



Secondary Income and the Capital Account (L12)

Course on External Sector Statistics

Nay Pyi Taw, Myanmar

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Outline

- Secondary income account
 - Overview
 - Concept and coverage
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 - Types of current transfers
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- Capital account
 - Overview
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 - Types of capital transfers



Overview of the Secondary Income Account

- Shows **current transfers** between residents and nonresidents.
- Primary income affects *gross national income (GNI)*.
- Secondary income, together with primary income, affect *gross national disposable income*.
 - $GDP = C + G + I + X - M$,
- The definition of *gross national disposable income (GNDY)* is GDP plus *net* primary and secondary income from abroad, so
 - $GNDY = C + G + I + X - M + BPI + BSI$,
- The current account balance is:
 - $CAB = X - M + BPI + BSI$



Concept and Coverage

- Two important distinctions are made:
 - transfers are distinguished from other types of transactions
 - current transfers are distinguished from capital transfers.
- An **exchange** involves a provision of something of economic value in return for a corresponding item of economic value.
- A **transfer** is an entry that corresponds to the provision of a good, service, financial asset, or other nonproduced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value.



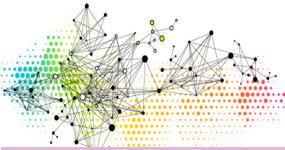
Concept and Coverage (2)

- Cash transfer
 - consists of the payment of currency or transferable deposit
- Transfer in kind
 - consists either of the transfer of ownership of a good or asset, other than cash, or the provision of a service
 - NB. Capital contributions and investment-in-kind by direct investor in direct investment enterprise are NOT transfers



Concept and Coverage (3)

- A unit making a transfer does not receive any quantifiable benefit
 - although some transfers (e.g. net nonlife insurance premiums) may entitle the unit making the payment to some contingent *future* benefit.
- Distinction between transfers and services may sometimes be unclear.



Distinction between Current and Capital Transfers

Focus on the special characteristics of capital transfers

- Capital transfers are transfers:
 - in which the ownership of an asset is transferred *or*
 - that oblige one or both parties to acquire or dispose of an asset *or*
 - where a liability is forgiven by the creditor.
- A capital transfer results in a commensurate change in the *stocks* of assets of one or both parties to the transaction without affecting the saving of either party



Distinction between Current and Capital Transfers (2)

- Capital transfers:
 - typically large and infrequent
 - but they cannot be defined in terms of size or frequency.
- Current transfers
 - all transfers that are not capital transfers
 - directly affect the level of *disposable income* and influence the *consumption* of goods and services



Types of Current Transfers: Personal Transfers

Personal transfers

- All current transfers in cash or in kind made or received by resident households to or from nonresident households
- all transfers irrespective of:
 - the source of income of the sender
 - the relationship between the households
- However, the connection to the residence status of the person concerned is important in determining whether a personal transfer is involved!
 - e.g. personal transfers made by workers who are residents of the economy in which they are employed
 - Not resources sent abroad by parents for financing students
- Personal transfers replaces “Workers' remittances” in the standard presentation.



Types of Current Transfers: Personal Transfers (2)

- **Funds** sent abroad for depositing on a bank account abroad = financial account transaction
- *However*, any withdrawal from own deposit account with a bank located abroad to provide resources to a relative or another person (without a quid pro quo)
- Joint accounts of emigrant workers in their home country
 - If the joint account in their home country is freely usable by its holders in the home country, the account may be considered to be held by residents
 - Deposits made to this account by the nonresident - current transfer
 - Withdrawals by residents are domestic transactions



Types of Current Transfers: Personal Transfers (3)

Lotteries and other gambling

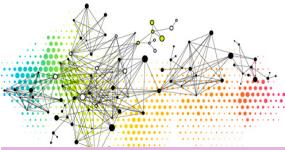
- The amounts paid for lottery tickets or placed in bets consist of:
 - (a) a service charge to the unit organizing the lottery or gambling
 - (b) current transfers that are payable from the gamblers to the winners and, in some cases, to charities.



Types of Current Transfers: Other Current Transfers

Current taxes on income, wealth, etc:

- mainly taxes levied on the income earned by nonresidents from the provision of their labor or financial assets (e.g. income taxes, withholding taxes)
- refund of taxes to taxpayers are treated as negative taxes



Types of Current Transfers: Other Current Transfers (2)

Social contributions

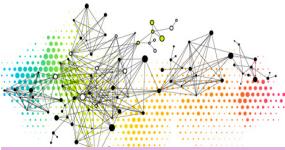
- *Social contributions are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid.*
- The calculation of the amount of social contributions varies for social security schemes and pension schemes.



Types of Current Transfers: Other Current Transfers (3)

Social benefits

- include benefits payable under social security and pension funds
- may be in cash or in kind
- Also included are social benefits payable to households by governments or NPISHs, but which are not made under social insurance schemes
- May be important in economies where a significant number of residents have employment in other economies



Types of Current Transfers: Other Current Transfers (4)

Net premiums on nonlife insurance and standardized guarantees

- net premiums receivable (earned) = gross premiums receivable
+ premium supplements – insurance service

Nonlife insurance claims and calls under standardized guarantees

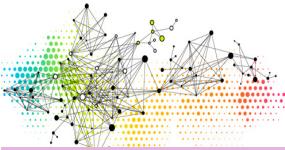
- represent amounts payable in settlement of claims that become due during the *current* accounting period



Types of Current Transfers: Other Current Transfers (5)

Current international cooperation:

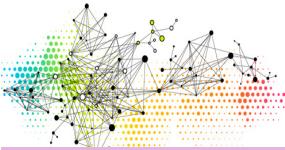
- current transfers in cash or in kind
- *between governments of different countries* or between governments and international organizations.
- These include:
 - Transfers made to finance *current* expenditures, including emergency aid after natural disasters.
 - Annual or other *regular* contributions paid by member governments to international organizations. Also, *regular* transfers made by international organizations to governments.
 - Technical assistance: payments by governments or international organizations to cover salaries of technical assistance staff who are deemed to be *resident* in the host economy and are in an employer-employee relationship with the host government. Also included is technical assistance *in kind*. (see Box 10.6)
- Technical assistance that is tied to or part of capital projects is classified as *capital transfers* because investment grants are capital transfers.



