

## Annex 4

### Remittances

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#### A. Economic Concept of Remittances and Why They Are Important

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**A4.1** Remittances represent household income and other resources from non-resident institutional units arising mainly from the temporary or permanent relocation of people from their home economy to those other economies.<sup>1</sup> They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, as well as the net remuneration of nonresident workers (border, seasonal, other short-term or remote workers who are employed in an economy in which they are not resident and local staff employed by embassies, consulates, and military bases, etc). Remittances include cash and non-cash items and can be sent through electronic or digital means (e.g. wire transfer, electronic funds transfers, mobile money wallets, digital wallets, and other applications), as well as through other informal channels, such as money or goods carried across borders.

**A4.2** For many economies, remittances represent a sizable and stable source of funds that sometimes exceed official aid or financial inflows from direct investment. Remittances may have a significant impact on poverty reduction and can finance economic activity in recipient economies.

**A4.3** The *Manual*, as well as the *International Transactions in Remittances Guide for Compilers and Users*, identify three main aggregates to measure remittances, which are compiled using BOP standard components and supplementary items. No single data item in the balance of payments (BOP) framework comprehensively

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<sup>1</sup>The concept of remittances is broadly aligned with the balance of payments framework. However, the coverage of concepts related to remittances in the BOP is somewhat broader than transfer of funds and noncash items ~~those resulting arising~~ from relocation of persons, because they are not based on the concepts of migration, employment, or family relationships.

captures transactions in remittances. This annex explains the different items needed to calculate remittance aggregates and the relationships between the different aggregates.

**A4.4** The ~~three main aggregates for remittances are: i) personal remittances; ii) total remittances; and iii) total remittances and transfers to NPISH. The~~ concepts and related measurement of the remittances aggregates are presented in Section B. Section C discusses the BOP standard components related to remittances (remuneration of employees and personal transfers), while Section D identifies other transactions related to remittances. Section E discusses the application of BOP concepts of residence, valuation and time of recording to remittances. Table A4.1 shows various measures of remittances and the components required to compile them. Table A4.2 presents the components required for compiling remittance items and their sources.

## B. Measures of Remittances

**A4.5** There are various measures and levels of aggregation of remittances. They include personal remittances, total remittances, and total remittances and plus transfers to nonprofit institutions serving households (NPISHs). These are cumulative measures and the components in the external accounts needed to compile them are as illustrated in Table A4.1. As supplementary items, compilation and dissemination of remittances is encouraged but voluntary, depending on the data needs of the compiling economy.

**Table A4.1. Tabular Presentation of the Definitions of Remittances**

Total Remittances and Transfers to NPISHs: a+b+c+d+e+f					
Total Remittances: a+b+c+d				e	f
Personal Remittances: a+b+c			d	Current transfers to NPISHs	Capital transfers to NPISHs
a	b	C			
Personal transfers (part of current transfers)	Remuneration of employees <i>less</i> taxes, social contributions, transport, and travel	Capital transfers between households	Social benefits		

Note: Personal transfers is a standard item; other items are supplementary.

# 1. Personal remittances

**A4.6** Personal remittances are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus remuneration of employees, less taxes and social contributions paid by nonresident workers in the economy of employment, less transport and travel expenditures related to working abroad (paragraph 12.27). In short, this item includes all household-to-household transfers and the net remuneration of nonresident workers.

**A4.7** Household-to-household transfers are included within current or capital transfers, as appropriate, in the BOP accounts. Compilers in both economies are required to be aware of the sector of the transacting party on both sides. Personal transfers are a standard item in the transfer income account, while capital transfers between households are a supplementary item in the capital account. Capital transfers included in personal remittances are household-to-household transfers of funds or in kind, which are linked to, or conditional on, the acquisition or disposal of fixed assets.

**A4.8** The gross remuneration of nonresident workers is recorded under “remuneration of employees,” a standard component. To derive the relevant component for the calculation of personal remittances, remuneration is adjusted by deducting taxes and social contributions of nonresident employees payable to the economy of the employer and transport and travel expenses of border, seasonal, and other short-term workers. The three items that are deducted are all supplementary items in the BOP framework. Social contributions are defined as “the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid” (paragraph 12.32). ~~Remuneration of employees is considered part of personal remittances because it refers mainly to the earnings of geographically mobile workers and benefits households in a territory other than that of the employer. Data users are not always concerned with the length of stay of a migrant worker (which defines residence), but instead with all earnings of migrant workers that benefit their economies of origin, regardless of their residence status in the host economy.~~

**A4.9** It should be noted that “personal remittances” ~~also~~ include personal and capital transfers originating from individuals who are not migrant workers. On the other hand, the earnings of individuals from the provision of services to another economy are not included. Paragraph 11.13 provides the definition of an

employer-employee relationship, which clarifies the difference between “remuneration of employees” and payments for services.

