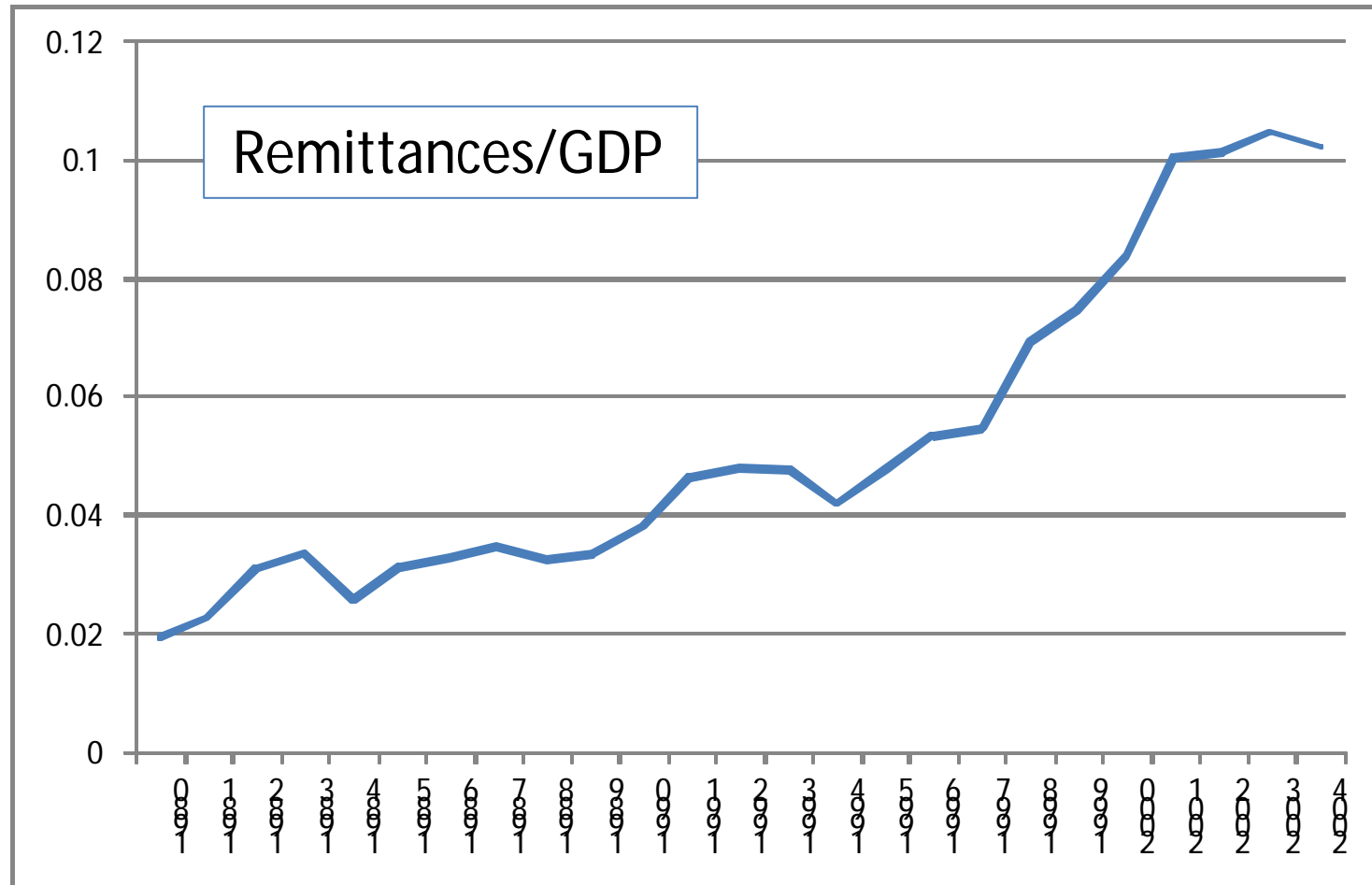


# The treatment of remittances in Philippine NTA: Compensation from ROW or private transfer?

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NTA 6<sup>th</sup> Meeting  
UC Berkeley, 10 Jan 2009

# Why does it matter for the Phils.?



# What are remittances? (IMF)

- Remittances represent household income from foreign economies arising mainly from the **temporary** or **permanent** movement of people to those economies.
- They largely consist of:
  - funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and
  - net compensation of border, seasonal, or other short-term workers who are temporarily **employed** in an economy in which they are not resident.

# Where is it in SNA?

## NATIONAL ACCOUNTS OF THE PHILIPPINES

Unit: In million pesos

### CONSOLIDATED ACCOUNTS IV: EXTERNAL TRANSACTIONS

1999

#### AT CURRENT PRICES

OUTFLOWS from ROW

INFLOWS to ROW

#### TRANSACTION ITEMS

2. Compensation of employees from ROW	222,793	0	6. Compensation of employees to ROW
3. Property and entrep. Income from ROW	50,196	113,725	7. Property and entrep. Income to ROW
1. Exports of goods and services	1,532,160	1,527,418	5. Imports of goods and services
A. Merchandise FOB, SNA *	1,345,419	1,213,629	A. Merchandise CIF, SNA *
Merchandise FOB, FTS **	1,371,410	1,201,232	Merchandise FOB, FTS **
		71,472	Plus: Insurance and freight, FTS
Less: Special transactions	33,736	59,075	Less: Special transactions
Plus: Monetization of gold, CBP ***	7,745	0	Plus: Demonetization of gold, CBP ***
B. Non-factor services	186,741	313,789	B. Non-factor services
4. Current transfers from ROW	66,336	5,829	8. Current transfers to ROW
B. To Households	63,728	5,107	B. From Households
A. To General Government	2,608	722	A. From Government (contributions to int'l org.)
		224,513	9. Surplus on current transactions
CURRENT RECEIPTS	1,871,485	1,871,485	CURRENT DISBURSEMENTS
10. Surplus on current transactions	224,513		
11. Capital transfers from the rest of the world	907		
		225,420	12. Net lending to the rest of the world

