

# Remittances according to the BPM6 manual

Statistics Explained

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**Remittances** are an important measure derived from **balance of payments**, which have received some major attention in past years in economic literature. Remittances represent an important source of external funding for households, in particular in developing countries, and thus can measure the economic contributions of major industrial nations to poorer nations in terms of financial flows, as well as poorer nations' dependence on this type of income. In the Balance of payments and international investment position manual 6th edition (BPM6), international remittances are perceived as a cumulative measure resulting in three aggregation levels: personal remittances, total remittances and total remittances including transfers to **non-profit institutions serving households (NPISHs)**. The measures represent the entire spectrum of cross-border remittance and resource flows (current and capital transfers in cash and kind), including migrants' and short-term employee income transfers (personal remittances), acquired rights in social benefits (total remittances) and bilateral aid programmes (both private and public) to non-profit organisations. The International Transactions in Remittances: Guide for compilers and users (RCG) is the compilation guide based on the concept set out in the BPM6.

Total remittances and transfers to NPISHs: a+b+c+d+e+f					
Total remittances: a+b+c+d					
Personal remittances: a+b+c					
a	b	c	d	e	f
Personal transfers (part of current transfers)	Compensation of employees less taxes, social contributions, transport and travel	Capital transfers between households	Social benefits	Current transfers to NPISHs	Capital transfers to NPISHs

Source: BPM6, Table A5.2

Tabular presentation of the definitions of remittancesSource: Eurostat

## The components of remittance measures according to the BPM6

Remittance measures according to the BPM6 are perceived as cumulative measures, consisting of 2 standard and 8 supplementary components, which are formalised in a tabular presentation (BPM6, Table A5.2). The components are a mix of primary and secondary income and capital account items (BPM6, Table A5.1), and provide for measuring in sequence personal remittances (R1), total remittances (R2) and total remittances and transfers to NPISH (R3).

**The components in detail** The components are identified by the international accounting item reference with their database identifier codes. This may facilitate identification of the respective items.

There are two standard components:

### Personal transfers (D752)

Personal transfers consist of all current transfers in cash or in kind between resident and non-resident households (RCG, par 3.17), disregarding the underlying source of income, the relationship between the households or the purpose of the transfer. Thus, the concept of personal transfers is seen to be broader than **workers' remittances** in the BPM5 and reflects prevailing compilation practice in some countries, where it appears difficult to differentiate between migrant transfers and donations. However, the reporting of a memo item for workers' remittances is still maintained in the BPM6. In line with its broader definition we would expect personal transfers to be

higher than worker's remittances (including donations).

### **(Gross) Compensation of employees (D1)**

**Compensation of employees** refers to the income of border, seasonal and other short-term workers, who work in an economy where they are not residents, or to the income of resident workers who are employed by non-resident entities (RCG, par 3.15). As a guiding principle, the income is remuneration in return for labour input, while an employer-employee relationship has to be present and employer and employee are resident in different economies (BPM6, par 11.10). Other than in personal transfers, where no economic value in return is associated to the transaction, compensation of employees requires a performed labour input, thus an employment status. However, this item is recorded on a gross basis and includes taxes, social contributions, transport and travel, as well as personal expenses of short-term employees and commuters. This requires the identification of supplementary components, which have to be deducted in order to arrive at compensation of employees on a net basis (RCG, par 3.21).

### **Current taxes on income and wealth payable by border, seasonal and other short-term workers (D5Z)**

Taxes on income and wealth payable by short-term workers and commuters (i.e. non-residents) to the host economy are included in gross compensation of employees, and have to be deducted. The item is available as a subcomponent of the reporting of current taxes on income and wealth payable by other sectors.

### **Social contributions related to employment of border, seasonal and other short-term workers (D61Z)**

Social contributions made by short-term workers and commuters to social insurance schemes (public or employment-related schemes, funded or unfunded pension schemes) of the host economy are included in gross compensation of employees, and equally have to be deducted. The item is available as a subcomponent of the reporting of social contributions payable by other sectors.