## 2. Total remittances

**A4.11** Total remittances are the sum of personal remittances and social benefits. Social benefits include benefits payable under social security and pension schemes. They may be in cash or in kind (paragraph 12.40). Total remittances include income from nonresident employers, transfers from individuals residing abroad, and social benefits from abroad. Social benefits is a supplementary item in the BOP framework within transfer income.

## 3. Total remittances and transfers to NPISHs

**A4.12** This item includes total remittances and both current and capital transfers to NPISHs from any institutional sector of the sending economy. Therefore, it has a very wide definition ~~that is not closely linked to migration~~. In fact, much private and official aid, as well as cross-border sponsorship of educational and cultural activities (including scholarships), will be included in this item. Current transfers received by NPISHs and to NPISHs are supplementary items under transfer income, whereas capital transfers received by NPISHs and to NPISHs are supplementary items under the capital account.<sup>2</sup>

**A4.13** The identification of NPISHs is not without problems. Although compilers will be able to appropriately identify the NPISHs resident in their economy, they will find it more problematic to identify NPISHs in partner economies. This makes the compilation of debit transactions of “total remittances and transfers to NPISHs” particularly challenging because the definition is partially based on identifying the sector of the transacting party in the partner economy. “Total remittances and transfers to NPISHs” is a supplementary item in the BOP statement.

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<sup>2</sup>Of the supplementary remittance aggregates in the external accounts, some data users consider “total remittances and transfers to NPISHs” to most closely match the economic concept of remittances (see Section A). ~~This measure is broader than the other remittance aggregates because it includes current and capital transfers to NPISHs from any sector of the sending economy (households, corporations, governments, and nonprofit institutions). Thus, u~~Unlike the other supplementary remittance aggregates, ~~it~~ this measure includes funds and noncash items that flow indirectly to households, through nonprofit institutions.

**Table A4.2. Components Required for Compiling Remittance Items and Their Source**

Item	Source and description
1. Remuneration of employees	Earned income account, standard component
2. Personal transfers	Transfer income account, standard component
3. Travel and transport related to employment of border, seasonal, and other short-term workers	Services account, supplementary items
4. Taxes and social contributions related to remuneration of employees	Transfer income account, supplementary items
5. Remuneration of employees less related travel and transport expenses and taxes and social contributions	Earned income account (for remuneration of employees), standard component  Services account (for travel and transport expenses) and transfer income account (for taxes and social contributions), supplementary items
6. Capital transfers between households	Capital account, supplementary item
7. Social benefits	Transfer income account, supplementary item
8. Current transfers to NPISHs	Transfer income account, supplementary item
9. Capital transfers to NPISHs	Capital account, supplementary item

Important relationships are:

“Net” remuneration of employees (#5)= #1 minus the sum of #3 and #4

Personal remittances = #2 plus #5 plus #6

Total remittances= #2 plus #5 plus #6 plus #7

Total remittances and transfers to NPISHs = #2 plus #5 plus #6 plus #7 plus #8 plus #9.

## **C. Standard Components in the Balance of Payments Framework Related to Remittances**

**A4.14** The two items in the balance of payments framework that substantially relate to remittances are “remuneration of employees” and “personal transfers.” Both of these standard components are recorded in the current account.

## 1. Remuneration of employees

**A4.15** Remuneration of employees refers to the income of border, seasonal, and other short-term workers who are employed ~~in an economy where they are not resident and of residents employed~~ by nonresident ~~entit~~~~ies~~~~employers~~ (~~including remote workers~~).<sup>3</sup> Remuneration of employees represents “remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise.” Remuneration of employees is recorded gross before taxes and other expenses incurred in the economy where the work is performed (or in the economy of employer in the case of remote workers). Paragraphs 11.10–11.23 provide more details. However, in the derivation of personal remittances, a net measure of remuneration of employees is ~~derived~~used, as discussed in paragraph A4.8.

