3.1. Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that flow through formal channels, such as electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are temporarily employed in an economy in which they are not resident.

3.2. *BPM6* identifies standard components and provides supplementary items to allow compilation of remittance aggregates. No single data item in the balance of payments framework comprehensively captures transactions in remittances. This chapter explains the different items needed to calculate remittance aggregates and the relationships between the different aggregates.

3.3. Remittances are derived mainly from two items in the balance of payments framework: income earned by workers in economies where they are not resident (or from nonresident employers) and transfers from residents of one economy to residents of another. The definitions of those items, as well as other relevant definitions and concepts, are set out below.

3.4. The following section contains a number of quotations. All of them are from *BPM6*.

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**A. Underlying Concepts**

**Residence**

3.5. The balance of payments framework rests on the identification of residents and nonresidents of a reporting economy. According to *BPM6*, “[t]he residence of households is determined according to the centre of predominant economic interest of its members.” The general guideline for applying this principle is “being present for one year or more in a territory or intending to do so is sufficient to qualify” as being a resident of that economy. Short trips to other countries—for recreation or work—do not lead to a change of residence, but going abroad with the intention of staying one year or longer does. “If a member of an existing household ceases to reside in the territory where this household is resident, the individual ceases to be a member of that household.” Persons going abroad to work thus become residents of the host country when they plan to stay for a year or longer, but they can rejoin their original household on return. In addition, there are guidelines for residence for specific cases of students, medical patients, and ship’s crew as well as diplomats, military personnel, and civil servants employed abroad in government enclaves. Regardless of the length of stay in a host economy, these groups are considered residents of the originating economy.

3.6. Residence is important for remittances data because remittance transactions are recorded differently depending on the residence status of the workers in their host economy. Border, seasonal, and other short-term workers are not resident in the economy where they work, and their gross income from employment is recorded as “compensation of employees.” There are no entries for the wages of migrants, because they are residents of the same economy as their employer (assuming that their employer is a resident entity). However, when they send remittances to another country, these are recorded as “personal transfers.”

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22 The definitions of standard components of the balance of payments accounts are somewhat broader than this, because they are not based on the concepts of migration, employment, or family relationships.
3.7. In many cases, it is assumed that the entities employing workers are resident in the economy where the work is performed. However, nonresident employers, which include embassies, other diplomatic missions, and international organizations, may have a substantial impact on remittances data. When resident workers work for nonresident employers, their wages and other benefits are recorded as “compensation of employees.” In this circumstance, their gross income from employment will count as remittances, but these employees of nonresident employers have not migrated or traveled beyond the geographic border of their home country. Under balance of payments concepts, embassies, diplomatic missions, and international organizations are not considered to be part of the economy in which they may physically exist.

Transactions in balance of payments statistics

3.8. “Every transaction is either an exchange or a transfer. An exchange involves a provision of something of economic value in return for a counterpart item of economic value.” “A transfer is a counterpart entry that offsets the provision of a nonfinancial or financial item by an entity to another entity without a counterpart return of an item of economic value.” This means that transfers indicate one-sided transactions, without a quid pro quo. In the remittances context, transactions recorded as compensation of employees are exchanges and those recorded as personal transfers are transfers.

3.9. Capital transfers “result in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the savings of either party.” Capital transfers in kind are transfers of ownership of nonfinancial assets or forgiveness of debt. A transfer of cash is a capital transfer only when it is linked to or conditional on the acquisition or disposal of a fixed asset. “Current transfers consist of all transfers that are not capital transfers. Current transfers directly affect the level of disposable income.”

3.10. Transactions are sometimes labeled as debits or credits to indicate their direction. A debit is associated with a financial outflow (and payments of income or transfers); a credit, with a financial inflow (and receipts of income or transfers). Thus, a remittance credit entry refers to the receipt of remittances, and a remittance debit entry refers to the payment of remittances.\(^{23}\)

Valuation

3.11. All valuations in the balance of payments framework are based on market values. “Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties and on the basis of commercial considerations only.”

