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REMITTANCES AND LABOUR MOBILITY

CROSS-BORDER REMITTANCES STATISTICS IN RUSSIA

Note by the Bank of Russia

I. INTRODUCTION

1. Russia tops the list of emerging market economies in terms of the number of migrants in its territory, while in terms of the value of remittances it is second only to the United States. Calculated on the basis of balance of payments data¹, the value of remittances from Russia in 2007 stood at \$18 billion, or 7% of the world's total.
2. This paper illustrates some practical and methodological approaches adopted by the Bank of Russia in developing cross-border remittances statistics framework.

¹ The sum of the following balance of payments items: workers' remittances, compensation of employees and migrants' transfers.

II. STATISTICS ON CROSS-BORDER TRANSACTIONS OF INDIVIDUALS

3. In 2004 the Bank of Russia initiated data collection on cross-border transactions of natural persons as part of its on-going effort to improve the quality of Russia's external sector statistics. The reporting population covers banks, Money Transfer Operators (MTOs) and Russia's Federal Postal Service and the created database includes information on all international transactions of individuals, including remittances.

4. In 2008, individual cross-border transactions (flows to Russia plus flows from Russia) were valued at \$51.9 billion, or 3.1% of Russia's GDP. Outflows exceeded inflows by \$30 billion (1.8% of GDP).

5. Remittances are only part of this indicator because the latter includes data on (i) flows in Russia (from Russia) in favour of (from) resident individuals and non-resident individuals and (ii) payments related to merchandise trade, trade in services, financial transactions etc.

6. However, cross-border transactions statistics itself has attracted a wide range of users. It shows interdependency of different economies, allows evaluating the extent of households' involvement in banking sector transactions, the level of financial literacy can be judged from the relevant trends, and it helps banks and MTOs to determine their proper shares of the money transfer market.

7. Taking into consideration the great interest shown by banks and mass media, the Bank of Russia has begun to publish statistical data on individual cross-border transactions on a quarterly basis. At present, users are particularly interested in data on the value of individual cross-border transactions conducted through MTOs and the postal service. These data are disseminated without any adjustments and come directly from reports of banks that are clearing centres for MTOs, of those MTOs that don't have clearing banks in Russia and reports on postal remittances.

8. Remarkably, comparing the Bank of Russia data on cross-border transactions conducted via MTOs with other countries' statistics (i.e. provided by Georgia and Tajikistan) showed broadly similar results for 2007 with discrepancies ranging within 2 to 5 percent.

Table 1. Comparison of cross-border remittances

	\$ mln	
	2006	2007
Remittances from Russia to Tajikistan		
Bank of Russia data	957	1632
National Bank of Tajikistan data	934	1560
Discrepancy	3%	5%
Remittances from Russia to Georgia		
Bank of Russia data	344	558
National Bank of Georgia data	369	545
Discrepancy	-7%	2%

III. ECONOMIC DEFINITION OF REMITTANCES

9. The principal methodological problem we faced when disaggregating remittances from other cross-border transactions of individuals was the lack of a single economic definition of the former. A major contribution to the process of defining this phenomenon and arranging the corresponding statistical accounting has been made by the latest recommendations of international organisations and statistical forums. We believe that the aggregates introduced at the international level, such as personal remittances and total remittances are a good statistical approximation to the definition of remittances.

10. In our view, which accords with international standards, remittances are:

a) resource flows from abroad to resident households of financial and other economic values related directly or indirectly with labour migration;

b) resource flows from resident households of financial and other economic values related directly or indirectly with labour migration.

11. Consequently, there are two major factors that should be taken into account when defining remittances: a final beneficiary, the household, and the fact that the movement of economic values is related with labour migration.

12. To find the statistical measurement of this definition, we have disaggregated indicators used in bank statements on individual cross-border transactions. We have divided transactions into non-resident and resident, broken down the latter by purpose and disaggregated remittances.

13. The problems are that too many cross-border transfers remain unclassified: 18% of payments and 33% of receipts and too many people have dual citizenship.

