

Personal Remittances: Methodological Commentary and Information Base

Significant role of cross-border remittances for emerging market countries has been recognized at international fora. Taking into account the growth of labor mobility and, as a consequence, the increase in international financial flows generated by migrants, compilers have been facing the problem of accounting for the volume of cross-border transfers of individuals. Main statistical approximation of their economic definition is **personal remittances** aggregate which has been introduced at the international level. Calculation of this aggregate is based on the balance of payments components as the only available data on all IMF member countries and most appropriate for the set objectives¹.

Personal remittances represent households' income received from abroad from members of the same household or from other households, and associated, as a rule, with temporary or permanent migration of population. Remittances can be made both through official channels (via banks, post offices, payment systems), and by direct transfers of cash and valuables.

Personal remittances include:

- a) personal transfers;
- b) net compensation of employees;
- c) capital transfers between households.

Personal transfers include both transfers without a quid pro quo from foreign nonresident households for the benefit of the reporting country's households, and similar transfers by domestic households abroad. This component of personal remittances is represented by transactions between resident and nonresident households.

Net compensation of employees represents a part of family members' earnings abroad, which they transfer to a household in the territory of their home economy (i.e. it is a transfer between residents of the same economy). It equals the

¹ Balance of Payments and International Investment Position Manual (BPM6) and International Transactions in Remittances: Guide for Compilers and Users, International Monetary Fund, 2009.

difference between gross compensation of employees for temporary employment abroad and their expenses incurred in the host country, i.e. on accommodation, food, tax payments, and return ticket fares.

Capital transfers between households include large value transactions of individuals.

Information base for compiling statistics are reports received from credit institutions (including payment systems' operators) under form No. 0409407 "Data on cross-border transfers of individuals", and data on post office remittances provided by FGUP "Pochta Rossii". These information sources provide the broadest coverage of wire cross-border remittances of individuals.

For calculation of **personal remittances** only a part of reported transactions is used.

The list of reported transactions included in **personal remittances** aggregate is as follows:

- Small value transactions between resident and nonresident households (**personal transfers**);
- Large value transactions between resident and nonresident households in the form of transfer of inheritance, donation, etc. (**capital transfers**).

The list of reported transactions that are not included in **personal remittances** aggregate is as follows:

- Transfers related to investments in foreign assets including purchase and sale of real estate;
- Transfers of parts of income from providing services;
- Transfers to individuals temporarily staying abroad for tourism, education or medical care purposes;
- Payments for goods and services.

Transfers related to investments in foreign assets including purchase and sale of real estate are not included in personal remittances because such transactions are classified in the balance of payments mostly as foreign direct investment.

Transfers of parts of income from providing services. Activities related to providing services by an individual according to an arrangement with services' consumer (services in the sphere of construction, house-keeping, etc.), are recorded in the balance of payments as exports or imports of services rather than as compensation of employees because they include works that are not based on bilateral employer-employee relations between residents and nonresidents. An example may be seen when a resident hires a brigade of nonresident construction workers for building a house. Without concluding contracts with each member of the brigade, the resident concludes a formal or informal agreement for building a house with the brigade's foreman, according to which the foreman organizes its implementation by the workers of the brigade. Remittances of the workers related to such construction, although being transactions by individuals, are nonetheless not included in personal remittances.

Transfers to individuals temporarily staying abroad for tourism, education or medical care purposes and payments for goods and services are not included in personal remittances because such transactions are classified in the balance of payments as part of services related to residents' travel abroad or as their purchases of goods and services.

Net compensation of employees receivable is a product of multiplication of a number of residents temporarily employed abroad by the sum of an officially published average amount of worker compensation for countries of employment less expenses incurred by working Russian residents during the employment period².

² Form No. 1-T migration "Information on the number and categories of Russian citizens leaving for employment abroad".

Net compensation of employees payable is a product of multiplication of a number of nonresidents working in Russia by the sum of weighted average earnings corresponding with types of their economic activity less expenses in Russia of temporarily employed citizens of other countries during their stay³.

Data on transfers of individuals in cash are estimated by the Bank of Russia and included in **personal remittances** aggregate.

³ Data on foreign workers temporary stay on the Russian Federation territory and obtain legal work permit; estimates of numbers of illegal workers; Form No. P-4 "Information on the number, wages and migration of workers".