BOPCOM-06/04

Nineteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Frankfurt, Germany, October 23–26, 2006

Definitions of Remittances

Prepared by the United Nations

OUTCOME PAPER

DEFINITIONS OF REMITTANCES

UNITED NATIONS TECHNICAL SUBGROUP ON MOVEMENT OF PERSONS – MODE 4

1. The United Nations Technical Subgroup on the Movement of Persons – Mode 4 (TSG) at its meeting in New York (22 -24 February 2006) agreed on the conceptual definition of remittances based on the issue paper *Definitions of Remittances.* The issue paper was prepared with the objective of reconciling the recommendations by IMF Committee on Balance of Payments Statistics (BOPCOM) and the Advisory Expert Group on National Accounts (AEG) at their meetings in June and July 2005 respectively. This version of the outcome paper reflects the views of the TSG and comments received from BOPCOM members as a result of an electronic consultation. It will be submitted to the AEG and BOPCOM for information and will be presented at the BOPCOM meeting in Frankfurt (23-27 October 2006).

2. The proposed definitions on remittances are built on the Balance of Payments (BOP) components in the *Annotated Outline for the Revision of the Balance of Payments Manual,* fifth edition *(AO)* related to services, primary and secondary distribution of income. Those components are aligned with the *1993 System of National Accounts* (1993 SNA) transactions. The definitions of remittances presented in this paper are obtained by further disaggregating the relevant BOP standard components by sectors (e.g. households, government and non-profit institutions serving households). Moreover, due consideration is given to practical aspects of data collection, including symmetry of reporting.

3. The TSG recommended presenting the BOP flows related to remittances in a supplementary table reported in Annex I. Annex II presents a fictitious numerical example which illustrates how to calculate the various concepts of remittances from the sending and receiving country. It also illustrates the issue of asymmetry of reporting between the sending and receiving countries that arise in the case of "total remittances" and "total remittance and transfers to non-profit institutions serving households". The table and example in Annexes I and II have been revised, as compared to the ones presented in the issue paper discussed at the TSG meeting, to take into account the conclusions of the TSG.

4. The TSG recognized the importance of compiling BOP flows related to remittances by partner countries. It recommended that, as a minimum, flows to and from the major partner countries be separately identified. It however noted that for some countries it may be difficult to collect information disaggregated by partner countries.

5. The TSG agreed on the following four definitions of remittances:

   (a) Personal transfers;
   (b) Personal remittances;
   (c) Total remittances;
   (d) Total remittances and transfers to non-profit institutions serving households (NPISHs)

(a) Personal transfers

6. The TSG agreed to introduce a new item *personal transfers* as a standard item of the revised *Balance of Payments Manual – Fifth Edition* (BPM5) to bring it in line with the 1993 SNA definition of current transfers between households. "Personal transfers" replaces the BPM5 component *workers' remittances*, which has been retained as a supplementary item, following the recommendations of BOPCOM. *Workers' remittances* will be recorded as an "of which" item of *personal transfers* to maintain continuity of the time series. BOPCOM further has decided to rename *workers remittances* as "remittances of resident employees".

7. *Personal transfers* will be part of the BOP standard presentation and is defined as follows:

> *Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from other non-resident households.*

8. *Personal transfers* thus include all current transfers from resident to non-resident households, independently of (a) the source of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfers from a person receiving no income and running down his/her assets); (b) relationship between the households (be it between related or unrelated persons); (c) purpose for which the transfer is made (be it inheritance, alimony, lottery[1], etc.).

9. The TSG noted that although *personal transfers* are conceptually current transfers between resident and non-resident households, in practice it may be difficult to separately identify household-to-household capital transfers from the current transfers. In practice, capital transfers tend to be large, infrequent and irregular, whereas current transfers tend to be comparatively small and are often made frequently and regularly. However, while size, frequency and regularity help to distinguish current from capital transfers they do not provide satisfactory criteria for defining the two types of transfer (1993 SNA para 8.32).

10. The TSG further noted that some cash transfers may be regarded as capital by one party to the transaction and as current by the other. In an integrated system of accounts such as the 1993 SNA and BPM5, however, it is not feasible to have the same transaction classified differently in different parts of the system. To distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers. A transfer in cash is a capital transfer when it consists of the transfer of ownership of a fixed asset and non-produced non-financial assets. A transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction. A capital transfer should result in a commensurate change in the stocks of assets of both parties to the transaction (based on 1993 SNA, para10.132). When in doubt, the TSG recommended classifying the transfer as current.

[1] The net transfers paid out to winners of lotteries and gambling, that is the residual transfers excluding service charges, are considered household to household transfers (1993 SNA, para 8.97).

11. The TSG recommended separately identifying capital household-to-household transfers as a supplementary item[2] in the table on remittances presented in Annex I but not to include them in the definition of *personal transfers*.

