

TFSITS (06) 2

Eurostat - Technical Group Travel

The revision of Travel-related concepts in the balance of payments: comments of the Eurostat Technical Group Travel

1. Introduction

This note of the Eurostat Technical Group Travel¹ (TGT) attempts to contribute to the ongoing revision of the balance of payments manual. It is transmitted to the *Interagency Task Force on Statistics on International Trade in Services* (TFSITS), as previously agreed, taking advantage of the existing links between the two groups.²

The document reflects the position of the TGT as a whole on the issues discussed below. The group is composed by members normally acting as 'technical experts' whose opinions is not necessarily representative of the respective countries' official positions. Hence, this note is not intended to reflect the position of the countries represented in the TGT.

2. Background information

The TFSITS, at the last meeting held in Paris on 16 September 2005, discussed, among other issues, the ongoing process of revision of the balance of payments manual. In that occasion, the chairman of the TGT informed the participants about the interest that the TGT members had expressed for an active participation of the TGT in the revision of the parts of the new manual concerning Travel. The TFSITS agreed on the usefulness to establish a "direct link" with the TGT.

A written procedure within the TGT was therefore launched, aiming at providing comments and suggestions relevant for the "Travel chapter" of the forthcoming new BoP manual. The topics covered in the consultation were the following:

1. **Comments on documents** on Travel, discussed at the last meeting (27 June - 1 July 2005) of the IMF Committee on Balance of Payments Statistics (**BOPCOM**) and/or at

¹ The TGT was set up in 1995 by the Balance of Payments Working Party of Eurostat (now Working Group) in order to devise data collection strategies appropriate in the context of the European single currency. Its present mandate focus on: a) the exchange of best practices in collection methodologies and b) the analysis of bilateral figures with the final aim to improve data quality. Representatives from central banks and national statistical institutes of the 25 EU countries, Japan and the US participate in the group (see Annex 1 for the group composition).

² The chairman of the TGT was recently invited to participate in the TFSITS as a consultant for the drafting of a compilation guide on Travel, a follow-up to the issuing of the Manual on Statistics of International Trade in Services.

the mentioned meeting of the **TFSITS**. These documents, hereafter 'BOPCOM documents', highlight the present state of the discussion on Travel, namely:

- the proposals of the Technical Sub-Group of the Inter-agency Coordination Group on Tourism Statistics to the BOPCOM (BOPCOM-05/15);
 - IMF's considerations on previous document (BOPCOM-05/16);
 - IMF's summary of the outcomes of the BOPCOM deliberations on the travel item (OECD/TFSITS - September 2005 meeting - Room document 8).
2. Particular (**borderline**) cases that at present are **not clearly defined** in BoP definitions and it is felt could be better tackled in the future release of the manual. These issues have been raised during last TGT meeting and subsequently developed, namely:
- a. expenses related to dwellings owned by non residents; on this issue, the TGT drafted a specific document, included in the annexes of this note, that will be discussed in par. 4.
 - b. the purchases of cars - and other high value / durable goods - by travellers.

The present document is the outcome of the consolidation of the contributions received. A draft of the document was submitted to all TGT members for approval. **The present version obtained the approval of the simple majority of TGT members.**

3. Comments on BOPCOM documents

The relevant topics are discussed below adopting the classification of issues adopted in BOPCOM documents. In particular, the relevant options / questions are formulated as in the document BOPCOM-05/16. For all topics, the position of the TGT is indicated, in the form of agreement / disagreement or preferred option, along with a short justification (*'reasons'*) of the position taken. For some topics *'additional remarks'* are present, containing related issues to be considered and / or minor suggestions. In some cases, under the heading *'related issues not (yet) agreed within the TGT'*, matters that have not received, at least for the time being, a clear consensus among members are highlighted.

3.1 Definition of BOP Travel item

- *Refer to a nonresident visiting an economy and not a traveller in the definition of travel in BOP.*

The TGT agrees.

Reasons

This would enhance the conceptual 'clarity' of present rules, as it would avoid the present lack of correspondence between the definition 'travellers' and the scope of transactions included in 'Travel'. The change proposed would also, in most countries, simplify data collection procedures based on surveys, as it would avoid the need to ask specific questions to all interviewees in order to identify for the exclusion relatively small categories of individuals. It should be noted that this definition implies that the goods and services acquired in the visited economy by military personnel and civil

servants employed abroad in government enclaves and their dependants are included in Travel (see specific point below).