## 2. Personal transfers

**A4.16** *Personal transfers consist of all current transfers, in cash or in kind, made or received by resident households to or from nonresident households.* Personal transfers thus include all current transfers between resident and nonresident individuals (paragraph 12.21). Therefore, personal transfers are a subset of current transfers. They cover all current transfers that are sent by households to households.<sup>4</sup>

**A4.17** ~~Unlike workers remittances<sup>5</sup>, p~~Personal transfers<sup>6</sup> are defined independently of the source of income of the sending household and, the relationship between the households, ~~and the purpose for which the transfer is made~~. Although it is recognized that personal transfers will often originate from migrants sending resources

<sup>3</sup>Nonresident employers include embassies and international institutions as well as nonresident companies (paragraphs 4.131–4.134). In some economies, income obtained from nonresident employers is significant.

<sup>4</sup>In some cases, however, households might send funds or non-cash items to an individual ~~Families may provide financial support to relatives who are located but not resident in another economy, but no current transfer transaction occurs because the individual is a resident of the of the same economy as the household such as families supporting relatives who are students or medical patients abroad. Such transactions involve are between residents of the same economy and are therefore are not included in personal transfers (see para xxx). The spending of the relative abroad will be included in travel.~~

<sup>5</sup>Workers’ remittances are current transfers by migrants who are employed in new economies and considered residents there. Workers’ remittances are a supplementary item in the BOP.

<sup>6</sup>The term “personal transfers” replaced workers’ remittances in BPM6. Worker’s remittances are current transfers by migrants who are employed in new economies and considered residents there. Workers’ remittances are a supplementary item in the BOP.

to support their relatives in their economy of origin, personal transfers, as defined in this *Manual*, are not limited to such activity.

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## D. Related Transactions

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### 1. Investment by migrants

**A4.18** Migrants frequently invest in their economy of origin, whether they intend to return or have left permanently.<sup>7</sup> ~~Sometimes, the attachment to the economy of origin and the willingness to invest there carries over to subsequent generations of migrants.~~ Such investments can take numerous forms, but financial investments (notably bank deposits and portfolio investments) and investments in real estate are probably the most common. Small enterprises, located in the economy of origin and sometimes managed by relatives, can also benefit from investments by migrants. These transactions are considered cross-border investments and are therefore included in the financial account. Although these investment flows are of analytical interest in the context of the economic effects of migration, they are not remittances in the BOP framework.

**A4.19** However, in some cases, investment transactions by migrants may be vehicles for the provision of remittances. When a migrant deposits funds in an account in the economy of origin, and relatives have access to these funds, this can be a personal transfer. For joint accounts, a transfer can be recorded when the funds move across borders rather than when they are withdrawn (see paragraph 4.145). When a migrant purchases real estate and relatives occupy it without paying market rents, or when a migrant sets up an enterprise and relatives are employed and paid above-market incomes by this enterprise, personal transfers could be imputed. In the individual case, the value of the transfers would be calculated as the difference between actual transactions and market equivalent values. In practice, it is difficult to identify such transfers and calculate their value. If larger patterns are known to compilers—if, for example, there are large numbers of migrants buying real estate for use

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<sup>7</sup>In this annex, the term “migrant” refers to a person who emigrates from an economy of origin and becomes a resident in another economy.

by their relatives in the home economy—estimates can be made on the basis of aggregate transaction data and benchmarks.

## 2. Travel

**A4.20** Travel refers to the acquisition of goods and services in an economy by visiting individuals who are not residents in that economy. Acquisitions of goods and services by border, seasonal, and other short-term workers in their economy of employment are also included in travel (paragraph 10.89). However, travel excludes the acquisition of valuables, consumer durables, and other consumer purchases that are included in general merchandise (paragraph 10.90). The compilation of the supplementary definitions of remittances requires that the travel expenses of border, seasonal, and other short-term workers are subtracted from remuneration of employees. In practice, it may be difficult to separate travel related to employment from all other travel.

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## E. Concepts of Residence, Valuation and Time of Recording

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### 1. Residence

**A4.21** The balance of payments and national accounts frameworks rest on the identification of residents and nonresidents respective to each reporting economy. Because the concepts of personal transfers and remittances are based on the concept of residence rather than migration status, the concept of migration is not defined in the balance of payments. This is consistent with the use of residence criteria elsewhere in the BOP and national accounts frameworks.