(b) Personal remittances

12. The TSG agreed to define *personal remittances*, taking the perspective of the receiving country, as follows:

Personal remittances = personal transfers + net compensation of employees + capital transfers between households

13. Annex II presents a numerical example which illustrates how to calculate *personal remittances*. *Personal remittances* include *personal transfers*, net compensation of employees of non-resident persons and capital transfers between households. Investment income is not included because it is not directly linked to the movement of persons.

14. *Personal remittances* reflect the inflows to a household either from another household or from a member of a household working abroad.

15. The TSG agreed on netting compensation of employees of social contributions[3] (possibly a standard component in the revised BPM5), of taxes on income[4] and travel and passenger transportation related to employment of non-residents. Taxes on income and travel and passenger transportation related to employment of non-residents are not part of the standard presentation and should be considered as supplementary items.

16. The TSG recommended that capital household-to-household transfer should be included in the definition of *personal remittances*. Including capital transfers in the definition of *personal remittances* would offset differences in country practices in recording household to household transfers – current versus capital transfers.

17. *Personal remittances* will be a supplementary item in the revised BPM5 as its calculation involves the sum of several supplementary items, namely taxes on income and travel and passenger transportation related to employment if non-residents and capital transfers between households. The components of *personal remittances* are shown in the supplementary table in Annex I.

(c) Total remittances

18. The TSG agreed to define total remittances taking the perspective of the receiving country, using a formula instead of lengthy text, as follows:

---

[2] A supplementary item is an item that should be considered by countries in circumstances that the information would, in their particular cases, be of interest to analysts and policymakers.

[3] Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid (1993 SNA para 8.8).

[4] Current taxes on income, wealth, etc consist of taxes on the incomes of households or profits of corporations and taxes on wealth that are payable regularly every accounting period (as distinct from capital taxes levied infrequently) (1993 SNA, para 8.6).

Total remittances = personal remittances + social benefits[5]

19. *Total remittances* would thus include *personal remittances* and social benefits directly to households from other institutional sectors, namely corporations, government and non-profit institutions serving households (NPISHs). The TSG considered this concept as policy relevant and agreed to include it in the supplementary table on remittances in Annex I. It noted that the concept of *total remittances* entails asymmetry of reporting as social benefits are sent from corporations, the government and NPISHs and received by households.

20. Although in principle other current transfers to households (e.g. direct transfers other than social benefits to households from the government or NPISHs) could be included in the definitions of total remittances, the TSG agreed to omit them for ease of compilation and because they are likely to be small in size and/or infrequent. *Total remittances* also exclude net non-life insurance premiums and nonlife insurance claims[6] paid or received by resident households.

(d) Total remittances and transfers to non-profit institutions serving households

21. The TSG agreed to adopt the concept of *total remittances and transfers to NPISHs* and to define it, using a formula instead of a lengthy text, taking the perspective of the receiving country as follows:

Total remittances and transfers to NPISHs = Total remittances + Current transfers to NPISHs + Capital transfers to NPISHs

22. The TSG found the concept of *total remittances and transfers to NPISHs* policy relevant. As credit entries, *total remittances and transfers to NPISHs* would thus cover all flows from abroad which are either receivable by households directly or indirectly through NPISHs in the home countries for the benefit of households.

23. Similarly to *total remittances*, the TSG noted that the concept of *total remittances and transfers to NPISHs* entails asymmetry of reporting as transfers received by NPISHs can originate from any sector of the economy. The example provided in Annex II shows how *total remittances and transfers to NPISHs* are calculated.

24. As in the case of household-to-household transfers, distinguishing capital transfers from current transfers to NPISHs may be difficult in practice. The same arguments presented in paras 9 to 11 of this paper hold also in this case.

25. The TSG agreed to separately identify, as supplementary items, in the supplementary table presenting information on remittances shown in Annex I, current and capital transfers to NPISHs.

---

[5] Social benefits include social insurance benefits and social assistance benefits. They are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances (1993 SNA, para 8.7). They include pensions received by households. For more details, refer to 1993 SNA paras 8.75 to 8.83.

[6] Net nonlife insurance premiums and non-life insurance claims could conceptually be included in the definition of personal remittances since they are essentially redistributive flows between households. However, because it may be difficult to collect data separately for the transfers received by households, they have been left out of the definition.