Additional remarks

1. In the case this change is adopted, it would be essential to include in the new definitions a sufficiently detailed reference to the terminology developed in the Tourism Satellite Account (TSA) framework, pointing out the differences between BOP (non residents visiting an economy) and TSA concepts (travellers, visitors, tourists, same-day visitors, etc.).
2. SNA and BOP terminology should be always consistent.

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- ***Clarify the scope of transactions in the BOP travel item to include all (and exclusively) goods and services acquired from an economy for their own use by non-residents during a visit (i.e., during the time the individuals are outside their country of residence).***

The TGT agrees.

Reasons

The clarification appears to be useful. It would serve the purpose to make clear that: a) expenditures not related to goods and services are excluded; b) shuttle trade is excluded; c) goods and services acquired without quid pro quo are included; d) acquisitions undertaken in anticipation or after a visit are excluded.

Additional remarks

1. The correct BOP treatment for durable and valuable goods (cars, furniture, works of art, etc.) purchased by travellers should be specified (see next paragraph).
2. It would be helpful to clarify that the expression 'during a visit' refers to the *acquisition* and not to the *use* of the goods / services involved. In fact, the goods and services acquired during the visit and used by the traveller at home are included in Travel. To this end, a possible better rewording could be the following: '... goods and services acquired during a visit from an economy by non-residents for their own use ...'.
3. It would be useful to clarify that prepaid (i.e. paid in advance to the trip) goods / services consumed during travel are included in Travel.
4. The SNA should be consistent with these definitions.

Related issues not (yet) agreed within the TGT

It was raised the additional need to clarify whether Travel should cover all goods/services acquired by non residents in the visited economy:

a), irrespective of the residence of the provider of the goods/services

or

b) only if they are provided by residents of the visited economy.

For example, consider the case of a Portuguese bus operator providing transport services within Spain to Portuguese travellers. According to the first option, these services would be included in Travel whereas according to the second option they would not. No clear consensus was found in this respect. Some members prefer the first option (in the case of the example, the services of the bus operator would be recorded as an import of Travel services in Portugal's BoP vis-à-vis Spain); according to the members supporting this approach, it would improve the consistency of Travel

with Mode 2 of services supply, TSA and SNA and it would be advantageous from a data collection standpoint. Other members do not support this position (and prefer to maintain the present rule, i.e. no BoP recording in the case considered), as they feel that it would involve an exception to the general BOP rule that only resident / non resident transaction are recorded.

- *Change the present title of the travel item to "Travel related expenditure (except international passenger carriage)," or would it prefer to retain the present title.*

The TGT agrees to retain the present title.

Reasons

The group does not see particular reasons to change the present short and long-established title.

- *Introduce a supplementary presentation on tourism in the BPM6 that shows data from the travel and passenger transportation items that would be included in the measurement of tourism in the TSA.*

The TGT does not agree.

Reasons

The group does not see the need to include in the definitions the supplementary presentation a new aggregate that is, as far as it is understood, merely the sum of the Travel and Transport - Passenger items. Compilers could choose to adopt it on a voluntary basis, as already happens in some countries.

- *Include in the BPM6 an appendix on tourism statistics that would present the concept of tourism consumption both in the travel and passenger transportation items through a satellite or alternative presentation. An alternative would be to regard this appendix beyond the scope of the BPM ?*

The TGT does not agree.

Reasons

The group believes that an appendix of the type described is beyond the scope of the balance of payments manual. However, the group recommends that, after the release of the new manuals (in BoP and other tourism-related domains), the involved international organisation jointly develop and disseminate 'bridge tables' including the comparison of definitions used in different statistical domains.

3.2 Measurement of the activity of travel agencies and tour operator services

- ***Would the TGT agree to treat similarly the services of travel agencies and tour operators working on margin and those working on commission?***

The TGT agrees.

Reasons

Travel agencies and tour operators working on margin and those working on commission appear very similar as regards the substance of their activity.

Additional remarks / suggestions

Relevant difficulties in data collection are already experienced for the correct identification of margin of commissions of the mentioned tourist intermediaries. It is perceived that this situation will not significantly improve in the short run. Future 'compilation guides' should address these issues in detail.