# Where is it in NTA?

Flow Account:

C					
YL	YLE				
	YLS				
LCD					

T	TG				
	TF	Intra-HH			
		Inter-HH	Domestic		
			ROW	Inflow	
				Outflow	
AR					

$$C - YL = LCD = T + AR$$

# 1<sup>st</sup> attempt: Initial LCD estimation

- Learner's stage
- transfers part (stage 2) not yet elaborated to us

# Macro control for YL introduced

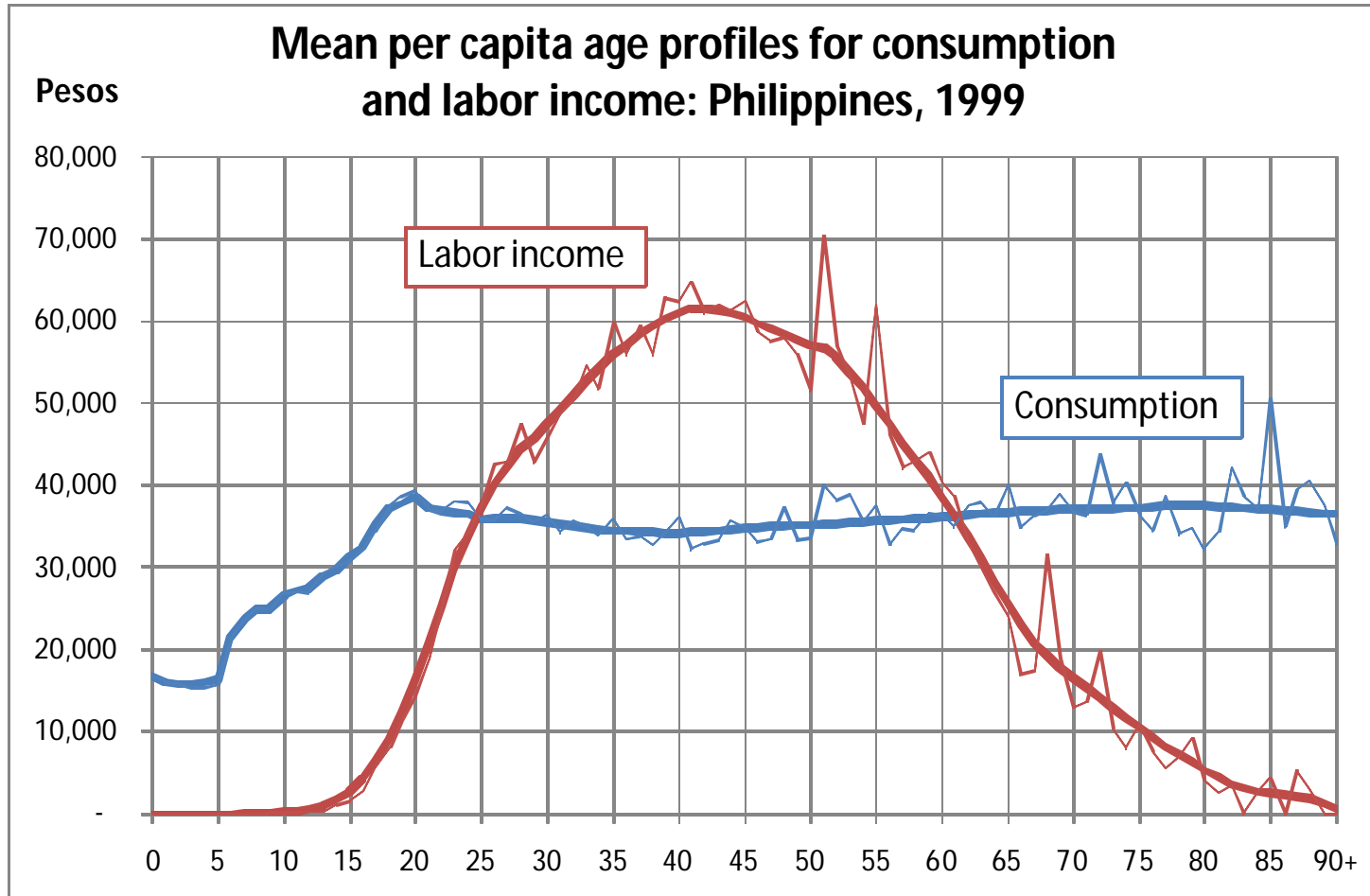
- NTA aggregate control for labor income:

$$YL = (2/3) * \text{household operating surplus} \\ + \text{compensation of employees}$$

