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**Residence of Households, Issues paper, Balance of Payments Technical Expert
Group (BOPTEG) # 8**

**Robert Dippelsman,
IMF Statistics Department**

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

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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.

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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.

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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

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

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