- ***Would the TGT accept one of the two proposed alternative treatments of the service of travel agencies/ tour operators that are residents of the third country? If so, which one would be preferred?***

The TGT prefers the second alternative treatment, i.e. "include in other trade-related services the services of travel agencies/tour operators that are resident of a third country".

Reasons

This approach seems more consistent, since it avoids the substantial deviation, involved by the first alternative treatment, from the definition of Travel (services have to be acquired from the economy visited).

Additional remarks

Services provided by travel agencies / tour operators that are resident in third countries are increasingly important but serious difficulties in data collection are already experienced. As said in previous point, future 'compilation guides' should address this issue.

- ***Would the TGT agree to separately identify travel agencies and tour operator services within the travel item?***

The TGT does not agree.

Reasons

Current data collection practices do not allow a reliable breakdown in most countries.

3. 3 Treatment of military personnel and civil servants (including diplomats) employed abroad in government enclaves

- *Would the TGT accept the TSG proposal to include in the travel item the acquisition (in the country in which they are stationed) of goods and services by military personnel and civil servants (including diplomats) employed abroad in government enclaves and their dependents and consequently exclude them from government services n.i.e.?*

The TGT agrees.

Reasons

This issue is closely related to that of the definition of the universe of transactors. As said, the group supports the reference to 'nonresidents visiting an economy' rather than to 'travellers'. This implies that the individuals mentioned here have to be considered 'target' transactors (i.e. whose expenditure is included in Travel). As mentioned, this improves the consistency of definitions and generally facilitates data collection.

3.4 Business / personal breakdown of Travel item

- *Which one of the following options would the TGT accept:*
 - (i) *Following the TSG proposal, eliminate the current breakdown of the travel item according to the purpose of the visit (business/personal).*
 - (ii) *Retain the current BOP split of the travel item (business/personal).*
 - (iii) *If (ii) is accepted, add additional detail to the current BOP business travel item, notably a split of business travel into: (a) employed by home economy; (b) employed by host economy; and (c) self-employed in the host economy.*

The TGT supports option (ii), i.e. to retain the current split (business / personal). The TGT does not support the introduction of the additional detail mentioned in point (iii).

Reasons

According to the experience of the group members, the current split has an analytical value, also proved by a certain interest of users in this breakdown, which may justify its 'survival'. As far as conceptual issues are concerned, the group believes that even though the current split seems not able to allow the identification of the intermediate consumption of producers, the last option appears insufficient to serve this objective too. As it is indicated in BOPCOM-05/16, an additional breakdown of the expenditure by product, to identify the part representing intermediate consumption (transport and accommodation), would also be necessary to this end. As a conclusion, the 'volume' of information required to serve the objective of the identification of intermediate consumption, for SNA needs, appears excessively high taking into account the present potential of collection systems.

4. Borderline cases

4.1 Expenditure related to dwellings owned by non residents

At the last meeting of the TGT, held in Heerlen on June 2005, the issue of the expenditure related to dwellings, typically holiday homes, legally owned by households not resident in the country where

the building is located was discussed. The purchase of houses by physical persons outside the country of residence is in fact an increasingly spread phenomenon in the European Union. The focus of the discussion was on the recording theoretically required in the balance of payments, according to the definitions, of the miscellaneous related expenses, such as the purchase / sale of the house, maintenance costs, repairs, bills paid for utilities, taxes, etc.

The details on the analysis subsequently carried out within the group are available in a specific document, included in Annex 2 of this note. The document appears relevant in the framework of the revision of the Travel chapter of the future BoP manual since it concludes that:

- a) the issue is quite complex and not sufficiently and consistently dealt with in existing balance of payments manual and accompanying guides;
- b) this situation could be improved in the forthcoming release of the manual.

4.2 Expenditure on durable and valuable goods

At the last meeting of the TGT the issue of the correct allocation of the expenditure of nonresidents in the visited economy on durable (cars, furniture, domestic appliances, etc.) and valuable goods (jewellery, precious stones, antiques and art objects, etc.) was also discussed. The discussion originated from the perception that, given the lack of specific and clear indication in the balance of payments manual, risks existed of misallocations, omissions or double counting.