But,

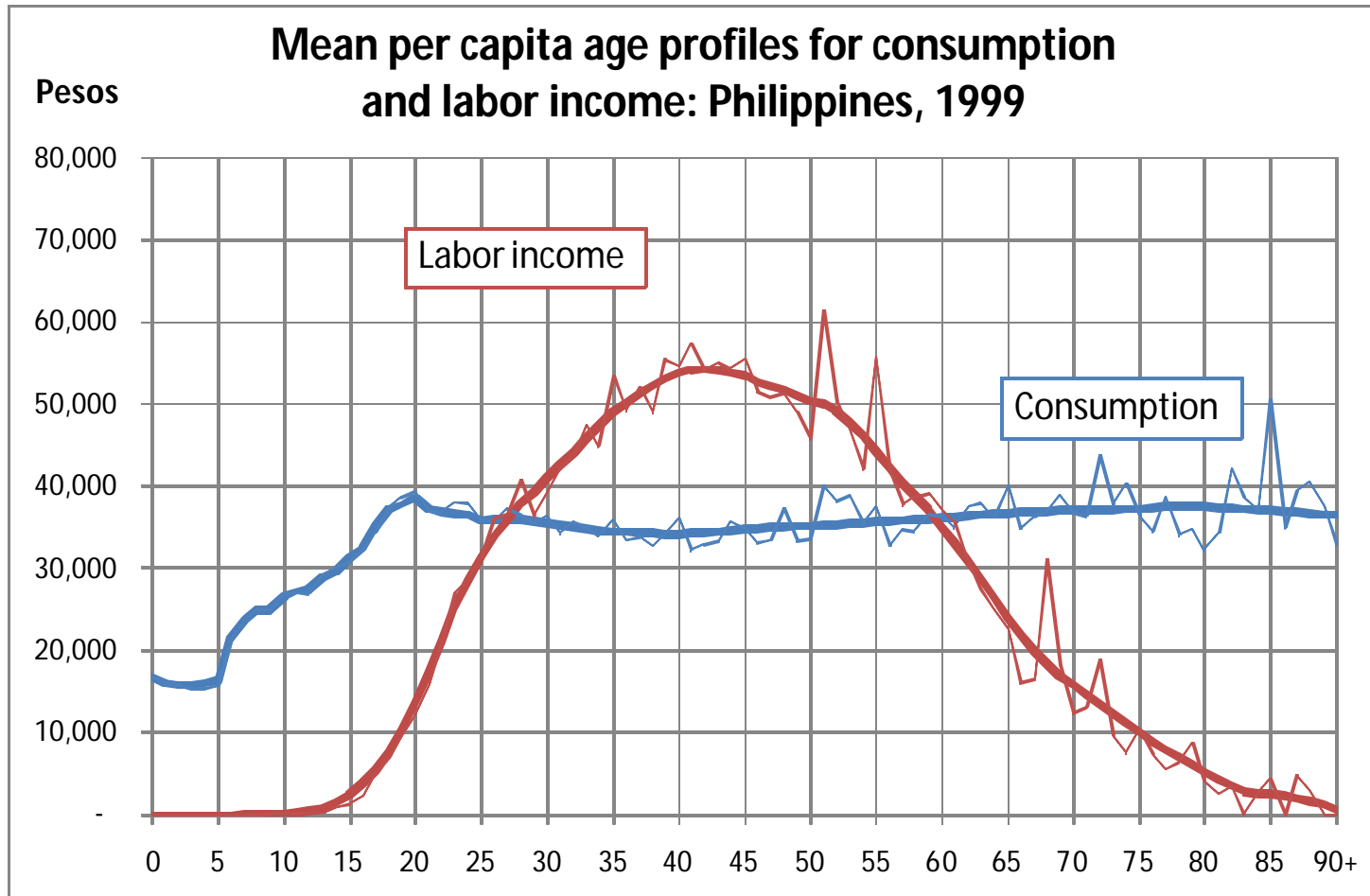
$$\text{Compensation} = \text{compensation from residents} \\ + \text{compensation from ROW} \\ - \text{compensation to ROW}$$

