



# Balance of Payments Statistics Workshop

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Secondary Income Account

# I. Concepts and Coverage

- The **Secondary Income Account** records the current transfers between residents and nonresidents. They play a role in the process of income distribution between the economies. Transfers may be made in cash or in kind.
- A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other nonproduced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value (two entries record).
- Transfers can also arise where the value provided in return for an item is not economically significant or is much below its value.
- **Transfers may be either current or capital.** To distinguish between them, it is considered more convenient to start by reviewing the characteristics of capital transfers, since they correspond to a more limited range of cases.

# I. Concepts and Coverage

- Capital transfers are those in which:
  - There is a change in the ownership of an asset.
  - They are conditioned to the acquisition or disposal of an asset.
  - A liability is forgiven by a creditor.
- A capital transfer results in a change in the stocks of assets of one or both parties to the transaction.
- **Current transfers consist of all transfers that are not capital transfers.** Current transfers directly affect the level of disposable income and influence the consumption of goods or services.

# I. Concepts and Coverage

- It is important to distinguish between transfers and exchanges. Sometimes it is difficult to do it:
  1. Taxes vs charges for government services (issue of licenses, licenses for regulatory purposes).
  2. Personal transfers vs compensation of employees.
  3. Personal transfers vs financial transactions (own accounts vs joint accounts).
  
- Flows between two NPISHs are generally transfers, rather than investment. It is considered that flows in these cases are seldom driven by commercial considerations.
  
- Transfers do not generally arise between commercial entities. However, transfers may occur due to:
  1. Net nonlife insurance premiums or claims.
  2. Compensation for damages to properties or other losses.
  
- **When there is doubt about whether a transfer should be treated as current or capital, it should be treated as a current transfer.**

## II. Recording and Valuation

- Although no good, service, or asset is received in return from the counterpart, the recording of a transfer nevertheless must give rise to two entries for BOP statistics.
  - **Transfer in cash:** the corresponding entry is in currency or deposits (Other Investment).
  - **Transfer in kind (goods or services):** the corresponding entry is in goods or services.
  - **Liability forgiveness:** the corresponding entry is the extinction of the financial asset / liability.
- **The time of recording** of the transfers is determined by:
  - In general, by the time of the change of economic property of the resources involved.
  - Some grants and other voluntary transfers are subject to a variety of eligibility conditions. These transfers are recorded when all requirements and conditions are satisfied.

## II. Recording and Valuation

- Taxes and other compulsory transfers should be recorded when the activities, transactions, or other events occur that create the government's claim.

### ■ Valuation of transfers.

- The value of the transfer equals the value of the corresponding flow.
- Transfers in kind should be valued at the market prices at the time of the transfer. The perception of this value may be different between the donor and the recipient: it is suggested to use the value assigned by the donor.

# III. Types of Current Transfers

## ■ Personal transfers (PT).

## ■ Other current transfers

1. current taxes on income, wealth, etc.
2. social contributions.
3. social benefits.
4. net nonlife insurance premiums.
5. nonlife insurance claims.
6. current international cooperation.
7. miscellaneous current transfers.

- In the standard components of the BPM6, **current transfers are clasified in two institutional sectors: general government and an aggregate of other sectors** which includes: financial corporations, nonfinancial corporations, households and **NPISHs**. Within this aggregate line the PT appear as a standard component.

# III. Personal transfers

- **Personal Transfers** consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Its consideration as such is independent of:
  - the source of income of the sender.
  - the relationship between the households (irrespective of whether they are related or unrelated individuals).
- Workers' remittances are current transfers made by employees to residents of another economy. They are included as a supplementary item.
- **Lotteries and other gambling.** Transfers are regarded as taking place directly from those participating in the lottery or gambling to the winners and, in some cases, to charities (the service charge for the organizing unit is excluded).



# III. Personal transfers

- The concept of residence is essential to determine whether or not the transaction corresponds to a personal transfer. The definition of residence follows the suggested criteria of at least one year of permanence (or intention to remain) in the economy in which the economic agent is considered a resident.
- Therefore, without the change of residence of the sender, the flow of resources sent by a worker is classified into primary income (compensation of employees) and the worker's expenses in the economy where he is employed are recorded in services (travel).
- Likewise, the deposit of funds by the migrant worker in a bank account in his country of origin is an increase in external liabilities of that country. Any withdrawals to provide resources to a resident, without having anything in return, should be recorded as a Personal Transfer.

# III. Other Current Transfers

- **Current taxes on income and wealth, etc.** . It includes taxes on income earned by nonresidents for their work and for the financial assets that they own. Tax refunds are treated as negative taxes.
- **Social contributions.** Payments (effective or imputed) made by nonresidents (or by their employers) to the social security schemes (health system, pensions) in the country where they work, to make provisions for the payment of social benefits.
- **Social benefits.** The benefits received by nonresident workers for their contributions to social security schemes (retirement, and non-retirement: sickness, unemployment, education).

