

**Seventeenth Meeting of the
IMF Committee on Balance of Payments Statistics
Pretoria, October 26–29, 2004**

Residence of Households

**Prepared by the Statistics Department
International Monetary Fund**

The views expressed in this paper are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 8

JUNE 2004

(1) Topic: **Residence of Households**

(2) Issues – see BOPTTEG Issues Papers #8 and #8A

(3) Recommendations:

(i) The group agreed that investigations be undertaken to consider harmonization of residence concepts with definitions used in demographic, immigration, and tourism statistics. However, most members felt strongly that harmonization should not be considered if the results would undermine the frameworks of macroeconomic statistics.

(ii) The group agreed that the term “predominant center of interest” should be adopted as the elaboration of the concept of residence.

(iii) The group had a range of views on whether a one year presence be adopted as a single criterion (supplemented by predominance for cases where no one place is dwelled in for a full year), or as one factor among a range of factors to be considered (such as location of family members, payments, saving and investment, visa status, and taxation). Several group members wished to continue the present exceptions for students, patients, and ship’s crew.

(iv) The group agreed that nonpermanent workers were a particularly difficult case where further work was needed. It supported the supplementary presentation approach proposed in the *Annotated Outline* and bilateral cooperation to enhance consistency of treatments. The group indicated that work on this topic should be coordinated with the recommendations of the UN Technical Sub-Group on the Movement of Natural Persons – Mode 4.

(4) Rejected Alternatives:

None.

(5) Questions for the Committee:

(i) Does the Committee agree with the approach to harmonization of residence concepts? See 3(i) above.

(ii) Does the Committee agree that “predominant center of interest” be adopted? See 3(ii) above.

(iii) Does the Committee prefer the continuation of the existing exceptions for students, patients and ship's crew? Does the Committee prefer a one-year criterion or a discretionary approach in other cases? See 3(iii) above.

(iv) Does the Committee agree with the supplementary presentation approach proposed in the Annotated Outline and bilateral cooperation to enhance consistency of treatments.? Does it have any other specific proposals? See 3(iv) above.

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

ISSUES PAPER (BOPTTEG) # 8

RESIDENCE OF HOUSEHOLDS

Prepared by Robert Dippelsman, IMF Statistics Department

May 2004

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP

ISSUES PAPER (BOPTeg) # 4

RESIDENCE OF HOUSEHOLDS

I. Current international standards for the statistical treatment of the issue

BPM5 states that:

63. In most cases, it is reasonable to assume that an institutional unit has a center of economic interest in a country if the unit has already engaged in economic activities and transactions on a significant scale in the country for one year or more, or if the unit intends to do so. The conduct of economic activities and transactions over a period of one year normally implies a center of interest, but the choice of any specific period of time is somewhat arbitrary. The one-year period is suggested *only as a guideline* and not as an inflexible rule.

....

66. A household has a center of economic interest when household members maintain, within the country, a dwelling or succession of dwellings treated and used by members of the household as their principal residence. All individuals who belong to the same household must be residents of the same country. If a member of an existing household ceases to reside in the country where his or her household is resident, the individual ceases to be a member of that household.

67. If a resident household member leaves the economic territory and returns to the household after a limited period of time, the individual continues to be a resident even if he or she makes frequent journeys outside the economic territory. The individual's center of economic interest remains in the economy in which the household is resident. Treated as residents are *travelers or visitors*—individuals who leave an economic territory for limited periods of time (less than one year) for business or personal purposes (see paragraphs 71, 243, and 244); *workers or employees*—individuals who work some or all of the time in economic territories that differ from those of their resident households. Such individuals are
workers who may, because of seasonal demand for labor, work part of the year in another country and then return to their households;
border workers who regularly (each day) or somewhat less regularly (e.g., each week) cross frontiers to work in neighboring countries;
staff of international organizations who work in the enclaves of those organizations;
locally recruited staff of foreign embassies, consulates, military bases, etc.;
crews of ships, aircraft, or other mobile equipment operating partly or wholly outside an economic territory.

68. An individual may cease being a member of a resident household when he or she works continuously for one year or more in a foreign country. If the individual rejoins his or her original

household only for infrequent short visits and sets up a new household or joins a household in the country where he or she works, the individual can no longer be treated as a member of the original household. Most of the individual's consumption takes place in the country where he or she lives or works, and the individual clearly has a center of economic interest there.

....

70. The situation differs for military personnel and civil servants (including diplomats) employed abroad in government enclaves. Those enclaves—military bases, embassies and the like—form part of the economic territory of the employing government, and the personnel often live as well as work in the enclaves. Therefore, government employees working in such enclaves continue to have centers of economic interest in their home countries while, and however long, they work in the enclaves. They continue to be residents in their home countries even if they live in dwellings outside the enclaves.