# Remittances treated as Compensation from ROW



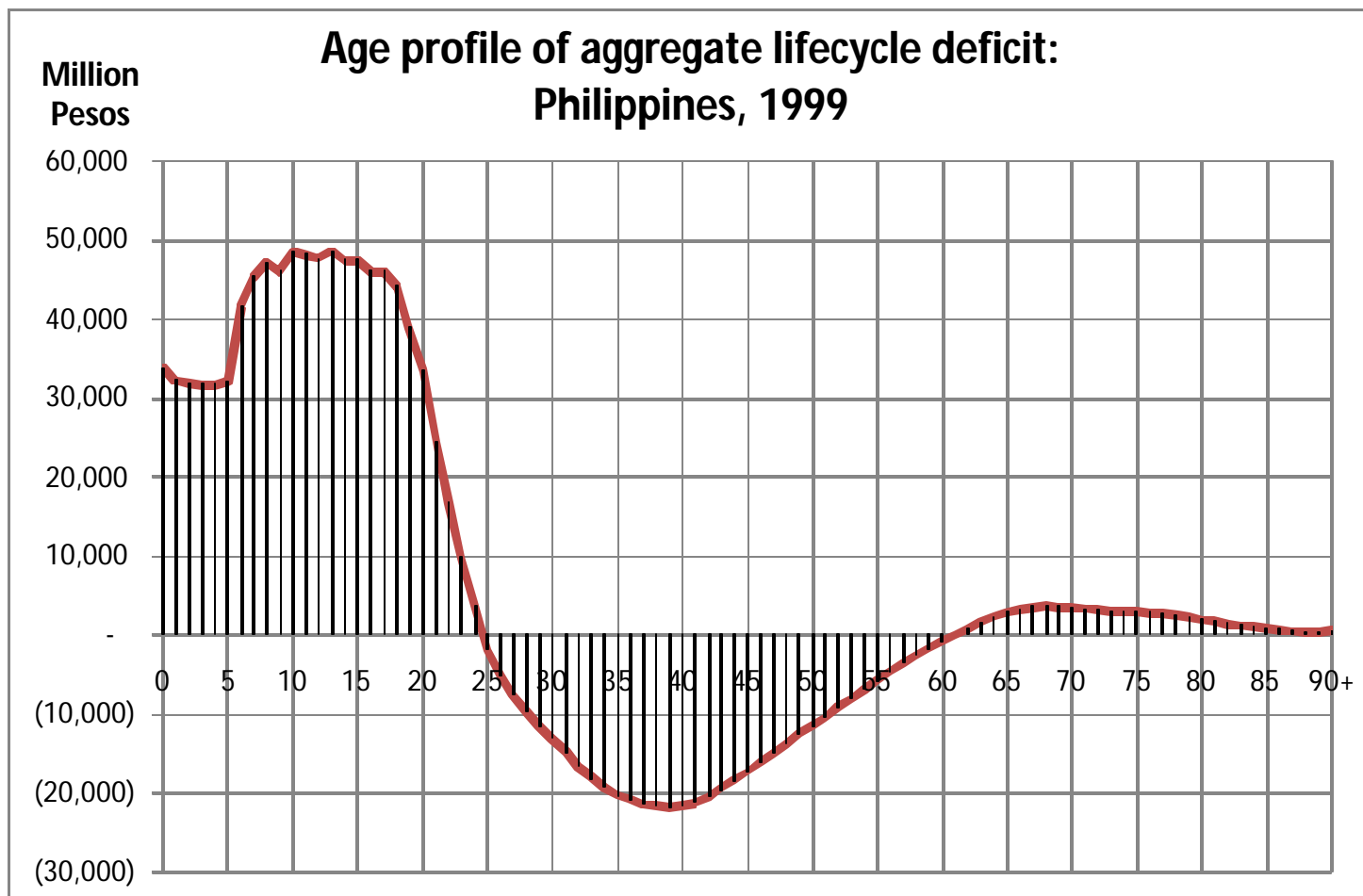


# Remittances treated as private transfer

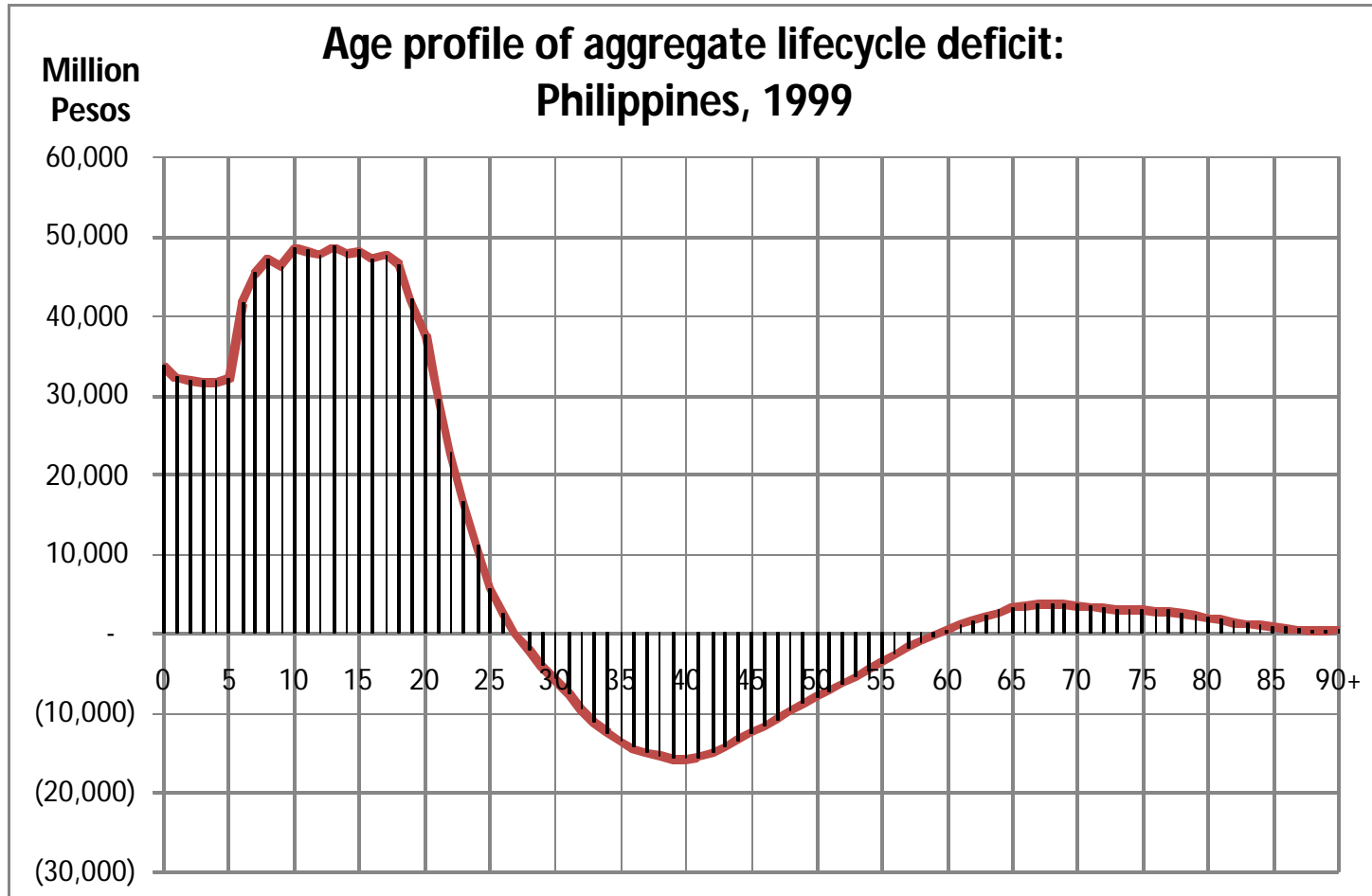


- Treatment of remittances as net compensation from ROW thought problematic because it didn't take into account consumption expenditures of overseas