# III. Other Current Transfers

- **Net premiums on nonlife insurance and standardized guarantees (policyholders have the right to receive a contingent benefit in the future).** Net nonlife insurance premiums are derived from total nonlife insurance premiums and premium supplements after deducting the service charges. These are the amounts available to provide cover against various events or accidents resulting in damage to goods or property or harm to persons or their financial position (fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, sickness, unemployment, and accidents).

Some units, especially government units, may provide guarantees against creditors defaulting in conditions that have the same characteristics as nonlife insurance. These are treated in the same way as nonlife insurance.

- **Nonlife insurance claims and calls under standardized guarantees.** These are the amounts payable in settlement of claims that become due during the current accounting period.

# III. Other Current Transfers

- **International Cooperation.** Consists of current transfers between governments of different countries, or between governments and international organizations.
  - ✓ Emergency aid after natural disasters (food, clothing, blankets, medicines, etc.).
  - ✓ Contributions paid by member governments to international organizations and regular transfers made by the international organizations to governments.
  - ✓ payments by governments or international organizations to cover the salaries of those technical assistance staff who are deemed to be resident in the economy in which they are working and who are in an employer-employee relationship with the host government. Transfers intended for purposes of capital formation are recorded as capital transfers.

# III. Other Current Transfers

- **Miscellaneous current transfers.** Include all current transfers other than those described previously:
  - ✓ **Current transfers to NPISHs.** Transfers received by resident NPISHs from nonresident institutional units in the form of membership dues, subscriptions, donations, and so forth (transfers between NPISHs are generally classified as current transfers).
  - ✓ **Other miscellaneous current transfers.**
    - Fines and penalties.
    - Payments in compensation for injury to persons or damage to property (nonfulfillment of contracts, injuries to persons, damages to property, or other losses that are not covered by insurance policies). Major compensation payments for extensive damages (e.g., oil spillages or side effects of pharmaceutical products) are treated as capital rather than current transfers).
    - Other. Transfers not included elsewhere (payments to international or supranational authorities that are regarded as being compulsory, and for which nothing is provided in return, but which are not taxes).

# Sources of Information

- **Personal Transfers.** In practice it has been found that information on PT is obtained through the use of one or more of the following sources: i) International Transactions Reporting Systems (ITRS); ii) direct report; iii) official sources; iv) information from partner countries (mirror statistics); v) surveys; and vi) use of models.
  - i. **International Transactions Reporting Systems.** The ITRS is a comprehensive institutional data collection framework that can be useful for balance of payments statistics. The following should be mentioned:
    1. **Mandatory information requirements.** A regulation is established to that end (ensures opportunity, periodicity and coverage of the institutional market, at low cost).
    2. **The amount reported is net.** The entities involved may have settlements agreements. This would imply the loss of information on gross inflows and outflows, and on individual operations, complicating the differentiation of the type of transactions.

# Sources of Information

- 3. classification problems.** It is unknown how long people lived (worked) abroad (more or less than a year) and, sometimes, the sectors involved in the operations are not identified. Indicators of those variables can be obtained from surveys of travelers, migration or about remittances.
- 4. Transfers in-kind are not captured.** This information can be estimated through surveys to travelers, households or corporations.
- 5. Coverage problems.** It does not capture the operations carried out through entities that do not participate in the ITRS (postal and courier companies, cell phones, prepaid cards).
- 6. Lost of information due to reporting thresholds.** This could happen if only individual operations that exceed that value are reported. Aggregate reports may be required by type of operation, including total value and number of operations.

# Sources of Information

- ii. **Direct Report.** Delivered by PT service providers entities. Generally these include financial institutions (banks and other financial institutions), money transfer operators (MTOs) and PT agents. If the complete directory of these entities is not available, a sample can be designed to work with. About this source, the following should be mentioned:
  1. It is effective in terms of costs for gathering information. The burden of the report and the number of reporting entities are not large.
  2. The report can be designed so as to capture the precise information that is required.
  3. The information is provided by those who generate it, so it is very reliable and timely.
  4. For some entities the realization of PT is their main activity.
  5. Not all the operations they carry out are transfers between households, but they have the information to make a reasonable identification of the PT.
  6. The existence of a regulatory framework is very important.



# Sources of Information

- iii. **Official sources.** Some official entities have records on temporary worker programs agreed with other countries and on non-residents working in the country, as well as on the characteristics of migrants (short and long term). These official entities may be the Ministry of Foreign Affairs, Migration Institutes, Pension and Social Security Organizations.
  
- iv. **Information from partner countries.** The information generated by the partner country can be a good source of information. Particularly for the estimation of the PT received. The appropriateness of the methodology should be evaluated.

# Sources of Information

- v. **Surveys.** There are a variety of surveys that can be used either to capture the total of the PT information, to complement the information obtained from other sources, or to generate useful parameters to estimate the PT and indicators that allow evaluating the quality of the information of such transfers.

In general, surveys are expensive, so their viability depends on the importance for the country of the variable to be measured. Likewise, the appropriateness of the coverage of the surveys, their periodicity and the problems faced by any survey (sample and non-sample errors, etc.) must be carefully analyzed. This with the purpose of evaluating the feasibility of its use for the generation of information for the balance of payments.