**A4.22** The residence of households is determined according to the center of predominant economic interest of its members. The general guideline for applying this principle—being present for one year or more in a territory or intending to do so—is sufficient to qualify as being a resident of that economy (paragraph 4.117). Short trips to other economies—for recreation or work—do not lead to a change of residence, but going abroad with the intention of staying one year or longer does. “If a member of an existing household ceases to reside in the territory where this household is resident, the individual ceases to be a member of that household” (paragraph 4.118). Migrants going abroad to work thus become residents of the host

economy (assuming they plan to stay for a year or longer), but they can join their original household on return. In addition, there are guidelines for the residence of specific cases of students, medical patients, and ships crews, as well as diplomats, military personnel, and civil servants employed abroad in government enclaves. Regardless of the length of stay in a host economy, these groups are considered residents of the originating economy (see paragraphs 4.120–4.123).

**A4.23** Residence is important for remittance data because transactions are recorded differently depending on the residence status of the individual in his or her host economy. Border, seasonal, and other short-term workers are not resident in the economy where they work and their gross income is recorded as “remuneration of employees.”<sup>8</sup> There are no entries in the BOP for the wages of migrant workers who stay for at least a year and thus are residents of the same economy as their employer (assuming that their employer is a resident entity). However, when they send remittances to a household in another economy, these are recorded as “personal transfers.”

**A4.24** In many cases, it is assumed that the entities employing workers are resident in the economy where the work is performed. However, nonresident employers can have a substantial impact on remittance data. Nonresident employers include embassies and other diplomatic missions, international organizations, and numerous enterprises, including employers of cross-border remote workers (see paragraphs 4.131–4.144). When resident workers work for nonresident employers, their wages and other benefits are recorded as “remuneration of employees.”

**A4.25** In addition to current and capital transfers, some other resource flows may be of analytical interest. While migrant workers reside in a host economy, their remittances will be recorded as current or capital transfers. These include gifts in cash and kind to their household of origin. When returning home to reside, many migrants bring goods or own assets that will, on return, be owned by their household of origin. However, assets that migrants bring with them on return are excluded from balance of payments transactions, and so are not transfers. Rather, because the residence of the owner changes but not the ownership, the change in assets (such as bank balances and real estate ownership) between economies is recorded as a reclassification in the IIP change, not a transaction.

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<sup>8</sup> Similarly, remote workers are not resident in the economy of their employer.

**A4.26** Although the distinction between a transaction and a reclassification of residence is important for the structure of the system, the effect on the asset position of households and economies is much the same whether the resources come through remittances or through migrants returning home. Data users who are interested in understanding all contributions that migrant workers may make to their households and economies of origin should note this potential misalignment of their data needs and BOP definitions and should seek to make appropriate additional estimations.

**A4.27** Further, no special residency treatment is adopted for refugees (see paragraph 4.128). Therefore, their residence will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more. If they are considered residents in the country of refuge, then the ~~income funds~~ they receive from nonresidents ~~entities~~ will be included in remittances, as will any ~~income funds~~ they send to nonresident households.

## 2. Valuation

**A4.28** All valuations in the balance of payments framework are based on market values (paragraph 3.68).

**A4.29** Remuneration of employees comprises wages and salaries in cash, wages and salaries in kind, and employers' social contributions. Also included are all forms of bonuses and allowances (paragraphs 11.18–11.19). All transactions in kind should be valued at current market prices, that is, the current exchange value.

**A4.30** Transfers in kind should be valued at the market value of the goods or services provided to the recipient (see paragraphs 3.71–3.72). The valuation of cash transfers is clear, while transfers of other financial assets should be recorded at market value.

## 3. Timing

**A4.31** Remuneration of employees is recorded on an accrual basis (paragraph 11.16). Transfers are also recorded on an accrual basis (discussed in paragraph 3.50). In the case of voluntary transfers, accrual and settlement are often identical (paragraph 3.52 provides details on the time of recording of transfers). However, this is not the case with involuntary transfers (such as taxes or alimony) and they should, in principle, be recorded when accrued, although this can be difficult in practice. Remittances are mostly voluntary transfers.