3.12. Compensation of employees comprises wages and salaries in cash, wages and salaries in kind, and employers’ social contributions. Also included are all forms of bonuses and allowances. All transfers in kind should be valued at the market value of the goods or services provided to the recipient—that is, the current exchange value. The valuation of cash transfers is obvious, whereas transfers of other financial assets should be recorded at market value.

Timing

3.13. Compensation of employees and transfers are recorded on an accrual basis. In the case of voluntary transfers, accrual and settlement are identical. However, this is not the case with compulsory transfers (such as taxes or alimony), which should in principle be recorded when accrued, although this can be difficult in practice.

B. Standard Components

3.14. Two items in the balance of payments framework that substantially relate to remittances are “compensation of employees” and “personal transfers.” Both of these standard components are recorded in the current account (see Table 3.1).

Compensation of employees

3.15. Compensation of employees refers to the income of border, seasonal, and other short-term workers who work in an economy where they are not resident, and to the income of resident workers who are employed by a nonresident entity. Compensation of employees “represents remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise.” Compensation of employees is recorded gross and includes amounts paid by the employee as taxes or for other purposes in the economy where the work is performed.

\(^{23}\)For further details on accounting principles, including the double entry principle, refer to BPM6.
Table 3.1. Components Required for Compiling Remittance Items and Their Related Account and Description

<table>
<thead>
<tr>
<th>Component</th>
<th>Related Balance of Payments Account and Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compensation of employees</td>
<td>Primary income account, standard component</td>
</tr>
<tr>
<td>2. Personal transfers</td>
<td>Secondary income account, standard component</td>
</tr>
<tr>
<td>3. Travel and transportation related to temporary employment</td>
<td>Goods and services account, supplementary item</td>
</tr>
<tr>
<td>4. Taxes and social contributions related to temporary employment</td>
<td>Secondary income account, supplementary item</td>
</tr>
<tr>
<td>5. Compensation of employees less expenses related to temporary employment</td>
<td>Primary income account (for compensation of employees), goods and services account (for travel and transportation expenses) and secondary income account (for taxes and social contributions), supplementary item</td>
</tr>
<tr>
<td>6. Capital transfers between households</td>
<td>Capital account, supplementary item</td>
</tr>
<tr>
<td>7. Social benefits</td>
<td>Secondary income account, supplementary item</td>
</tr>
<tr>
<td>8. Current transfers to NPISHs</td>
<td>Secondary income account, supplementary item</td>
</tr>
<tr>
<td>9. Capital transfers to NPISHs</td>
<td>Capital account, supplementary item</td>
</tr>
</tbody>
</table>

Note: Important relationships:
- “Net” compensation of employees (5): 1 minus the sum of 3 and 4
- Personal remittances: 2 plus 3 plus 6
- Total remittances: 2 plus 5 plus 6 plus 7
- Total remittances plus transfers to NPISHs: 2 plus 5 plus 6 plus 7 plus 8 plus 9

NPISH = nonprofit institution serving households.

Table 3.2. Tabular Presentation of Remittances Concepts in BPM6

<table>
<thead>
<tr>
<th>Total remittances and transfers to NPISHs: a+b+c+d+e+f</th>
<th>e</th>
<th>f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total remittances: a+b+c+d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal remittances: a+b+c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal transfers (part of current transfers)</td>
<td>a</td>
<td>b</td>
</tr>
<tr>
<td>Compensation of employees less expenses related to temporary employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital transfers between households</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF 2008 (BPM6).
Note: “Personal transfers” is a standard item; other items are supplementary.

3.16. The earnings of nonresident workers who sell services to another economy but who are not employees of a nonresident company are not included in compensation of employees (see BPM6 for the definition of an employer-employee relationship that clarifies the difference between “compensation of employees” and sales of services).