workers (it entered the picture net of consumption already – but this is understandable, they weren't inside the country!)
- Treating it as private inter-HH transfer from ROW would be more convenient in skirting the net of consumption issue.

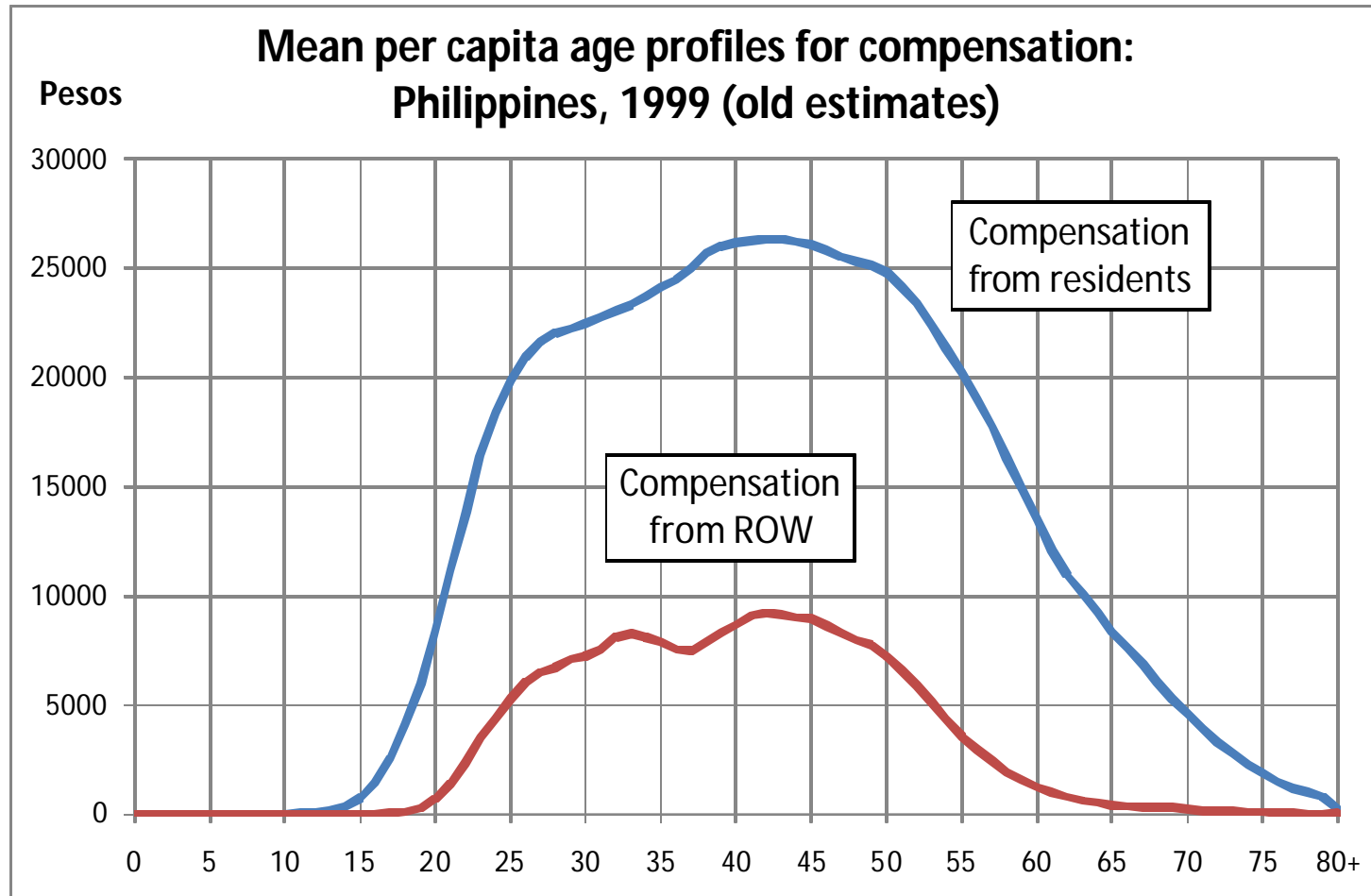
# Remittances treated as compensation from ROW