Figure 1. Money transfers in favor of individuals to the Russian Federation

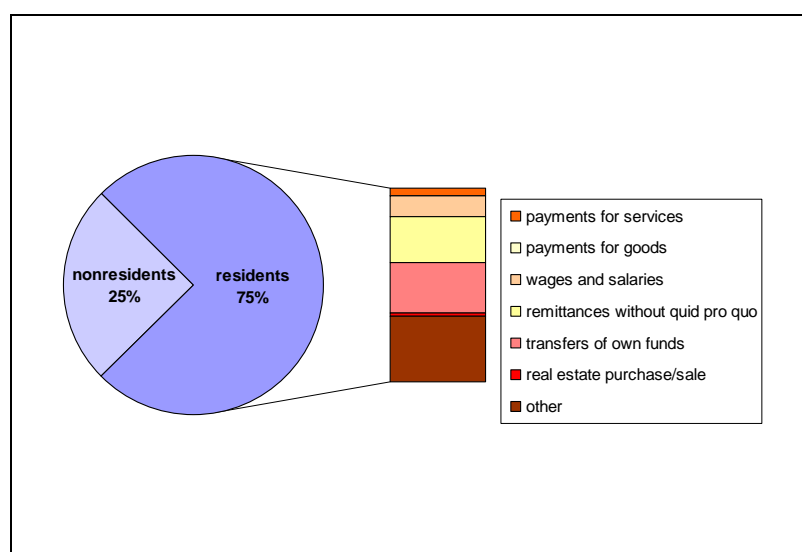
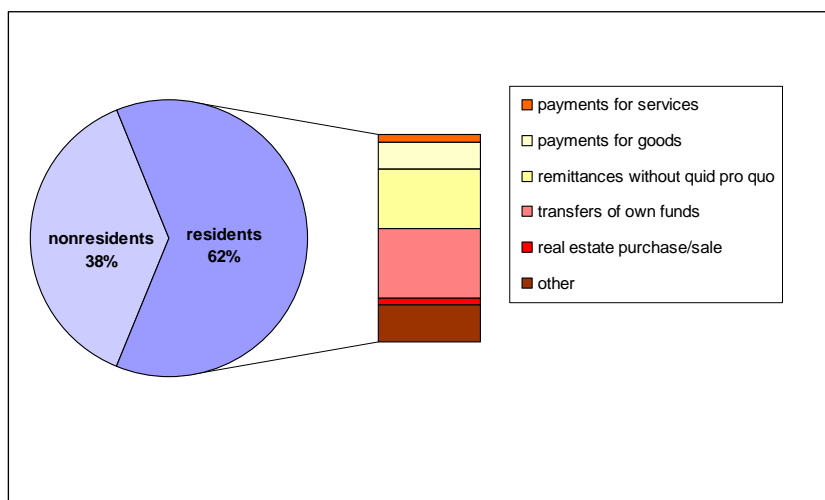


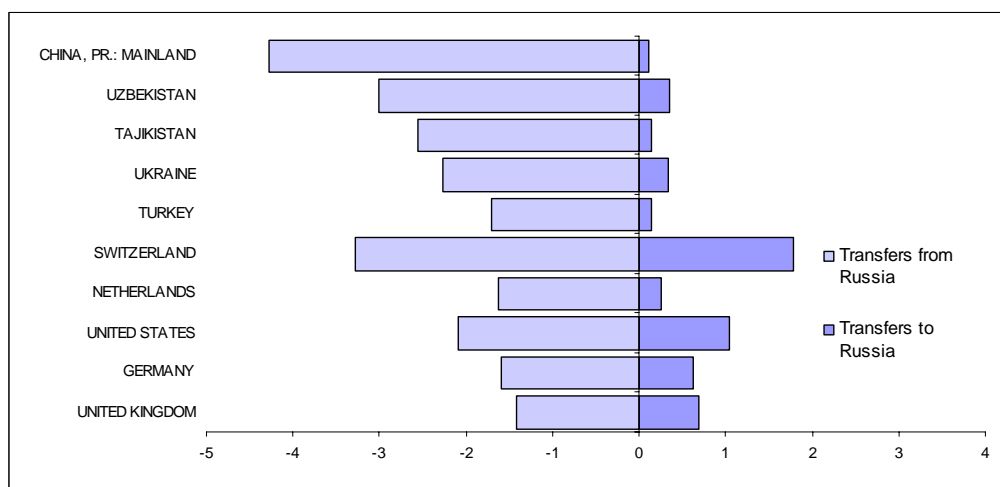
Figure 2. Money transfers abroad from individuals in the Russian Federation

14. The breakdown by country allows improving analysis of data for the purpose of determining remittances in the true sense. Transfers to Uzbekistan, Tajikistan and Ukraine (amount to \$7.8 billion in 2008, or 0.5% of Russia's GDP) resemble part of compensation of employees paid to migrant workers from these countries. This is confirmed by frontier control service data on the number of people who entered Russia and data on average earnings.

15. At the same time, Russia's negative balance with China (estimated at \$2.4 billion) is not confirmed by data on the number of Chinese natives in Russia. Our study has shown that some part of remittances to China declared by individuals as transfers without quid pro quo are earnings from imports brought to Russia without being cleared by customs.