Personal transfers

3.17. “Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals.” Therefore, personal transfers are a subset of current transfers. They cover all current transfers that are sent by individuals to individuals.24

24Personal transfers replaces an item known as “workers’ remittances” in BPM5. However, workers’ remittances are included as a supplementary item in BPM6. Unlike workers’ remittances, which are defined as current transfers made by employees to residents of another economy, personal transfers are defined independently of the source of income of the sending household, the relationship between the households, and the purpose for which the transfer is made. Simplifying the definition brought it in line with compilation practices applied in many countries (which did not take account of factors such as source of income and purpose).
3.18. Although remittances are related to migration and the sender and receiver often are relatives living in different countries, this is not explicitly part of the definition. Nonetheless, it is recognized that personal transfers often originate from migrants sending resources to support their relatives in their country of origin.

C. Supplementary Items

3.19. There are three major supplementary items related to remittances: personal remittances, total remittances, and total remittances and transfers to nonprofit institutions serving households (NPISHs). They are cumulative measures, as illustrated in Table 3.2. As supplementary items, their compilation and dissemination are encouraged but voluntary depending on the needs of the compiling economy.

Personal remittances

3.20. Personal remittances are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus net compensation of employees. In short, personal remittances include all household-to-household transfers and the net compensation of nonresident workers.

3.21. Compensation of employees includes gross earnings of nonresident workers. Net compensation is calculated by deducting taxes, social contributions paid by nonresident workers in the country of employment, and transport and travel expenditures related to their work abroad from (gross) compensation.

• “Taxes” deducted from the compensation of employees are current taxes on income that consist of taxes payable by short-term workers to the host country’s government on income earned from the provision of labor. Taxes on wages and salaries earned by nonresident employees are recorded as payable by nonresident employees and are included in gross compensation of employees.

• “Social contributions” are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid. Social insurance schemes include social security schemes (which cover the entire community or large sections of it and are imposed, controlled, and financed by government) and employment-related schemes (including funded and unfunded pension schemes).

• “Transport” is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. International transport services are included in this item, and local transport expenditures of nonresident workers in the host country are attributed to “travel.”

• “Travel” refers to the acquisition of goods and services in an economy by individuals who are visiting and not resident in that economy. It also includes acquisitions of goods and services by border, seasonal, and short-term cross-border workers in their economy of employment. In practice, it may be difficult to separate travel related to temporary employment from all other travel.

Total remittances

3.22. Total remittances is the sum of “personal remittances” and social benefits. “Social benefits include benefits payable under social security funds and pension funds. They may be in cash or in kind.” This item includes all household income obtained from working abroad. Total remittances includes income from individuals working abroad for short periods, income from individuals residing abroad, and social benefits from abroad.

Total remittances and transfers to nonprofit institutions serving households

3.23. This item includes “total remittances” and both current and capital transfers to NPISHs from any sector of the sending economy. It therefore includes all transfers benefitting households directly or indirectly through NPISHs, as well as the net earnings of short-term workers abroad. It even includes donations, in cash or in kind, from governments and enterprises to charitable organizations in another economy. It therefore is a very wide definition that is not closely linked to migration. In fact, much private and official aid as well as cross-border sponsorship of educational

25In BPM6, transport excludes the acquisition of valuables, consumer durables, and other consumer purchases that are included in general merchandise.

26Estimates can be used to approximate employment-related travel (see Chapter 5). Supplementary items on acquisition of goods and services, including transport, by border, seasonal, and other short-term workers, were introduced within the transport and travel standard items in BPM6.
and cultural activities (including scholarships) may be included in this item.\textsuperscript{27}

3.24. The identification of NPISHs is not without challenges. Whereas NPISHs are part of the wider household sector, nonprofit institutions serving other sectors are not. Compilers generally will be able to appropriately identify the NPISHs resident in their economy, but they may find it more problematic to identify NPISHs in partner economies. This may make the compilation of debit transactions of “total remittances and transfers to NPISHs” challenging because the definition is partially based on identifying the sector of the transacting party in the partner economy.