# Remittances treated as private transfer



## 2<sup>nd</sup> attempt: Reintegrate overseas Filipinos into original household



# Survey details

- APIS **excludes** overseas Filipinos in its household roster.
- SOF coverage:
  - overseas Filipinos who went abroad **within the past five years** (if >5 years, considered “immigrant”)
  - asks if overseas Filipino worked abroad
  - asks the reason for leaving of overseas Filipino and date of return or expected return
  - n:1 but not 1:n relationship between overseas Filipinos attached to households

# Data items used: APIS\_h

- giftin\_abroad\_h: “cash receipts, gifts, support, relief and other forms from abroad for past six months, in cash”
  - may include remittances received from overseas Filipinos which are not attached to the household (immigrant relatives, friends, etc.)
- No usable item in APIS\_m

# Data items used: SOF\_m


- remittance\_m: “cash remittance received” + “cash brought home”



# Data items used: SOF\_m

- “had work/job last stay abroad”

# Data items used: SOF\_m

- “reason for leaving the country”
  - Encoded answers:
    - ➔ 1. Contract worker
    - 2. Work with Phil. Consulate/Embassy abroad
    - ➔ 3. Worker other than contractual
    - ➔ 4. Tourist
    - ➔ 5. Student
    -  6. Immigrant
    - 7. Official missions
    - ➔ 8. Others
    - Different treatment relative to survey definition of overseas worker (arrows + employed).

# Reintegration of overseas Filipinos

- Merge household-file and member-file of APIS, then merge this with SOF\_m.
- Use individual weights from both surveys (each calibrated to correspond to census numbers).
  - Weights of members of household may be different from overseas Filipino/s attached to it (true for 1999 but not for 2002).

# Overseas worker definition

- Overseas Filipino must satisfy both of the following for remittance to be considered as net compensation from ROW:
  1. be away from his/her household temporarily (to establish continuing ties as member of the household)
  2. be employed (for remittance to be considered as labor income)
- Otherwise, remittance will be classified as inter-household transfer from ROW.
- $\text{remittance\_h} = \text{comp\_ROW\_h} + \text{inter\_ROW\_h}$

# Adjustments

- Ideally, remittance\_h (SOF) == giftin\_abroad\_h (APIS)
- If  $>$ , scale remittance\_h to giftin\_abroad\_h and apply to comp\_ROW\_m and inter\_ROW\_m accordingly.
- If  $<$ , residual is treated as additional inter\_ROW\_h.
- Is residual attributable to households receiving remittances from “immigrant” overseas Filipinos (not covered by the SOF survey), or is it due to reporting error?

## Contract workers (residents working abroad) and immigrants (non-residents)

- APIS: 37,454 households; 188,671 individuals
- SOF: 1,897 households; 2,174 individuals
- SOF coverage: overseas Filipinos who went abroad **within the past five years**
- When APIS and SOF were merged by household ID, only 1,897 households had overseas Filipinos (some of which were not employed abroad), while 4,682 households received cash gifts from abroad, so that there is a bigger number of households receiving inter-HH transfers from ROW.

- Bewildering experience moving back and forth between macro controls and micro-data variables, but remember that NTA is an elaboration of SNA, so stick with your SNA if there are inconsistent treatments (at least that's what we did in our case!).

3<sup>rd</sup> attempt: Study all SNA items and reconcile fully with NTA

- Explore usefulness of Balance of Payments (BOP) account in threshing out the remittance issue.
- BOP handled by the central bank.



## List 1: les coefficients constants

2002 TO 2004  
AT CURRENT PRICES

RECEIVED: FEBRUARY 2006; REVISED: JUNE 2006; ACCEPTED: JULY 2006

## Unit: In multiple persons

2002 TO 2004  
AT CURRENT PRICES

## Unit: In million euros

CONSOLIDATED ACCOUNTS B- NATIONAL DISPOSABLE INCOME AND ITS A

## Unit: in millions per year

CONSOLIDATED ACCOUNTS RE. GROSS ACCUMULATION

DOI: 10.1002/for

## Unit: In millions pesos.

Unit: In millions pesos.