This situation seems to be reflected in the preliminary draft of the outcome of the recently undertaken joint OECD/Eurostat inventory of compilation practices concerning services in the balance of payments of member states. It has shown that many countries (17 out of 35) exclude the purchases of cars and large household appliances by travellers from Travel³.

The *Balance of Payments Manual - Fifth edition* does not provide any specific indication in this respect. The only relevant reference that was found in BoP texts is the following, from the "Balance of Payments Textbook", par. 338:

³ See *OECD - Statistics Directorate, Eurostat/OECD Methodological Soundness Questionnaire - Progress Report*, September 2005.

"For example, a resident of Coonawarra travels in Daniherland for six months to attend a training course. During this time, the traveler spends 850 units on goods and services, **500 units of which are spent on an automobile that the traveler subsequently takes back with him** to Coonawarra and 30 units of which are spent on gifts for relatives in Daniherland. The traveler stays in accommodations provided by the Daniherland government. The accommodations are provided free of charge but valued at 125 units.

The following entries should be recorded in Daniherland's balance of payments:

	Credit	Debit
Goods		30
Travel	975	
Current transfers		
General government		125
Other	30	
Reserve assets (or other appropriate financial account item)		850
	<u>1,005</u>	<u>1,005</u>

The travel item includes the accommodation services received by the traveler without a quid pro quo, as well as **the purchase of the automobile**. The gifts provided to the traveler's relatives are shown as imports of goods and are offset by a transfer."

Helpful conceptual references, concerning valuable goods, were found in national accounts definitions. They are reproduced in the box below.

The treatment of valuable goods in national accounts

Valuable goods are defined in ESA95 paragraph 3.126 as follows: "Valuable encompass the following type of goods: precious stones and metals, antiques and art objects, other valuables, such as jewellery fashioned out of precious stones and metals and collectors items".

According to ESA95 paragraph 3.150.e, "Transactions in existing valuables are to be recorded as the acquisition of a valuable (positive gross capital formation by the purchaser) and as the disposal of a valuable (negative gross capital formation) by the seller. In the case of a transaction with the Rest of the World, the import or export of a good is recorded...". The case considered here is that of an import / export of goods with no physical movement of the purchaser in the economy of the provider.

Moreover, ESA95 formulates, in the heading devoted to "import and export of services" (paragraphs 3.140- 3.146), the following statement:

Paragraph 3.142.J: "Exports of services include the following borderline cases...expenditure by non-residents tourists and business travellers (by convention classified as services; however, for the purposes of the supply and use and symmetric input-output tables, a global breakdown by products may be necessary)."

Therefore, valuables goods purchased by non-residents / residents during stays in the economic territory of the compiling economy / in the Rest of the World should be recorded as exports / imports of services, since all the expenditure by residents/non-residents travellers, regardless of the type of product purchased, is recorded by convention in services. Thus, for example, if a resident traveller purchases an art object during a journey abroad, two recordings have to be carried out in the national accounts of the traveller's country: a) an import of services in the Rest of the World account; b) a positive gross capital formation in the households sector account.

It was therefore (provisionally) concluded within the TGT that the expenditure on these types of items, if carried out by non residents visiting another economy, has to be include in Travel. Nevertheless, the group, also in this respect, considered that **more clear-cut rules about the treatment of these transactions are needed**.

5. Conclusions

The note, representing in some cases a compromise between the TGT members varied positions, is intended to provide a contribution of a technical character to the debate on Travel concepts revision. On the one the document provided the reactions of the group about the positions expressed on this matters by the Technical Sub-Group of the Inter-agency Coordination Group on Tourism Statistics and the IMF Balance of Payments Committee. On the other hand, tried to draw the attention on the need to take the opportunity of the BoP manual revision to improve the clarity of the rules for the treatment of peculiar cases, namely the expenditure connected to dwellings abroad and the purchases of durable and valuable goods by travellers.

The group is ready to further contribute on these issues, to the extent possible, in the subsequent phases of the manual revision process.