\textsuperscript{27}Of the new supplementary remittance aggregates in the international accounts, some data users consider “total remittances and transfers to nonprofit institutions serving households” to most closely match the economic concept of remittances (see Section A). This measure is broader than the other remittance aggregates, because it includes current and capital transfers to NPISHs from any sector of the sending economy (households, corporations, governments, and nonprofit institutions). Thus, unlike the other supplementary remittance aggregates, it includes funds and noncash items that flow indirectly to households through nonprofit institutions.

3.25. A comparison of remittances measures in the \textit{BPM5} and \textit{BPM6} frameworks is presented in Box 3.1.

\begin{figure}[h]
\begin{center}
\textbf{Box 3.1. Comparison of Measures of Personal Remittances in \textit{BPM5} and \textit{BPM6} Frameworks}
\end{center}

\begin{tabular}{ll}
\hline
\textbf{A. BPM5 Framework (Standard components related to remittances)} & \\
\hline
\textit{Income—Compensation of employees} & \\
Receivable (Credit) & \\
Payable (Debit) & \\
\textit{Current transfers—Other sectors} & \\
Workers’ remittances & \\
Receivable (Credit) & \\
Payable (Debit) & \\
\textit{Capital account—Migrant transfers} & \\
Receivable (Credit) & \\
Payable (Debit) & \\
\hline
\textbf{B. BPM6 Framework (Components related to remittances)} & \\
\hline
\textit{Income—Compensation of employees (standard component)} & \\
Receivable (Credit) & \\
Payable (Debit) & \\
\textit{Personal remittances (supplementary item)} & \\
Receivable (Credit) & \\
Net compensation of employees & \\
\textit{Compensation of employees (standard component)} & \\
\textit{Less (expenses abroad of cross-border workers):} & \\
\hline
\textit{Taxes on income (paid to nonresidents)} & \\
\textit{Social contributions (paid to nonresidents)} & \\
\textit{International transport (import)} & \\
\textit{Travel (import)} & \\
\textit{Personal transfers (standard component)} & \\
\textit{Workers’ remittances} & \\
\textit{Other household-to-household transfers} & \\
\hline
\end{tabular}

\textbf{Note:} Based on contributions from the Central Bank of Russia.

\end{figure}

3.26. Migrants frequently invest in their country of origin, whether they intend to eventually return or have left permanently. Sometimes the attachment to their country of origin, and the willingness to invest there, carries over to subsequent generations. Such investments can take numerous forms, but financial investments (notably bank deposits and portfolio investments) and investments in real estate are probably most common. Small enterprises, located in the country of origin and sometimes managed by relatives, can also benefit from investments by migrants.

3.27. Cross-border investments such as those mentioned in the preceding paragraph are recorded in the financial account. Although investment flows from
migrants are of analytical interest in the context of the economic effects of migration, they are not remittances. The qualitative analysis of investment flows is needed to identify the effects of migration on investment patterns. Analyzing the motives of migrant investors in choosing assets in their country of origin over other assets would be relevant for policymaking purposes, but is beyond the scope of this compilation guide.

3.28. However, in some cases investment transactions by migrants may be vehicles for the provision of remittances, notably when relatives enjoy access to resources or benefit from the use of fixed assets. When migrants deposit funds in their accounts in their country of origin and relatives have access to these funds, their withdrawals are personal transfers. For joint accounts, as a statistical convention, a transfer can be recorded when the funds move across borders rather than when they are withdrawn. When a migrant purchases real estate and relatives occupy it without paying market rents, or when a migrant establishes an enterprise and relatives are employed and paid above-market wages by this enterprise, personal transfers can be imputed. In the individual case, transfer values would be calculated as the difference between actual transactions and market-equivalent values. In practice, it is difficult to identify such transfers and calculate their value. If larger patterns are known to compilers—if, for example, there are large numbers of migrants buying real estate for use by their relatives in the home country—estimates can be made on the basis of aggregate transactions data and benchmarks.

