

# OUTCOME PAPER #1<sup>1</sup>

## DEFINITION OF PERSONAL REMITTANCES IN THE BALANCE OF PAYMENTS CONTEXT

### UNITED NATIONS TECHNICAL SUBGROUP ON MOVEMENT OF NATURAL PERSONS

1. The United Nations Technical Subgroup on the Movement of Natural Persons (TSG) at its meeting in Paris (31 January – 1 February 2005), discussed, extensively Balance of Payments flows related to remittances based on the issue paper *Definition of Remittances and Relevant BPM5 Flows*. It deliberately sought to harmonize the Balance of Payments components related to remittances to the 1993 SNA transactions.
2. The TSG recognized the importance of compiling balance of payments flows related to remittances by partner countries. It recommended that, as a minimum, flows to and from the major partner countries be separately identified.
3. The TSG reiterated the need to maintain the difference between compensation of employees and workers remittances. Compensation of employee (COE) and workers remittances are conceptually different. While COE represents labour income, workers remittances represents a transfer without quid pro quo. The TSG recognized that in practice it may be difficult to separately identify the two items given different country practices in the application of the concept of residence.
4. The group agreed on the following issues:
  - (a) Introduction of the concept of “personal transfers” to replace “workers remittances” in the BPM5;
  - (b) Definition of personal remittances and its introduction in the balance of payments as a memorandum item;
  - (c) Change in recording of migrants’ transfer.
5. There was not sufficient time for the TSG to discuss additional issues related to an extended definition of remittances, namely institutional remittances. It was decided that deliberations on institutional remittances would be done electronically. An issue paper will be prepared by UNSD for discussion.
6. The above recommendations bring the balance of payments components in line with the 1993 SNA. Table I, in the annex, illustrates all transactions related to personal transfers and personal remittances, in the services accounts, primary and secondary distribution of income accounts. The 1993 SNA classification of distributive transactions (D) is used for ease of reference.

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<sup>1</sup> The paper will be submitted to the Balance of Payments Committee (BOPCOM), the Advisory Expert Group on National Accounts (AEG) and the Inter-agency Task Force on Statistics of International Trade in Services.

(a) *Personal transfers*

7. The group considered the definition of workers remittances in BPM5 too narrow and not precise enough. It expressed the need to expand it and clarify its coverage. It was recommended to change the definition of workers remittances in BPM5 to include all current transfers from resident to non-resident households, independently of (a) the sources 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, etc.).

8. The following definition could be used as the new definition of personal transfers in BPM6. It is in line with the 1993 SNA definition of current transfers between households (1993 SNA para 8.95).

*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.*

9. It was also suggested to replace workers' remittances with the definition above and to name the new BOP component "personal transfers". Other names were proposed, namely, "household-to-household transfers" and "personal remittances". "Personal transfers" was the preferred choice of the TSG (see (b) below for the considerations).

10. "Personal transfer" would include workers remittances and other household to household transfers, classified as other current transfers in BPM5. Countries found the new definition not difficult to implement. On the contrary, some countries are already calculating the newly proposed component as part of their current practice.

11. The TSG, in balance, did not think that there was a need to further sub-divide the component "personal transfers" into "workers' remittances" and "other personal transfers". It noted, however, that from a trade policy perspective, migrant workers' remittances are of particular interest.

12. It was recommended that personal remittances be recorded as a memorandum item<sup>2</sup> in the standard presentation of the balance of payments.

(b) *Personal remittances*<sup>3</sup>

13. The TSG agreed to define personal remittances as follows:

*Personal remittances consist of current and capital transfers in cash or in kind, made or received, by resident households to or from non-resident households and net compensation of employee from persons working abroad for short periods of time (less than one year).*

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<sup>2</sup> In the balance of payments, memorandum items are items that are mandatory to compile as opposed to supplementary items whose compilation is recommended but it is not mandatory.

<sup>3</sup> Although at the TSG meeting "remittances" was considered the preferred term, it was felt that it would be clearer to use the term "personal remittances" to distinguish them from "institutional remittances".