ANNEX 1

Eurostat Technical Group "Travel" composition

NAME	COUNTRY
Rene Dell'mour	Austria
Peter Speleers	Belgium
Chrysostomos Tsoundas	Cyprus
Alena Jeřábková	Czech Republic
Pavel Vancura	Czech Republic
Selma Mustafic Mulalic	Denmark
Andres Kerge	Estonia
Maria Isabel Lázaro	Eurostat
Ritva Marin	Finland
Dominique Boissonade	France
Brigitte Kombert-Engelhardt	Germany
Evangelos Pantelidis	Greece
Georgios Kouvatseas	Greece
László Varga	Hungary
Reamonn McKeever	Ireland
Giovanni Giuseppe Ortolani (chairman)	Italy
Reiko Gonokami	Japan
Inara Briksne	Latvia
Rasa Abazoriene	Lithuania
Nico Weyer	Luxembourg
Manuel Tabone	Malta
Ben Schoffelen	Netherlands
Ewa Bieniasz	Poland
Marta Veloso	Portugal
Maria Manuela Raminhos	Portugal
Maria Janska	Slovakia
Janez Klemenc	Slovenia
Rafael Roig	Spain
M ^a Teresa Garcia-Cid	Spain
Maria Krigsman	Sweden
Tom Orford	United Kingdom
Michael Mann	United States

ANNEX 2

The treatment of transactions related to dwellings owned by non residents in the balance of payments⁴

November 2005

1. Introduction

In the 2005 meeting of the Technical Group Travel (TGT) the issue of the treatment of the expenditure related to the use of holiday homes owned by non-residents was discussed. The outcome of the debate is summarised in the document *Technical Group Travel, Meeting 9-10 June 2005 - Draft summary, list of participants and list of actions* as follows:

"Cyprus, that raised the issue in advance to the meeting (see the note by Chrysostomos Tsoundas – Central Bank of Cyprus, “Holiday homes owned by non-residents in Cyprus”), introduced the problem, i.e. the correct allocation of this type of expenditures between Travel or other BOP items and best practices for collecting the relevant information for cases like the following:

1. Day to day running expenses related to the property, as utility bills, taxes, routine maintenance, etc.
2. Expenses that add value to the property, as the construction of swimming pools, house restructuring, etc.
3. Properties rented to residents of the country in which the house is located.
4. No clear information on the length of the stay of the owner in the country visited as he/she moves several times during the year from one country to the other.

Several countries provided hints and reported on national experiences. After discussion, the Chairman concluded with several actions to be taken (See list of actions in Annex 2)."

As specified in the mentioned list of actions, this documents relates to the commitment of the chairman of the TGT to:

⁴ By G. Giuseppe Ortolani, Ufficio Italiano dei Cambi (giuseppe.ortolani@uic.it). This annex take into account comments received by the following members of the TGT on an initial draft: Maria Teresa Garcia Cid (Bank of Spain), Rene Dell'Mour (Bank of Austria), Tom Orford (Office for National Statistics), Rafael Roig (Instituto Nacional de Estadística), Chrysostomos Tsoundas (Central Bank of Cyprus).

"Prepare and circulate to all members a matrix on the possible treatment, according to the BPM5, of the various cases."

The present analysis encompasses all types of dwellings, i.e. not only those classifiable as holiday homes, legally owned by households not resident in the country in which the building is located.

The focus of this note is on the recording theoretically required according to the definitions. However, it should be considered, as it will be recalled in the conclusions, that BOP definitions are not specific on these cases and sometimes do not provide unique indications. Consequently, national accounts manuals had also to be consulted to derive some clues on possible coherent ways of recording. For illustrative purposes, some practical compilation examples are provided. Data collection aspects are excluded, with the exception of a few references, as their complexity deserves a separate contribution.

2. National accounts and balance of payments and definitions

The concepts and definitions related to dwellings located outside the country of residence of the owner in balance of payments and national accounts texts [Balance of Payments Manual - Fifth edition (BPM5), Balance of Payments Textbook (BPT), Balance of Payments Compilation Guide (BCG), System of National Accounts 1993 (SNA93)] constitute the basis of the present analysis.

The SNA states that, generally speaking, dwellings, occupied whether by the owner or the tenant, are factors producing a particular type of service, i.e. housing (or dwelling) services. The expenditure to purchase dwellings by households represents, therefore, gross capital formation. The value of the housing services provided is given by the rental, if the building is rented to a tenant, or by an imputed value, equivalent to the market price of the rental, if the building is occupied by the owner (owner-occupier). In the latter case, the owner-occupier household is considered as owning an unincorporated enterprise which provides housing services consumed by the same household (see SNA93, par. 9.45, 9.58).