### **Transport and passenger services payable by border, seasonal and other short-term workers (SCAZ)**

This item relates to expenses on international transport which border, seasonal and other short-term workers pay in order to commute to the place of employment in the host economy, and is included in gross compensation of employees. While international transport services are covered by this item, local transport expenditure of non-resident employees in the host economy is covered under travel services. The item is available as a subcomponent of the reporting of transport services for passengers.

### **Acquisition of goods and services by border, seasonal and other short-term workers (SDA1)**

This item relates to expenses on local transport and the acquisition of goods and services for personal use by border, seasonal and other short-term workers in the host economy. The item is available as a subcomponent of the reporting of travel services for business (BPM6, par 10.93). Admittedly it appears difficult to separate travel related to temporary employment from all other travel services (RCG, par 3.21). The corresponding net values can be obtained by deducting the sum of the above mentioned supplementary items from gross compensation of employees.

The following supplementary components are necessary for the corresponding measures in the BPM6:

### **Capital transfers between households (D99R1)**

This item relates to transfers in which the ownership of assets changes between resident and non-resident households. The item may be identified separately when considered significant (BPM6, par 13.35), and is available as a memo item to the reporting of capital transfers in the capital account. The item has to be considered additionally in the concept of personal remittances. In the specific case of assets owned by migrants on return to their home economies (bank balances, real estate ownership) no transaction is registered in the balance of payments (but there is a reclassification in the international investment position), as no change of ownership applies (BPM6, par A5.24). In the BPM5 the net worth of persons changing their residence was recorded in migrants' transfers in the capital account.

## Social benefits (D62)

Social benefits relate to international current transfers receivable from social security or pension funds, but also any other sickness, unemployment, housing or education schemes in the context of employment in another economy (BPM6, par 12.40). The item is reported as secondary income and has to be considered in the concept of total remittances.

## Current transfers to NPISH (D751) and Capital transfers to NPISH (D99R2)

The BPM6 standard also integrates current and capital transfers to the NPISH sector into the framework of remittances. The items are available as subcomponents of the reporting of miscellaneous current transfers (secondary income) and as a memo item to other capital transfers (capital account).

## The measures in detail Personal remittances (R1)

Personal remittances are defined as current and capital transfers in cash or in kind between resident and non-resident households plus net compensation of employees of non-resident workers. In order to obtain a net value for compensation of employees, four supplementary components concerning taxes, social contributions, transport and personal expenses have to be deducted from the corresponding standard component (BPM6, par A5.10).

$$R1 = D752 + [D1 - (D5Z + D61Z + SCAZ + SDA1)] + D99R1$$

## Total remittances (R2)

Total remittances are the sum of personal remittances and social benefits, thus the measure additionally includes cross-border transfers of acquired benefits from social security and pension funds. (BPM6, par A5.14).

$$R2 = R1 + D62$$

## Total remittances and transfers to NPISHs (R3)

These include total remittances plus current and capital transfers to NPISHs, thus adding, among others, donations in cash or kind, cross-border sponsorships, aid programmes in educational and cultural cooperation from government and the private sector to charitable organisations in other countries to the concept (BPM6, par A5.15). The measure is defined in its broadest context beyond the limits of migration-related transfers and donations, and provides for a more general indicator of the impact of international development programmes and activities.

$$R3 = R2 + D751 + D99R2$$

## The current data situation for compiling remittance measures according to the BPM6

In June 2014 the new standard BPM6 was introduced in European balance of payments statistics in line with EC Regulations 184/2005 and 555/2012 on community statistics concerning balance of payments, international trade in services and foreign direct investment. In the light of this event, currently only the standard components for remittances appear readily available for the calculation of remittance measures. As a consequence the broader measures R2 and R3 cannot generally be compiled by Eurostat. However, due to the lack of supplementary components, the compilation of personal remittances (R1) also appears incomplete, resulting from compensation of employees being available predominantly on a gross basis, and missing cross-border capital transfers between households. In the latter case, it appears difficult to assess whether national compilers are indeed missing data or whether this is regarded as insignificant (BPM6, par 13.35). Given the above, it must be concluded that currently no remittance measures in European statistics are available which strictly respect the BPM6 standard. For the needs of macroeconomic management and surveillance it appears however acceptable to compile measure R1 with gross values for compensation of employees, as well as measures R2 and R3 with less frequency and timeliness (RCG, par 5.8, footnote 54). In the above context, the World Bank publishes annual data of staff estimates for personal remittances as a part of its World Development Indicators<sup>1</sup>, using