Types of Current Transfers: Other Current Transfers (6)

Miscellaneous current transfers

- Current transfers to NPISHs
 - transfers in the form of membership dues, subscriptions, donations, etc.
- Other miscellaneous current transfers:
 - Fines and penalties
 - Payments of compensation
 - Other



Standard Components for Current Transfers

- Current transfers are:
 - classified by institutional sectors receiving or providing the transfers
 - ❖ general government
 - ❖ all other sectors collectively
 - for all other sectors, a distinction is made between
 - *personal transfers*
 - *Current transfers between resident and nonresident households*
 - and all *other current transfers*



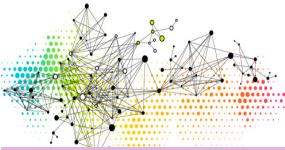
Overview of the Capital Account

- The capital account, recorded on a gross basis, shows:
 - Gross acquisition and disposal of nonproduced nonfinancial assets
 - Capital transfers
 - ❖ General Government
 - Debt forgiveness
 - Other capital transfers
 - ❖ Financial corporations, nonfinancial corporations, households and NPISHs
 - Debt forgiveness
 - Other capital transfers



Acquisitions and Disposals of Nonproduced Nonfinancial Assets

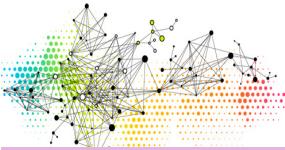
- Nonproduced nonfinancial assets consist of:
 1. natural resources
 2. contracts, leases, and licenses
 3. marketing assets and goodwill
- 1. Natural resources include:
 - land
 - mineral rights
 - forestry rights
 - water
 - fishing rights
 - air space (such as over flight rights)
 - electromagnetic spectrum.



Acquisitions and Disposals of Nonproduced Nonfinancial Assets (2)

1. Natural Resources (cont'd)

- International transactions in **land** arise when there are acquisitions/disposals of land for enclaves of international organizations and foreign governments.
- International transactions occur when there are voluntary changes of **sovereignty** over a particular area, whether for payment or as a transfer.



Acquisitions and Disposals of Nonproduced Nonfinancial Assets (3)

2. Contracts, leases, and licenses:
 - recognized as economic assets (e.g. transferable rights to natural resources, transferable options to purchase a good, and subleases of operational leases)
3. Marketing assets:
 - brand names, mastheads, trademarks, logos, and internet domain names
 - when sold *separately* from the entity that owns them



Types of Capital Transfers

1. Debt forgiveness
2. Nonlife insurance claims
3. Investment grants
4. One-off guarantees and other debt assumption
5. Taxes
6. Other capital transfers



Types of Capital Transfers (2)

1. Debt forgiveness:

- *the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor.*
- the contractual arrangement cancels or forgives all or part of the principal amount outstanding, including interest arrears (interest payments that fell due in the past) and any other interest costs that have accrued.
- Debt forgiveness is distinguished from *debt-write-off*.

2. Nonlife Insurance claims:

- as a simplifying assumption all cross-border nonlife insurance claims are classified as current transfers, unless it is necessary to record a capital transfer to be consistent with the national accounts.



Types of Capital Transfers (3)

3. Investment grants:

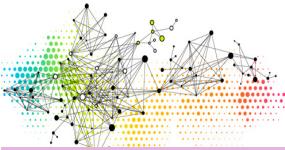
- capital transfers in cash or in kind made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring *fixed assets*.
- recipients may be other governments or other entities
- recipients are obliged to use the investment grants in cash for *fixed capital formation*, and the grants are often tied to specific investment projects.
- investment grants *in kind* cover transfers of capital assets e.g. transport equipment, buildings, and other structures.



Types of Capital Transfers (4)

4. One-off guarantees and other debt assumption:

- One-off guarantees are recognized only as financial assets and liabilities from the time they are activated
- Capital transfers arise:
 - ❖ If the debt-assuming party does not acquire a claim on the (original) debtor *because the original debtor no longer exists* (e.g., the original debtor has been liquidated), a capital transfer from the debt-assuming party to the creditor is recorded as the corresponding entry to the creation of the liability
 - ❖ If the debt-assuming party does not acquire a claim on the (original) debtor because the *debt assumer seeks to give a benefit to the debtor*, a capital transfer from the debt-assuming party to the original debtor is recorded



Types of Capital Transfers (5)

5. Taxes

- Capital taxes are levied at irregular and infrequent intervals
- Capital levies:
 - Taxes on the values of the assets or net worth owned (levied at very infrequent intervals)
- Taxes on capital transfers:
 - Taxes on value of assets transferred: e.g., estate, inheritance, and gift taxes



Types of Capital Transfers (6)

6. Other capital transfers

- Major non recurrent payments in compensation for extensive damages (e.g. oil spillage) or serious injury not covered by insurance policies
- Large gifts and legacies including those made to nonprofit institutions (e.g. to universities)
- Capital subscription to an international organization or nonprofit institution