Dwellings are always considered a resident unit of the country in which they are located. The case dealt with in this note is that of a legal owner of the building that is a subject not resident in the country in which the building is located. BOP and SNA definitions state that, in this case, a notional resident unit is created to own the building (a non-financial asset). The notional unit is treated as being owned and controlled by the non resident owner. The dwelling is therefore considered a direct investment abroad (i.e. a financial asset) of the owner (see BPM5, par. 64, 382; BPT, par. 550; BCG, par. 718; SNA93, par. 9.58).

Hence, the purchase by a resident of country A of a dwelling located in country B is recorded in the balance of payments of country B as a direct investment in country B (*Direct investment in reporting economy—equity—credit*). The subsequent sale of the same dwelling is recorded in *Direct investment in reporting economy—equity—debit* (see BCG, par. 719).

As regards the recording of the expenses related to the dwelling, the SNA makes a distinction between the expenditure for "decoration, maintenance and repairs" of the dwelling, on the one hand, and the expenditure for "major improvements", on the other hand⁵. This classification broadly correspond to the split, mentioned in par. 1 of this note, between 'running expenses', excluding taxes, and 'expenses that add value to the property'. Expenditure that the owner-occupier incurs on "decoration, maintenance and repairs" should be treated as intermediate consumption incurred in the production of housing services. The purchases of materials for "do-it-yourself" repairs and decoration are to be treated as final consumption expenditure; these activities (repair and decoration) are in fact treated as falling outside the production boundary (see SNA93, par. 9.59). Expenditure on "major improvements" (i.e. reconstructions, renovations or enlargements - to dwellings are "excluded from household consumption expenditure and are treated as gross fixed capital formation on the part of the owners of those dwellings" (see SNA93, par. 9.60).

Consequently, translating these concepts into the BOP domain, the expenses on *major improvements* are to be considered as monetary flows that increase the direct investment claims of the owner. Therefore, if the expenses are incurred by a resident of country A for a dwelling located in country B, a direct investment flow, equivalent to these expenses, is recorded in the balance of payments of country B, in the item *Direct investment in reporting economy—equity—credit*.

As far as expenses on *decoration, maintenance and repairs* are concerned, the approach suggested by the Balance of Payments Textbook (see BPT, par. 551) seems consistent with the above mentioned SNA inclusion in intermediate consumption. Consequently, current expenses of this type are only taken into account to calculate the net rent. The latter, calculated as the difference between gross rent and current expenses, is recorded in *Investment income - direct investment - debit* of the economy where the house is situated.

It is relevant to notice that the BCG proposes a different treatment of current expenses, with the recording of the amount of these expenses, in the balance of payments of the country of location of the house, both in *Direct investment in reporting economy* credits and debits. Even though the use of this alternative approach would not produce an effect on balances (credits and debits cancel out), it appears, nevertheless, appropriate to **avoid this kind of ambiguities in future editions of the manuals**.

In detail, the BCG (see par. 719) seems to suggest the following approach. The expenses on *decoration, maintenance and repairs*, similarly to those on *major improvements*, are initially considered monetary flows that increase the direct investment claims of the owner. Therefore, if the expenses are incurred by a resident of country A for a dwelling located in country B, country B records the relevant amount in *Direct investment in reporting economy—equity—credit*. The rent, either actual or imputed, is ideally divided in two parts. The first part is represented by the amount that covers 'current' expenses (on *decoration, maintenance and repairs*); since it cancels out the initial increase of direct investment claims that occurred when the expenses were incurred, it is recorded in *Direct investment in reporting economy—equity—debit*. The second part, i.e. the net rent (rent less current expenses), is recorded in *Investment income - direct investment - debit*.

Expenses on *"do-it-yourself" materials* carried out by the owner in the country of location of the house, have to be recorded in *Travel - credits* of that country.

⁵ Apparently, this distinction is not explicitly present in balance of payments definitions.

Given the mentioned direct investment relationship between the owner and the dwelling abroad, *taxes on the property*, paid to the government of the country in which the building is located, are to be treated in the same way as the other current expenses on the dwelling incurred by the owner.

