

## Methodological commentary for "Personal Remittances"

*Personal remittances*<sup>1</sup> are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus compensation 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. In short, this item includes all household-to-household transfers and the net earnings of nonresident workers. *Personal remittances* represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. *Personal remittances* include cash and non-cash items that flow through formal channels, such as across electronic wire, or through informal channels, such as money or goods carried across borders.

*Personal remittances* are mainly derived from two items in the balance of payments framework: income earned by workers in economies where they are not resident (or from nonresident employers) and transfers from residents of one economy to residents of another.

*Compensation 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 entities. Compensation 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". Compensation of employees is recorded gross, before taxes and other expenses incurred in the economy where the work is performed.

*Personal transfers* consist of 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. Therefore, personal transfers are a subset of secondary income account. They cover all current transfers that are sent by individuals to individuals<sup>2</sup>.

*Capital transfers* are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers. A capital transfers results in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the saving of either party. Capital transfers are typically large and infrequent, but capital transfers cannot be defined in terms of size or frequency. A transfer in kind without a charge is a capital transfer when it consists of (a) the transfer of

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<sup>1</sup>On the base of Balance of Payments and International Investment Position Manual (IMF, 2009) and International Transaction in Remittances: Guide for Compilers and Users (IMF, 2009).

<sup>2</sup>Families may provide financial support to relatives who are located but not resident in another economy, such as families supporting relatives who are students or medical patients abroad. Such transactions involve residents of the same economy and are therefore not included in personal transfers. The spending of the relative abroad will be included in travel.

ownership of a nonfinancial asset (other than inventories, i.e., fixed assets, valuables, or nonproduced assets) or (b) the forgiveness of a liability by a creditor when no corresponding value is received in return.

**Components Required for Compiling Personal Remittances and Their Source**

<b>Nº</b>	<b>Item</b>	<b>Source and description</b>
1.	Compensation of employees	Primary income account, standard component
2.	Travel and transportation related to temporary employment	Goods and services account, supplementary item
3.	Taxes and social contributions related to temporary employment	Secondary income account, supplementary item
4.	Net Compensation of employees	#1 minus the sum of #2 and #3
5.	Personal transfers	Secondary income account, standard component
6.	Capital transfers between households	Capital account, supplementary item
<b>7.</b>	<b>Personal remittances</b>	<b>#4 plus #5 plus #6</b>