<sup>1</sup>Data starting from 2005 are available according to the BPM6.

the sum of the two standard components.

The reasons for the missing components appear to be:

### **(1) Voluntary character of supplementary components in the BPM6**

The reporting of supplementary items related to the calculation of remittance measures is considered voluntary (being in some cases memo items), thus remaining at the discretion and needs of the compiler (BPM6, par A5.9). Through this the BPM6 allows compilers to keep a cost-benefit balance in their statistical production processes.

### **(2) Relative insignificance of remittance flows**

In industrial nations remittance flows may appear of minor importance compared to other international transaction volumes in their balance of payments. As a consequence data production of these items may rank lower in priority. Given the concept of insignificance being relative, compilers in host economies could regard the production of supplementary data for international remittances as too costly, while these transfers still remain a significant source of income in recipient economies.

### **(3) Heterogeneous character of remittance transactions**

Due to its heterogeneous character compilation of data on remittances ideally requires a combination of data sources, which makes the underlying data production process more complex<sup>2</sup>. While data from the international transactions reporting systems (ITRS) cannot be considered complete as they only cover transactions conducted through formal channels in the financial sector, the collection of survey data may be less timely and frequent (RCG, par 5.10), and is in addition more costly. Surveys relating to households and specifically to border, seasonal and other short-term workers appear even more demanding to the compiler in the host economy in order to reach the target population of the recipient counterparts, and will have to rely on sampling due to cost-benefit reasons. This may result in doubts about the representativeness of the results (RCG, par 4.118), and would require further quality interventions (estimations, secondary data sources, adjustments). As a consequence compiling data on remittances is not straightforward as with other balance of payments items, and the instant availability of consistent data cannot be expected.

### **(4) Bilateral asymmetries**

In the light of quality considerations, compilers may be hesitant to publish international remittance data flows before bilateral asymmetries have been followed up and adjusted, in cases where there appear severe doubts about the internal consistency of the data. In European balance of payments data, compilers report geographical breakdowns for international flows, in particular personal transfers and (gross) compensation of employees. These breakdowns by recipient countries appear most relevant for further quality analysis and the compilation of remittance corridors (RCG, par 6.12).

In implementing the BPM6 standard, and based on available data, Eurostat is currently publishing data on personal transfers and compensation of employees, and will subsequently move on to publish international remittance measures, once data have become sufficiently available.

## **See also**

- [Balance of payments and international investment position manual \(BPM6\)](#)

## **Further Eurostat information**

### **Publications**

- [News release - Personal transfers in the EU-28](#)

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<sup>2</sup>For full description and discussion of data sources, see RCG Chapter 4.

## Database

- [Balance of payments](#) , see:

Personal transfers and compensation of employees (boprem6)

## Methodology / Metadata

- [Balance of payments and international investment position manual](#), Washington D.C., IMF 2009, 6th edition (BPM6)
- [International Transactions in Remittances: Guide for compilers and users](#), Washington D.C., IMF 2009 (RCG)

## Other information

- [Regulation 184/2005](#) of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment.
- [Regulation 555/2012](#) of 22 June 2012 amending Regulation 184/2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions.

## External links

- [World Bank DataBank](#)

## Notes

*View this article online at [http://ec.europa.eu/eurostat/statistics-explained/index.php/Remittances\\_according\\_to\\_the\\_BPM6\\_manual](http://ec.europa.eu/eurostat/statistics-explained/index.php/Remittances_according_to_the_BPM6_manual)*