The payment of the purchase taxes, on the initial purchase of the house, could be considered as a specific case. It can be assumed that, at the moment these taxes are paid, no 'FDI relationship' has been started, since the house has not yet been bought. Therefore, the relevant amount should be recorded in *Current transfers - credit* of the economy in which the house is purchased.

BoP textbook para 427 clarifies the resident to resident nature and FDI treatment of "taxes levied by the government of a compiling economy on property located in the compiling and owned by a non-resident" and says that "the taxes most commonly recorded as transfers are those on income". Neither of these states a clear position on purchase taxes, which are on the purchase of the property not on the property itself. As mentioned, there are timing issues on the setting up of the notional resident enterprise. If we did regard purchase taxes as being paid by this enterprise then the purchase tax would have to be deducted from income in the first period after purchase. However, since the proper treatment appears doubtful, the case is not further considered.

The same treatment has to be adopted for the expenses for *utilities* (electricity, gas, water). The expenses are considered intermediate consumption and, consequently, deducted from the rent to form net income figures.

This treatment appears rather 'logic' in the case that the house is rented and the utilities are paid by the owner (the latter in turn will recover this cost in the rent). In the case of dwellings used by the owner a different approach may appear rational. It might be plausible to consider these services - at least for the part exceeding 'fixed' fees, not correlated to the level of consumption - as final consumption of the owner and, therefore, to include the related expenses in Travel (e.g. export of the economy where the house is located). However, in the examples in following paragraph a unique approach, i.e. including all current expenses in the calculation of net income, will be used.

Consistently with the general approach, empty dwellings, i.e. dwellings neither rented nor occupied by the owner, are regarded as resident units not producing any housing services.

In the domain of European national accounts, the Commission Decision of 18 July 1995 (OJ L 186, 05/08/1995 P. 0059 - 00 69), "specifying the principles for estimating dwelling services", indicates that the dwellings to be considered as 'empty' are only those actually available to be sold or rented. Therefore, "a rented dwelling is always considered as occupied even if the tenant chooses to live elsewhere." and "A borderline case is an empty dwelling which is fully furnished and can be used by the owner immediately. Here one might argue that no housing service is provided as long as it is not actually occupied by the owner. But since it is comparable to the case of a rented but empty dwelling, it seems appropriate to insert a rent. Therefore, furnished owner-occupied dwellings are generally regarded as occupied." The same Decision also contains methodological hints on how to measure housing services.

Hence, in such cases, a negative investment income flow is recorded in the balance of payments if the owner incurred in current expenses (see BPM5, par. 289; BPT, par. 412).

3. Examples of recording in the balance of payments

Based on the definitions illustrated above, in this paragraph the recording in the balance of payments of the country in which the dwelling is located is simulated for some typical transactions related to the use of dwellings abroad. The following conventions are used in all examples:

- the dwelling is located in Cyprus; therefore, we will simulate the recording in Cyprus' BOP;
- the country of residence of the owner is the UK;
- works for renovation and maintenance of the house are always carried out by firms resident in Cyprus.

Example #1 (house purchased, rented to a resident, sold)

Case

A British resident bought a house in Cyprus. After having carried out a major renovation of the building, which included the construction of a swimming pool, the owner rented the house to a resident of Cyprus for three months. The house was eventually sold to another resident of Cyprus. All transactions are carried in the reference year.

Transactions

The following transactions took place in the reference year:

- expenses by the owner
 - ◆ EO1. purchase of the house 100,000
 - ◆ EO2. major renovation (including swimming pool) 40,000
 - ◆ EO3. maintenance and repairs of minor importance 550
 - ◆ EO4. taxes on the property paid to Cyprus' government 490
 - ◆ EO5. utilities (electricity, gas, water) 150
- expenses by the tenant
 - ◆ ET1. rent paid by the tenant 2,330
- receipts of the owner
 - ◆ RO1. sale of the house 150,000

*Recording
memo items*

Total current expenses	= $EO3+EO4+EO5$	1,190
Net rent (rent less current expenses)	= $ET1-(EO3+EO4+EO5)$	1,140

<i>Cyprus' BOP</i>		Credit	Debit
Investment income - Direct investment - Income on equity - Dividends and distributed branch profits	= $ET1-(EO3+EO4+EO5)$		1,140
Direct investment - In reporting economy - Equity capital - Liabilities to direct investors	<i>Credit = $EO1+EO2$</i> <i>Debit = $RO1$</i>	100,000 40,000	150,000
Reserve assets (or other appropriate financial account item)		11,140	

Example #2 (house used by the owner for holidays)

Case

A British resident spent, in the reference year, five months on holidays in a house he owns in Cyprus. During that period he carried out various routine expenses and a major renovation related to the building. He also consumed goods and services provided by the Cyprus' economy.