Returning migrants

3.29. While migrants reside in a host economy, their remittances will be recorded as current or capital transfers. These include gifts in cash and in kind to their household of origin. When returning home, many migrants bring goods or own assets that will, on return, be owned by their household of origin. However, cash, consumer durables and other goods, and other assets that migrants own on return to their home country are not recorded as transfers. In addition, goods that migrants bring with them on return are not the subject of balance of payments transactions and therefore are excluded from balance of payments transactions.\(^\text{28}\) Assets (such as bank balances and real estate ownership) are recorded as a reclassification in the international investment position because the residence of the owner changes but no change of ownership takes place.

3.30. Although the distinction between a transaction and a reclassification of residence is important for the structure of the international accounting system, the effect of remittance sending and returning migrants on households and countries is much the same. Data users who are interested in understanding all contributions that migrants may make to their households and economies of origin should note this and may wish to make additional estimations.

**Resident-to-resident transactions across borders**

3.31. Other transactions that can easily be mistaken for remittances are payments made by individuals to individuals when both parties are resident in the same economy but one party is temporarily present in another economy. Nonresident workers, such as diplomats, military personnel, and other civil servants employed abroad in government enclaves, sending money from the economy in which enclaves are located to relatives in their country of residence are performing a resident-to-resident transfer that (as such) is not recorded as a balance of payments transaction. Balance of payments transfers do not include transfers to a household member by another household member who is temporarily in another country, such as families supporting relatives who are students or medical patients abroad. Although these transfers involve residents of the same country and are therefore not included in balance of payments statistics, related transactions (e.g., financial flows through banks, related service charges, travel expenses payable to nonresident entities, and compensation of employees) may be included.

**Bilateral data**

3.32. Although data on remittance flows between major partner countries are often provided on a supplementary basis in balance of payments data, such detailed geographic data are not a standard component of the accounts. Data users have usually empha-

\(^{28}\)In BPM5, the net worth of persons changing their residence was recorded in “migrants’ transfers” in the capital account. In BPM6, this amount is recorded in “other changes in volume” and not in transactions.
Box 3.2. Personal Remittances and GATS Presence of Natural Persons

GATS defines four modes of supply. In addition to the cross-border supply (mode 1), where both the supplier and the consumer remain in their respective home territories, GATS also covers cases where consumers are present outside their home territory to consume services (mode 2), or cases where service suppliers are present in the territory of the consumers to provide their services, whether by establishing a commercial presence (mode 3), or through the presence of natural persons (mode 4). Mode 4 occurs when an individual (at whatever skill level) has moved temporarily into the territory of the consumer to provide a service. Mode 4 is generally understood as covering:

- **Contractual services suppliers**, whether *employees of the foreign service supplier* or *self-employed*. These persons enter the country of the consumer in the context of a service contract;
- **Intra-corporate transferees**. The service supplier has commercial presence abroad and sends its employee to its affiliate. The supply of service to the consumer is carried out through a commercial presence;¹ and
- **Service sellers/persons responsible for setting up commercial presence**. There is initially no actual service supply for this category of persons.²

According to the above description, to measure mode 4 trade flows (i.e., the contractual service supply) it is necessary to identify (or estimate) the relevant part in balance of payments services transactions considered as mode 4 supply.³

While personal remittances provide information on a country’s income generated through persons temporarily moving abroad or migrating, personal remittances do not equate with mode 4 trade flows, as described above. Important differences exist in terms of coverage of persons. For example, personal remittances may cover earnings related to employment in non-services sectors as well as earnings of persons employed by international organizations.

¹The mode 4 commitment guarantees the right of the person to be present, to enable the service supplier to supply a service through its affiliate.
²Their movement in order to conduct negotiations is guaranteed by commitments under mode 4.
³However, this may be difficult, because a single international transaction in services may include several modes of supply.

Supply of services by natural persons

3.33. Personal remittances do not substitute for indicators for measuring trade flows (mode 4) under the General Agreement on Trade in Services (GATS). The difference between remittances statistics and GATS mode 4 statistics is presented in Box 3.2.