# Sources of Information

- **Among these surveys are:**
  1. **Traveler surveys.** They are used to capture information on the expenses of people who cross borders, mainly focused on the concept of travel. However, they may include questions to capture information on PT, particularly those corresponding to transfers in cash and in kind delivered personally.
  2. **Households surveys (HS).** In practice, its most common use is to estimate PT. However, they can be useful for capturing information on remuneration, expenses incurred by workers in the economy where they work, country of residence and birth, self-employed workers, period of stay in the country of residence or work, among other variables that can be useful for BOP purposes.

Regarding the use of HS, there are two options: a) use existing surveys; or b) implement a specialized survey on the subject.

# Sources of Information

- a) **Use of existing surveys.** It can be done by adding modules or specialized questions, or by identifying households with specific characteristics to which a special questionnaire would apply. It should be borne in mind that the above would increase the cost of the survey, could reduce the percentage of response and affect the quality of the results. HS to consider are:
- **Labor surveys.** They are usually quarterly or annual, with national coverage. In addition to questions related to the aspects of employment, unemployment and working conditions, they often incorporate modules on specific topics such as training, migratory aspects, remittances, among others.
  - **Income-Expenditure surveys.** They are usually annual or biennial. Its objective is the identification of components of household income and expenses, so it includes questions about PT. Its main use is to update the weights of the price indices and to obtain indicators of household welfare.

# Sources of Information

- **Demographic Surveys.** They capture information on aspects of migratory flows and the profile of the population born abroad. It helps to analyze the behavior of PTs, to validate information from other sources and to obtain parameters to be used in models.
  
- b) **Application of specialized surveys.** The survey is specifically aimed at the target population and the questionnaire is designed to capture the information that is required.

# Sources of Information

- vi. **Use of models.** These can be used to estimate some or all the information about PT.
  - 1. **Demographic models (data models).** These consist of the multiplication of the number of migrants by an estimate of the average PT. The latter can be estimated from specific studies, household surveys or using related indicators such as the average remuneration of workers in the compiler economy and in the partner countries, and the average propensity to send PT.

When periodic information on the relevant variables is not available, extrapolations from the data available can be made. In such a case, the factors that could affect these variables must be taken into account.

# Sources of Information

2. **Econometric models.** These are statistical models used to estimate the PT based on the relationships between their past values and those of their determinants. Information on the determining variables may come from household surveys. These models are also useful from an analytical point of view, to understand the mechanism that determines the behavior of PT. Among the determining variables that can be analyzed are:
- Income differential between sending and receiving countries.
  - GDP growth differential between sending and receiving countries.
  - Number of migrants.
  - Exchange Rate Differentials.
  - Country of birth.
  - Distance between countries.
  - Time spent in the country of work
  - Academic level.

# Sources of Information

- **Current taxes on income, wealth, etc.** Tax information, company surveys, or estimates with implicit tax rates.
- **Social contributions and benefits.** Social security systems, Pension funds, household surveys.
- **Non-life insurance net premiums and compensations.** Insurance corporations.
- **International cooperation.** Governments and international organizations.
- **Miscellaneous current transfers:**
  - Fines and penalties: Tax information.
  - Damage compensation payments: Courts and insurance corporations.



# Remittances Concept

- The Current Transfer Account of the BPM5 now correspond to the Secondary Income Account in the BPM6.
- In general, the conceptual framework is very similar in both manuals, with the exception: i) The treatment of variations in real and financial resources associated with the change of residence of a natural person (migration); and, ii) the introduction as a supplementary item of a new concept of Remittances.
- The treatment of the variations of real and financial resources associated with the change of residence of a natural person (migration) will be seen during the IIP sesion.

# Remittances Concept

- What in many countries is identified as Family Remittances or Remittances, in BPM5 corresponded to the concept of Workers' Remittances. This Manual indicated: *“Workers’ remittances covers current transfers by migrants who are employed in new economies and considered residents there. (A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more.) Workers’ remittances often involve related persons”*.
- In BPM6, the concept of Personal Transfers includes Workers' Remittances, plus any current transfer made between individuals, regardless of the sender's source of income (business owner, retiree, housewife, etc.) and the existing relationship between the sender and the recipient of the transfer.

# Remittances Concept

- In most of the countries, the sources of information used for the statistics on Family Remittances do not allow to distinguish either the source of the sender's income, nor the relationship he has with the recipient of its transfer. **Therefore, the concept that was previously registered is the same or very similar to that of Personal Transfers of BPM6.**
- **In BPM6 the concept of Remittances is broader. It corresponds to the income of the households received from other economies as a result of the temporary or permanent migration of their citizens to those economies.**

**Table A5.2. 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		
a	b	c	Social benefits	Current transfers to NPISHs	Capital transfers to NPISHs
Personal transfers (part of current transfers)	Compensation of employees less taxes, social contributions, transport, and travel	Capital transfers between households			

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

# Remittances Concept

- As it can be seen, this concept of Remittances includes lines that correspond to Primary Income, Secondary Income and Capital accounts. **In this context, MBP6 identifies its components, as Supplementary Items.**