Transactions

The following transactions took place in the reference year:

- actual expenses by the owner
 - ◆ EO1. major renovation 20,000
 - ◆ EO2. maintenance and repairs of minor importance 600
 - ◆ EO3. taxes on the property paid to Cyprus' government 490
 - ◆ EO4. utilities (electricity, gas, water) 300
 - ◆ EO5. purchase of various goods and services in Cyprus 4,000
- imputed expenses by the owner
 - ◆ EO6. imputed rent for the five-month stay 3,880

Recording

memo items

Total current expenses	= EO3+ EO4+EO5	1,390
Imputed net rent (imputed rent less current expenses)	= EO6-(EO2+EO3+EO4)	2,490

<i>Cyprus' BOP</i>	Credit	Debit
Travel - Personal =EO5+EO6	4,000 3,880	
Investment income - Direct investment - Income on equity - Dividends and distributed branch profits =EO6-(EO2+EO3+EO4)		2,490
Direct investment - In reporting economy - Equity capital - Liabilities to direct investors <i>Credit = EO1</i>	20,000	
Reserve assets (or other appropriate financial account item)		25,390

Comments

The same type of recording applies if the house is rented to a resident of a country different from Cyprus (irrespective of the fact that the residence of the tenant coincides with that of the owner), who spend in the house his/her holidays. In this case, obviously, the actual rent paid by the tenant is recorded in place of the imputed one.

The example suggests that expenditures on all accommodation services provided to travellers in buildings located in the compiling economy, irrespective of the residence of the owner of the dwelling, have to be allocated to the Travel item (credit).

Example #3 (empty dwelling)

Case

A British resident owns a house in Cyprus. During the reference year he carried out various routine expenses. The house was neither rented nor occupied by the owner.

Transactions

The following transactions took place in the reference year:

- actual expenses by the owner
 - ◆ EO1. maintenance and repairs of minor importance 600
 - ◆ EO2. taxes on the property paid to Cyprus' government 490
 - ◆ EO3. utilities (electricity, gas, water) 300

Recording memo items

Total current expenses	= EO1+ EO2+EO3	1,390
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<i>Cyprus' BOP</i>	Credit	Debit
Investment income - Direct investment - $=0 - (EO2+EO3+EO4)$		-1,390
Income on equity - Dividends and distributed branch profits		
Reserve assets (or other appropriate financial account item)		1,390

Comments

Given the lack of provision of housing services and the existence of current expenses, a negative investment income is recorded. The recording showed is tentative since there is a lack of clear-cut indications in both the BOP manual and the Compilation Guide (BPM5, par. 289 and BCG, par. 412 only deal with losses of enterprises). In particular, there is uncertainty on the appropriate investment income sub-item to be used⁶. On the definition of 'empty' dwellings, see par. 2.

4. Conclusions on the treatment of transactions related to dwellings owned by non residents

The analysis of definitions has showed the complexity of the treatment of transactions related to dwellings owned by non residents in the balance of payments. BOP texts are often not sufficiently explicit and clear on the correct handling of particular cases, such as: dwellings occupied by the owners, empty dwellings, current expenses related to the building. In such situations, national accounts definitions help deriving a possible recording approach, but risks of subjective interpretations remain. Nonetheless, it would be highly appropriate, also taking into account the relevant size of the market of holiday homes abroad, to have these issues directly and clearly addressed in the forthcoming edition of the BOP manual.

⁶ In detail, in the BCG suggests the use of the sub-item 'Reinvested earnings'. In the example in this note, instead, 'Dividends and distributed branch profits' is used, consistently with previous examples (#2 and #3).

As far as data collection issues are concerned, the actual implementation of the concepts appears very problematic. The mentioned Commission Decision of 1995, in discussing the methods to correctly account for holiday dwellings in transactions with the rest of the world, highlighted the lack of information in all Member States. The Technical Group Travel may consider the issue in future discussions.