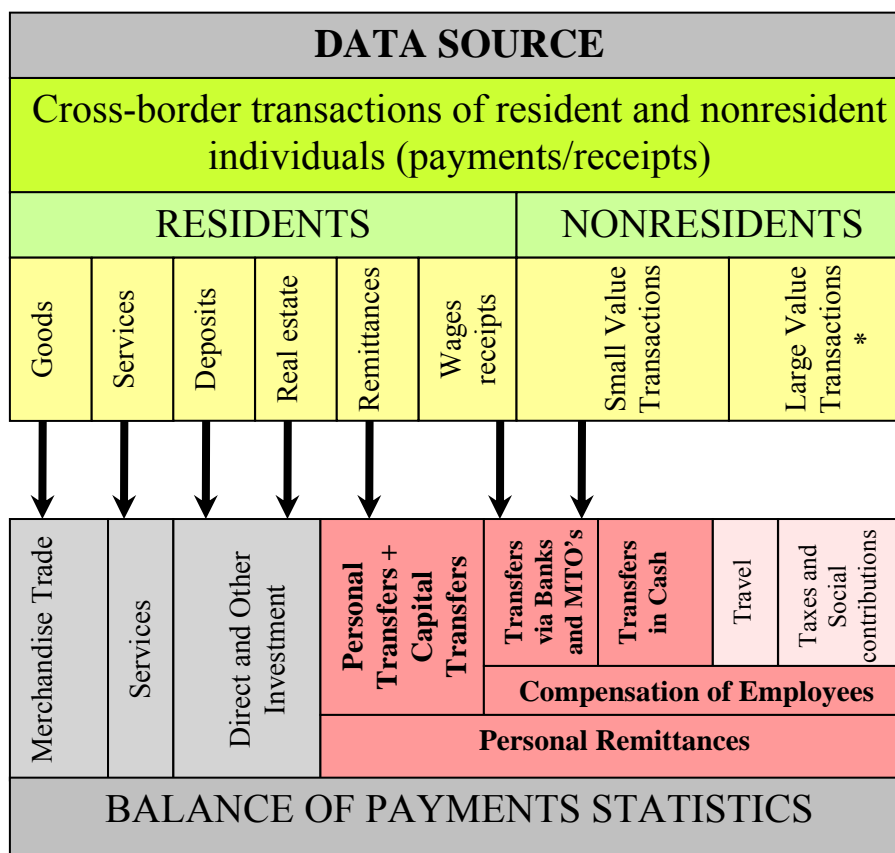
16. The large size transfers are also on problem list. It is common practice in Russia for unincorporated entrepreneurs to pose as private individuals and remit through MTOs payments relating to merchandise trade. Declared as personal transfers to the banks' operators and reported by the banks accordingly they involve considerable funds and therefore transfers averaging more than \$5,000 have been excluded from household-to-household remittances.

Figure 3. Cross-border transactions of individuals in breakdown by countries
Data on top 10 countries by turnover in 2008, \$ bln



17. Our work resulted in the segregation of remittances from other individual cross-border transactions.

Figure 4. Breakdown of cross-border transactions



*Merchandise Trade

IV. PERSONAL REMITTANCES

18. Personal remittances is the supplementary item introduced in the revised Balance of Payments and International Investment Position Manual (BPM6).

19. Personal remittances is the sum of:

- (a) primary income in the form of compensation of employees;
- (b) secondary income in the form of transfers of individuals; and
- (c) capital transfers between households.