\*\*\* Balance of Payments, BOP

NATIONAL ACCOUNTS OF THE PHILIPPINES

B. Other interests 17700

INCOME AND OUTLAY ACCOUNT I: PRIVATE CORPORATIONS		INCOME AND OUTLAY ACCOUNT II: GOVERNMENT CORPORATIONS		INCOME AND OUTLAY ACCOUNT III: GENERAL GOVERNMENT		INCOME AND OUTLAY ACCOUNT IV: HOUSEHOLDS AND UNINCORPORATED	
AT CURRENT PRICES		AT CURRENT PRICES		AT CURRENT PRICES		AT CURRENT PRICES	
TRANSACTION ITEMS	1999	TRANSACTION ITEMS	1999	TRANSACTION ITEMS	1999	TRANSACTION ITEMS	1999
1. Net operating surplus	419,613	1. Net operating surplus	35,696	1. Net operating surplus	-212	1. Net operating surplus	1,187,140
2. Property income	110,781	2. Interest income and dividends	33,523	2. Property income	42,513	2. Compensation of employees, net	1,030,430
				A. Interest income	18,175	A. From resident producers	807,637
				B. Investment income	18,120	B. From the rest of the world	222,793
				C. Other income	6,218	C. Less: To the rest of the world	0
3. Casualty insurance claims	3,817	4. Casualty insurance claims	1,487	3. Indirect taxes excl. import duties & taxes	197,602	3. Interest on public debt from general govt.	88,193
4. Net casualty insurance premiums	5,696	3. Net casualty insurance premiums	1,352	4. Import duties and taxes	86,347	4. Other interest income from Private	5,263
				5. Direct taxes	169,435		
				6. Compulsary fees & fines	21,693		
				7. Social security contributions	61,776	5. Social security benefits	48,855
				8. Casualty insurance claims	251	6. Casualty insurance claims	1,492
				9. Current transfers	3,427	7. Current transfers	94,402
				A. From Households	819	A. From General Government	9,093
				B. From the Rest of the World	2,608	B. From Government Corporations	21,581
						C. From the Rest of the World	63,728
TOTAL RECEIPTS	539,907	TOTAL RECEIPTS	72,058	TOTAL RECEIPTS	582,832	TOTAL RECEIPTS	2,455,775
6. Dividends	81,292	6. Dividends	548	10. Government consumption expenditure	389,238	8. Personal consumption expenditure	2,161,645
5. Interest payments	90,705	5. Interest payments	30,568	11. Interest payment on public debt	116,694	9. Property income payments	23,995
		A. Interest payment		A. To domestic	88,193	A. Consumer debt interest	6,295
		B. Assumed interest payment		B. To rest of the world	28,501	B. Other interests	17,700
9. Direct taxes	101,382	10. Direct taxes	1,253	12. Subsidies	11,084	C. Other property income payment	0
8. Casualty insurance claims	5,696	7. Casualty insurance claims	1,352	13. Social security benefits	48,855	10. Direct taxes	66,800
7. Net casualty insurance premiums	3,817	8. Net casualty insurance premiums	1,487	14. Net casualty insurance premiums	251	11. Compulsory fees, fines and penalties	21,693
				15. Other current transfers	9,815	12. Social security contribution	61,776
		9. Current transfers to Households	21,581	A. To Households	9,093	13. Net casualty insurance premiums	1,492
				1. Awards and indemnities	125	14. Current transfers	5,926
				2. Social assistance grants	2,231	A. To General Government	819
				3. Unfunded employee welfare benefits	6,737		
				B. To the Rest of the World	722	B. To the Rest of the World	5,107
				1. Government contribution to int'l org.	722		
10. Saving	257,015	11. Saving	15,269	16. SAVING	6,895	15. SAVING	112,448
TOTAL DISBURSEMENTS	539,907	TOTAL DISBURSEMENTS	72,058	TOTAL DISBURSEMENTS	582,832	TOTAL DISBURSEMENTS	2,455,775
11. Memorandum Items:		12. Memorandum Items:		16. Memorandum Items:		16. Memorandum item:	
1. Disposable Income = Saving		1. Disposable Income = Saving		1. Disposable Income Item (1 to 9) -		1. Personal Disposable Income Item (1 to 7)	
				(11 to 15) or (10 + 16)	396,133	- (9 TO 14) or (8 + 15)	2,274,093
2. Primary Income (1 + 2) - (5 + 6)	358,397	2. Primary Income (1 + 2) - (5 + 6)	38,103	2. Primary Income Item (1 to 4) - (11 + 12)	198,472	2. Primary Income Item (1 to 4) - (9)	2,287,031
Source: National Statistical Coordination Board		Source: National Statistical Coordination Board		Source: National Statistical Coordination Board		Source: National Statistical Coordination Board	

# BOP alignment with BPM5

- Data starting 1999 (!) were revised in 2005.
- Remittances now classified as income OR current transfer based on 1-year residency of sender
  1. Resident overseas Filipino: sea-based workers, performing artists in Japan (6-month contracts)
  2. Non-resident overseas Filipino: all land-based workers (because most have two-year employment contracts)

# BSP explainer on BOP (Gonzaga)

The old estimation procedure is described as follows:

1. The rule on residency was not followed. All contract workers, regardless of the length of stay in the host economy, were considered as residents.
2. Compensation of employees was measured net and not gross as required in the BOP system. Estimates of income were based on the amount of cash remittances and therefore, net of the workers' expenditures spent abroad. Likewise, remittances in kind were not covered in the estimates.