71. However long they study abroad, students should be treated as residents of their countries of origin, as long as they remain members of households in their home countries. In these circumstances, their centers of economic interest remain in their countries of origin rather than in the countries where they study. Medical patients staying abroad are also treated as residents of their countries of origin, even if their stays are one year or more, as long as they remain members of households in their countries of origin.

72. Some individuals have several international residences where they may remain for short periods (e.g., three months in each of four countries) during a specific year. For these individuals, the centers of economic interest often are international rather than designated economies. While consideration should be given to such factors as tax status, citizenship (can be dual), etc., this *Manual* and the *SNA* do not recommend a specific treatment. The choice is left to the discretion of the economies concerned. The treatment should be coordinated, if possible, to foster international comparability.

II. Concerns/shortcomings of the current treatment

This has highlighted a number of concerns:

- (a) With globalization, the proportion of individuals with two or more loci of interest is growing, and more specific advice is needed.
- (b) The *BPM5* definition gives a wide range of discretion, so may not help achieve international symmetry and may be unhelpful to countries seeking specific advice.
- (c) The *BPM5* definition does not refer to related demographic, tourism, and migration statistics definitions.
- (d) Nonpermanent workers are of increasing importance and the current treatment is inadequate. The area of concern is for individuals who are located in a host economy for one year or more, but who expect to return to their home economy, and maintain other strong ties to their home economy such as having dependents there. Classifying these workers as residents of the host economy means that they are treated identically to permanent residents of the host economy, which does not reflect their strong economic interest in the home economy.
- (e) For students studying abroad funded by the host economy and/or with intentions to stay in the host economy, the actual center of interest may not be well reflected by the current treatment.

III. Possible alternative treatments

The *Annotated Outline (AO)* para. 4.39 proposed seeking consistency with demographic, tourism, and migration statistics. To that end, the Fund will participate in the United Nations Subgroup on the Movement of Natural Persons.

Subject to those developments, *AO* paras. 4.36-39 proposed that a definition of one year or more of intended or actual residence be applied in cases except diplomats, expatriate staff of military bases, and their families. That is, the wide discretion in *BPM5* and the exceptions for ship's crew, patients and students would be removed. As a result, some expenditure would be reclassified between resident-to-resident and resident-to-nonresident. For example, tuition and living expenses of long-term students would not be included in services exports/imports; neither would the travel-related expenditure of long-term medical patients.

For recognition of the home economy connections of nonpermanent workers, the *AO* Chapter 4 Appendix proposed to recognize the importance of these cases to a number of countries while not changing the basic framework by having a supplementary presentation that gave information in a flexible framework. Other alternatives would be to give more discretion to compilers or to extend the residence requirement to a longer period, such as two years or five years.

For mobile individuals who have connections with two or more economies and who do not stay in any one economy for a year, the *AO* para. 4.33 proposed that the definition be expressed as "predominant center of economic interest" to replace the existing "center of economic interest." This concept is applied to some specific cases in *AO* para. 4.40.

IV. Points for discussion

- (1) *What are BOPTEG members' views on any changes to the definition of residence for households, in particular:*
 - (a) *harmonization with other statistics, if achieved?*
 - (b) *the addition of "predominant" to the definition of "center of economic interest"?*
 - (c) *the adoption of a consistent criterion of presence for one year or more—i.e., with less discretion and fewer exceptions, specifically students, patients, and ship's crew?*
- (2) *What are BOPTEG members' views on dealing with nonpermanent workers?*

References

BPM5 Chapter IV Resident Units of an Economy

Annotated Outline for the Revision of BPM5, IMF, April 2004, Chapter 4

1993 SNA paras 4.15-16

M. Debabrata Patra and M. Kapur, *India's Worker Remittances: A User's Lament About Balance of Payments Compilation*, BOPCOM-03/20

IMF, *Residence*, BOPCOM-02/59

Hong Kong Special Administrative Region, Census and Statistics Department, *Nonpermanent Workers*, BOPCOM-03/19

South African Reserve Bank, *The Concept of Residence with Special Reference to the Treatment of Migrant Workers in the Balance of Payments of South Africa*, BOPCOM-03/18

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

ISSUES PAPER (BOPTTEG) # 8A

RESIDENCE OF HOUSEHOLDS

**Prepared by International and Financial Accounts Branch
Australian Bureau of Statistics
May 2004**

The views expressed in this paper are those of staff within the International and Financial Accounts Branch and do not necessarily reflect those of the Australian Bureau of Statistics.

Balance of Payments Technical Expert Group

Issues Paper (BOPTeg) # 8A

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 BOPTTEG 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>

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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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