20. In this country the item personal remittances has been calculated using balance of payments time series.

Table 2. Comparison of measures of personal remittances in BPM5 and BPM6

	\$, bln				
	2004	2005	2006	2007	2008
A. BPM5 Framework (Standard components related to remittances)					
Income - Compensation of employees					
Receivable (Credit)	1.2	1.8	1.9	2.6	3.8
Payable (Debit)	-1.5	-2.9	-6.1	-9.9	-18.0
Current transfers - Other sectors					
Workers' remittances					
Receivable (Credit)	0.9	0.6	0.8	0.9	0.8
Payable (Debit)	-2.7	-3.1	-4.6	-6.9	-7.3
Capital account - Migrant transfers					
Receivable (Credit)	0.4	0.6	0.7	1.2	1.4
Payable (Debit)	-1.1	-1.0	-0.8	-0.9	-0.9
Remittances, Credit	2.5	3.0	3.3	4.7	6.0
Remittances, Debit	-5.2	-7.0	-11.5	-17.8	-26.1
B. BPM6 Framework (Components related to remittances)					
Personal remittances (supplementary item)					
Personal remittances (Credit)	1.8	3.0	3.4	4.3	5.3
Net Compensation of employees, Receivable	0.9	1.4	1.5	2.2	3.4
Compensation of employees (standard component)	1.2	1.8	1.9	2.6	3.8
less					
Taxes on income (paid to nonresidents)	-0.1	-0.2	-0.1	-0.2	-0.2
Travel (import)	-0.2	-0.2	-0.2	-0.2	-0.3
Personal Transfers (standard component)	0.9	1.6	1.9	2.1	1.9
Workers' remittances	0.9	0.6	0.8	0.9	0.8
Other household-to-household transfers	0.0	1.0	1.2	1.2	1.1
Personal remittances (Debit)	-3.5	-5.8	-9.7	-16.2	-23.8
Net Compensation of employees, Payable	-0.9	-1.9	-3.6	-6.3	-12.3
Compensation of employees (standard component)	-1.5	-2.9	-6.1	-9.9	-18.0
less					
Taxes on income (received from nonresidents)	0.1	0.2	0.3	0.6	1.2
Travel (export)	0.5	0.9	2.2	3.0	4.5
Personal Transfers (standard component)	-2.7	-3.9	-6.0	-9.9	-11.6
Workers' remittances	-2.7	-3.1	-4.6	-6.9	-7.3
Other household-to-household transfers	0.0	-0.8	-1.5	-3.0	-4.3

21. As a result of these calculations, personal remittances proved to be 10% smaller on average than those calculated according to the BPM5 methodology. Finally, the exclusion of the expenses incurred by foreign workers in a host country has the most significant effect on the decrease.

22. The compilation of the new item was not challenging from the standpoint of determining net compensation of employees, because estimates on taxes and social contributions paid by temporary workers and travel exports and imports were made regularly. Total compensation of employees has been estimated using statistical modelling techniques: the number of residents temporarily employed in a foreign economy and the number of nonresidents working in Russia (collected quarterly by migration service) multiplied by the average income broken down by activity for nonresident employees and by country and activity for resident employees. The gross figure is reduced by (i) estimated expenses on accommodation, meals and other goods and services as well as (ii) tax payments according to a flat personal income tax rate set in Russia and the weighted average tax rate for foreign countries. This approach allows determining net compensation of employees that is split between funds remitted formally via banks (actual data taken from the banking statistics) and informal cash transfers as a residual.

Table 3. Compensation of employees (COE)

COE model	
Compensation of employees= Number of employees x average wages (salary)	Travel (living costs, food, other current expenses)
	Taxes on income and social contributions
	Remittances of nonresidents via banks and MTOs
	Cash remittances of nonresidents

23. This model, given the size of Russia's territory, does not take into account temporary workers' transport expenses, as this is important only for border workers who regularly (daily or weekly) bear such expenses. In this country resident workers stay abroad and nonresident workers stay in Russia for 3-6 months on average.

24. The item personal transfers (workers' remittances and other current transfers between households) has been taken equal to reported by banks and MTOs household-to-household remittances without quid pro quo plus estimated transfers of those nonresidents (in favour of those nonresidents) whose legal and statistical residency status differ.

25. Capital transfers are not determined separately, but are included as a part of other current transfers between households. The economic sense of capital transfers between households is too specific for the banking reporting.

V. FURTHER DEVELOPMENTS

26. To expand the coverage of remittances statistics, we plan:

(a) To estimate the value of transfers from Russia through hand-carry. Cash transfers by nonresidents (temporary workers) are accounted for as a part of the compensation of employees, whereas resident transfers in the form of cash (or in-kind) taken out of the country as 'pocket' money or passed through third persons are not registered in the secondary income account of Russia's BOP;

(b) To publish personal remittances by country as supplementary statistical information to the balance of payments;

(c) To include the institutions which make electronic transfers via Internet in the reporting population. Transfers from one electronic purse to another are a new product on the remittances market, which has a relatively small number of users so far. However, the advantages of this channel call for the organisation of data collection. In Russia these transactions are conducted by unlicensed institutions which are not obliged to provide detailed statistics. We also beware of the illegal transfers (money laundering etc.) through these systems;

(d) To compile mirror statistics with major recipient countries.

VI. CONCLUSION

27. Remittances are a topical issue in this era of globalisation and the statistical monitoring of this process should be polished up. We believe that it will be useful to study this phenomenon not only from the standpoint of remittances impact on the economies that supply migrant workers, but also from the standpoint of the effect that migrant workers have on the economic development of host countries. The knowledge of this effect would help to raise the social status of migrants and improve conditions of their work.

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