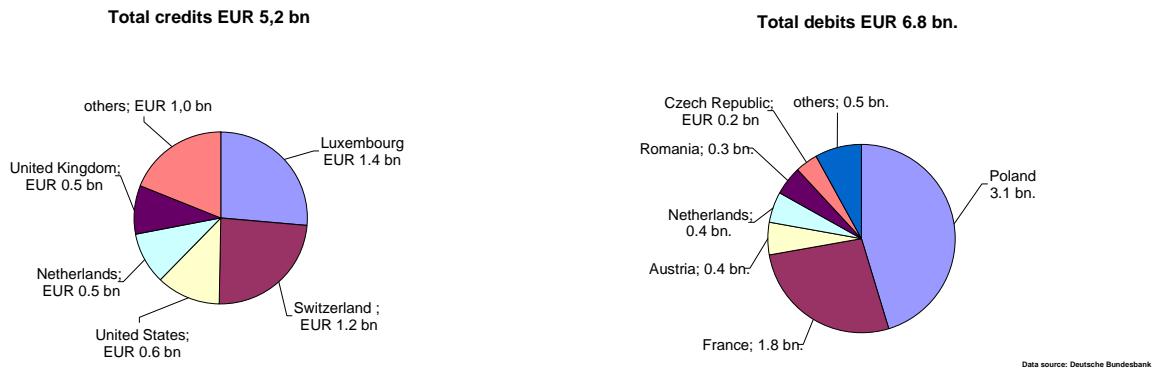
The results of the estimation of compensation of employees (gross) are presented in the following chart:



<sup>1</sup> The data are provided by the social insurance agency and the Ministry of Finance

Since 1999 compensation of employees credits increased from EUR 3,5 billion to EUR 5,2 billion, debits from EUR 5,0 billion up to EUR 6,2 billion in 2005. As it can be seen from the following graphs, 50 per cent of labour income credits are earned in Luxembourg and Switzerland. The debit side is clearly dominated by Poland, in particular by seasonal workers working for German farmers.

### Compensation of employees 2005



### C. Weaknesses of the current system

The main problem of the current system to measure **workers remittances** correctly is that money flows that are send through informal channels and by illegal workers from countries which are not included in the database of the National Labour Agency are not reflected adequately in the statistics. This also distorts the published country breakdown and could lead to asymmetries in the case of bilateral comparisons.

Furthermore, the assumed minimum/maximum amount applied in Germany has not been proofed by empirical data in recent years. In addition to that, the estimation method does not take into account the propensity to remit, which could differ from country to country and over time, dependent on the economic situation in the home countries of the remitters.

Another problem is, that current data from the banks do not allow to distinguish in all cases for what purpose the actual payment is made, e.g. the money could be transferred to finance the basic needs of relatives or for other purposes like deposits in own accounts. But even in cases where rates are applied (cash deposits with a beneficiary abroad) to take this problem into consideration, they are based on interviews made in the early nineties and thus do not reflect the current situation adequately. However, in the future definition of personal remittance the need to distinct the purpose of the payment will not exist anymore. This is also true for the problem, that the current calculation model is not limited to transfers of money which was generated from labour income like it is defined in the manual. The proposed future definition of personal transfers as a component of the BOP standard presentation will include all household to household transfers, independently of the source of income or the purpose of the transfer.

Connected with **compensation of employees** an additional problem is that we do not have any hard information about worker remittances credits. So far, no attempt has been made to estimate such flows although it is known that the long lasting high unemployment rate in Germany push more and more people to work abroad for longer periods, for instance in

Scandinavia, the Netherlands or Austria. In the current system these workers are still treated as residents and their salaries are included undistinguishable in compensation of employees. It is obvious that action has to be taken to treat this emerging economic phenomenon correctly in the German BOP.

For **current private transfers** it can be assumed that the data source does not assure an adequate coverage of all private transfers. Furthermore, the breakdown by country is distorted as it is prepared only using the information of reported payments above the threshold.

#### **D. Measures to improve the current statistics**

In consequence of the ongoing international discussion about workers remittances, Germany started in 2005 to review its current collection system for remittances flows. After analysing its weaknesses, measures have been taken to receive additional information about remittance flows which are channelled through other ways than the banking system. It was investigated if and to what extent data from money transfer companies like Western Union can be used. From informal talks with these companies it is known, that quite detailed information are stored in their databases. However, currently no final agreement exists which foresees the delivery of aggregated data by money transfer companies. It could be of help in this context that in Germany these companies fall under the supervision of the Federal Financial Supervisory Authority (FFSA) and therefore have to deliver some of the information needed by BOP-Compilers anyway. Thus, an additional reporting obligation for money transfer companies seems to be avoidable. But even if an agreement could be reached, BOP compilers will still face the problem that these companies do not ask their clients about the purpose of the payment (is it alimony or just money for a travelling relative), so the data which maybe available from them can only be used under some restrictions.

At the moment, the Bundesbank is checking the usefulness of aggregated information provided to us by the FFSA. Preliminary results indicate that for most countries the average amount of a single settlement transferred by these companies tend to be slightly below the minimum amount we currently use. In contrary, we also find examples where the average amount is slightly above the maximum. So far we can summarise, that the information from this source would be another piece in the puzzle, for instance regarding the country breakdown, but is by far not the final solution for measuring remittances correctly.

For the planned implementation of an estimation model for our workers remittances credits, however, this data source will be used as a starting point for our considerations.

With a view to the future definition of **private transfers** it will be necessary for Germany to collect more detailed sector information than in the current system. This could be done by implementing additional codes to capture household to household transfers. However, to a certain extent it seems to be questionable if BOP-compilers will be able to collect this information with the necessary quality. The problem is twofold. First, the sector in the receiving country is not always exactly known by private declarants (how would a private person sectorise a payment via a non profit organisation?) which could distort the results. Second, in countries like Germany there is some political pressure to reduce the statistical burden for private persons. This could result in a complete exemption of private person from all or most of their reporting obligations. BOP compilers must then use secondary and more incomplete information to estimate such transfers with known effects on the quality.

Regardless of our current attempts to improve the information about remittances in the German BOP, the work of the Luxembourg Group will be followed with care and we will decide as soon as possible, which of the recommended sources can be used by us after

assessing its costs and benefits. For important partner countries the use of partner data, not only from the EU, may also be an alternative for the future.