14. Personal remittances would be derived as the sum of (i) “net” compensation of employees; (ii) personal transfers; and (iii) household to household capital transfers. “Net” refers to compensation of employees net of taxes on income, social security contributions, travel and passengers’ transportation related to the short-term employment. The component compensation of employees would still be maintained and recorded gross in the balance of payments, but taxes on income, social security contributions, travel and passengers’ transportation of persons working abroad for less than one year would be netted out in the memorandum item.

15. Table I in the Annex illustrates the transfers included in the definition of personal remittances. The 1993 SNA classification of distributive transactions (D) is used for ease of reference.

16. Countries confirmed that it was feasible, from the existing data compilation systems, to separately identify the above-mentioned items.

17. It was recommended that personal remittances be recorded as a memorandum item in the standard presentation of the balance of payments containing the net amount receivable (credit) by resident household and the net amount payable (debit) to non-resident households.

18. The TSG noted that “net” compensation of employees (COE) would constitute a proxy of net amount payable and receivable. The underlying assumption of “net” COE is that all income that is receivable by the person working abroad for less than one year and that is not spent in the host country is sent back to the home country. This is tantamount to the assumption of zero savings in the host country.

19. It was also noted that other sources of income, such as entrepreneurial income and property income receivable by residents holding assets abroad, should be conceptually included in the personal remittances definition. However, because of practical considerations the TSG agreed not to include it.

20. The TSG recommended that household to household capital transfer should be included in the definition of personal remittances. Capital transfers are defined in BPM5 as transfers of funds linked to or conditional upon acquisition or disposal of fixed assets. The TSG noted that, at least conceptually, the distinction between current and capital transfers to households should be maintained. Several countries noted, however, that household to household capital transfers are difficult to identify and are in many cases recorded under current transfers. Including capital transfers in the definition of personal remittances would offset differences in country practices in recording household to household transfers – current and capital.

### *(c) Migrants’ transfers*

21. The TSG recommended migrants’ transfers not be included in the definition of personal remittances. Conversely, it recommended changing the current recording in BPM5 of migrants’ transfers in line with the treatment of the 1993 SNA. It agreed with the proposal of the Annotated Outline, that is migrants’ transfers will no longer be recorded as transactions in the balance of payments. Rather, they will be shown in the other changes in financial assets and liabilities account instead of a capital transfer in the

capital account. The rationale behind this proposal is that changes in residence of individuals/households do not involve changes in ownership but rather changes in classification and thus there is no transaction between resident and non-resident households.

### **Questions for the Committee**

- (1) *Does the Committee agree with the proposal of replacing “workers remittances” as defined in BPM5 with “personal transfers” as defined in para 8?*
- (2) *Does the Committee think it is necessary to separately identify “workers remittances” and “other personal transfers” as sub-components of “personal transfers”?*
- (3) *Does the Committee agree with the definition of “personal remittances” as outlined in para 13? In particular:*
  - (a) *Is the Committee in favour of including compensation of employees net of taxes on income, social security contributions travel and passengers’ transportation related to short-term employment as part of “personal remittances”?*
  - (b) *Is the Committee in favour of including capital household to household transfers in the definition of “personal remittances”?*
  - (c) *Does the Committee agree with excluding migrants’ transfers in the definition of “personal remittances”?*
- (4) *Does the Committee agree with the proposal of treating “personal remittances” as memorandum item?*

## ANNEX

### TABLE I PERSONAL REMITTANCES

SNA and BOP transactions	Personal transfers	Personal remittances
Services Travel (part, COE related)		√
Income COE		√
Current transfers		
Current taxes on income, wealth, etc. (D.5) (COE related) <sup>1</sup>		√
Social contributions (D.61) (COE related) <sup>1</sup>		√
Miscellaneous current transfers (D.75)		
Personal transfers <sup>2</sup>	√	√
Workers remittances	√	√
Other household transfers (e.g. gifts)	√	√
Lotteries and gambling	√	√
Compulsory payments (e.g. alimony)	√	√
Capital transfers		
Migrants' transfers		
Other capital transfers (household to household)		√

<sup>1</sup> These items are used to calculate net compensation of employees.

<sup>2</sup> Both the payment of a service charge and the transfer paid out to winners of lotteries and gambling are considered household to household transfers (1993 SNA para 8.97).