ANNEX I

TABLE A1. SUPPLEMENTARY TABLE FOR REMITTANCES AND TRANSFERS TO NPISHs

Based on the tables in the Annotated Outline (AO)

	Credits	Debits
Services (AO Table 9.1)		
Travel[1]		
Transportation [2]		
Primary distribution of income (AO Table 10.1)		
Compensation of employees		
Secondary distribution of income (AO Table 11.1)		
Current taxes on income and wealth [3]		
General government		
Households		
Other		
Social contributions		
General government		
Households		
Other		
Social benefits		
General government		
Households		
Other		
Personal transfers[4]		
Other current transfers		
General government		
Non-profit institutions serving households		
Other		
Capital transfers (AO Table 12.1)		
General government		
Household		
Non-profit institutions serving households		
Other		

Notes:

(1) of which: travel costs related to short term employment (e.g. seasonal and border workers and other non-resident workers)
(2) of which: transportation costs related to short term employment
(3) of which: taxes on income related to short term employment
(4) of which:
Remittances of resident employees
Other current transfers

Of which items above (1-4) should be considered as supplementary item.
Shaded items are not presented in the Annotated Outline. It is recommended that they be included as supplementary items.

ANNEX II

EXAMPLE

Calculation of personal transfers, personal remittances, total remittances and transfers to NPISHs

Suppose a resident of country A sends to a household in country B a transfer of $100. During the same period he/she sends a transfer of $30 to a family member resident in country B to help in the purchase of a house in country B.

Suppose that another individual, resident of country B, works for three months in country A and earns $600 in cash before tax. Income tax of $120 is paid to the government of country A. Social contributions of $50 is paid by the individual to the government of country A. The individual has travel expenditures of s $300 (including $175 for food and $125 for accommodation) related to their short term employment.

Suppose that a resident of country B receives a pension of $200 from country A.

Suppose also that an organized diaspora group (NPISH) in country B receives $1,000 from a charity organization in country A. The diaspora group also receives $10,000 from the charity organization to buy a plot of land.

The following entries would appear in the BOP of country A and in the BOP of country B.

Country A			**Country B**		
	Credit	**Debit**		**Credit**	**Debit**
a. Travel	**300**		a. Travel		**300**
a1. Food	175	…	a1. Food	…	175
a2. Accommodation	125	…	a2. Accommodation	…	125
b. Gross compensation of employees		**600**	b. Gross compensation of employees	**600**	
c. Current taxes on income	**120**[2]		c. Current taxes on income		**120**
c1. General government	120	…	c1. General government	…	…
c2. Households	…	…	c2. Households	…	120
d. Social contributions	**50**[3]		d. Social contributions		**50**
d1. General government		…	d1. General government	…	…
d2. Households	…	…	d2. Households	…	50
e. Net compensation of employees[1] (b.-a.-c.-d.)		**130**	e. Net compensation of employees (b.-a.-c.-d.)	**130**	
f. Social benefits	…	**200**	f. Social benefits	**200**	
f1. General government	…	200	f1. General government	…	…
f2. Household	…	…	f2. Households	200	…
g. Personal transfers		**100**	g. Personal transfers	**100**	
h. Other current transfers		**1,000**	h. Other current transfers	**1,000**	
h1. NPISHs	…	1,000	h1. NPISHs	1,000	…
i. Capital transfers		**10,030**	i. Capital transfers	**10,030**	
i1. Households	…	30	i1. Households	30	…
i2. NPISHs	…	10,000	i2. NPISHs	10,000	…
j. Total remittances and transfers to NPISHs	11,460	…	j. Total remittances and transfers to NPISHs	…	11,460

[1] In some countries compensation of employees is calculated directly net of social contributions, taxes on income and travel and passenger transportation related to employment of non-residents.
[2] Income tax payable to government of country A.
[3] Social contribution payable to government of country A.

Country A/ payable	**Country B/**receivable
Personal transfers *-100*	Personal transfers *100*
Personal remittances *-260*	Personal remittances *260*
Personal remittances = (Net compensation of employees) + personal transfers + capital transfers between households = - (b.-a.-c.-d.) - g. - i1 *- (600-300-120 - 50) - 100 - 30 = - 260*	*Personal remittances = (Net compensation of employees) + personal transfers + capital transfers between households = (b.-a.-c.-d.) +g. + i1* *(600-300-120 – 50) + 100 +30 = 260*
Total remittances *-460*	Total remittances *460*
Total remittances = Personal remittances + social benefits = *- [(b.-a.-c.-d.) +g. + i1] – f. =* *- 260 – 200= - 460*	*Total remittances = Personal remittances + social benefits =* *+ [(b.-a.-c.-d.) +g. + i1] + f. =* *260 + 300= 460*
Total remittances and transfers to NPISHs *-11,460*	Total remittances and transfers to NPISHs *11,460*
Total remittances and transfers to NPISHs = Total remittances + current transfers to NPISHs + capital transfers to NPISHs = *- {[(b.-a.-c.-d.) +g. + i1] – f.} – h1. – i2.=* *-460 – 1,000 – 10,000=-11,460*	*Total remittances and transfers to NPISHs = Total remittances + current transfers to NPISHs + capital transfers to NPISHs =* *+ {[(b.-a.-c.-d.) +g. + i1.] – f.} +h1. + i2. =* *460 + 1,000 + 10,000 = 11,460*