- Data requirements on stock and flow estimates of overseas workers and immigrants and average salary by occupation obtained from government overseas welfare institutions:
  - Commission on Filipinos Overseas (CFO)
  - Philippine Overseas Employment Administration (POEA)

# NATIONAL ACCOUNTS OF THE PHILIPPINES

Unit: In million pesos

## CONSOLIDATED ACCOUNTS IV: EXTERNAL TRANSACTIONS

1999

AT CURRENT PRICES

OUTFLOWS from ROW

TRANSACTION ITEMS

2. Compensation of employees from ROW	222,793
3. Property and entrep. Income from ROW	50,196
1. Exports of goods and services	1,532,160
A. Merchandise FOB, SNA *	1,345,419
Merchandise FOB, FTS **	1,371,410
Less: Special transactions	33,736
Plus: Monetization of gold, CBP ***	7,745
B. Non-factor services	186,741
4. Current transfers from ROW	66,336
B. To Households	63,728
A. To General Government	2,608

CURRENT RECEIPTS

10. Surplus on current transactions	224,513
11. Capital transfers from the rest of the world	907

## Break down into -INCOME -CURRENT TRANSFER

INFLOWS to ROW

0 6. Compensation of employees to ROW	113,725
7. Property and entrep. Income to ROW	1,527,418
5. Imports of goods and services	1,213,629
A. Merchandise CIF, SNA *	1,201,232
Merchandise FOB, FTS **	71,472
Plus: Insurance and freight, FTS	59,075
Less: Special transactions	0
Plus: Demonetization of gold, CBP ***	313,789
B. Non-factor services	5,829
8. Current transfers to ROW	5,107
B. From Households	722
A. From Government (contributions to int'l org.)	224,513
9. Surplus on current transactions	

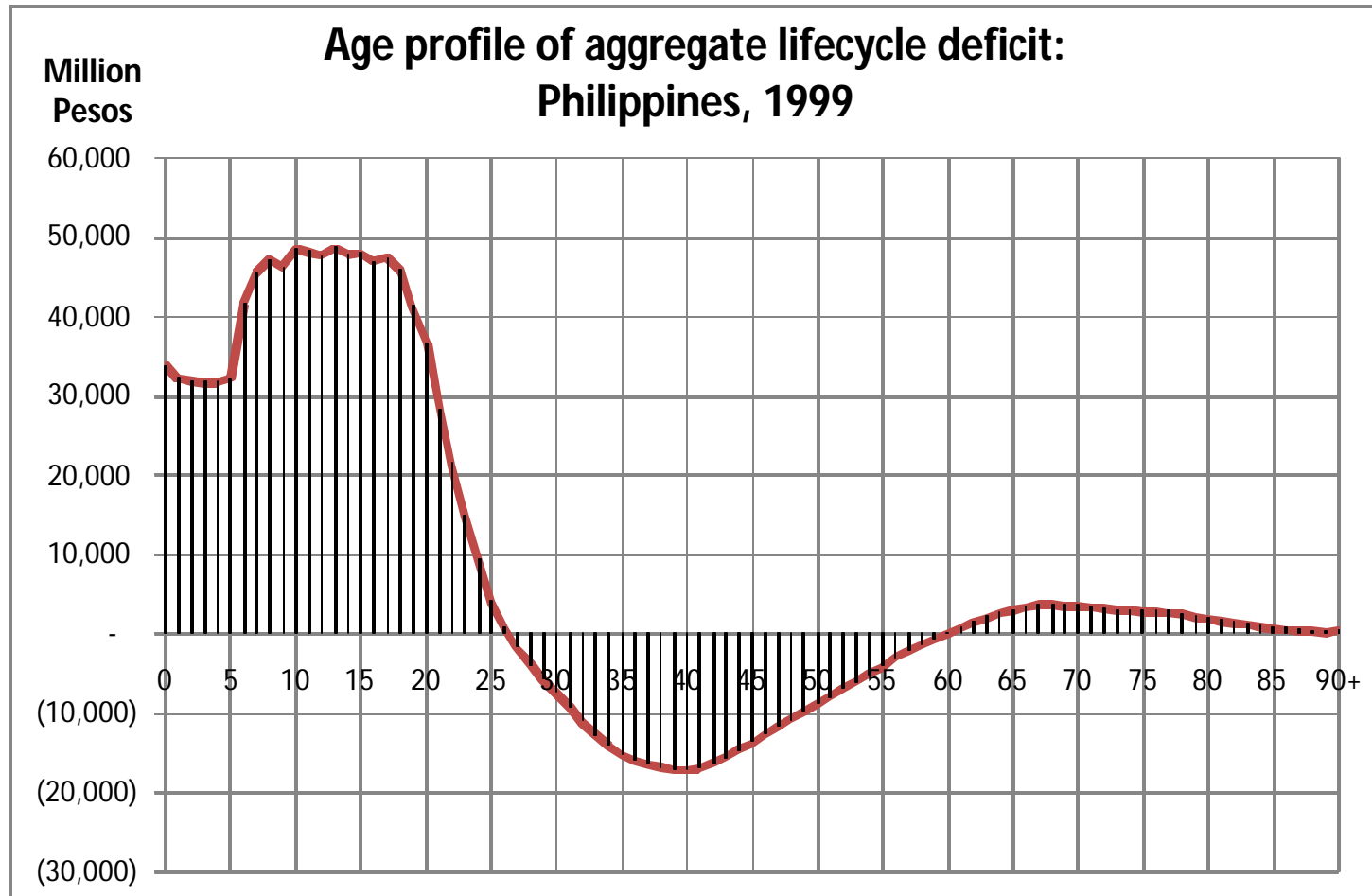
CURRENT DISBURSEMENTS

225,420 12. Net lending to the rest of the world

# Impact on aggregate LCD

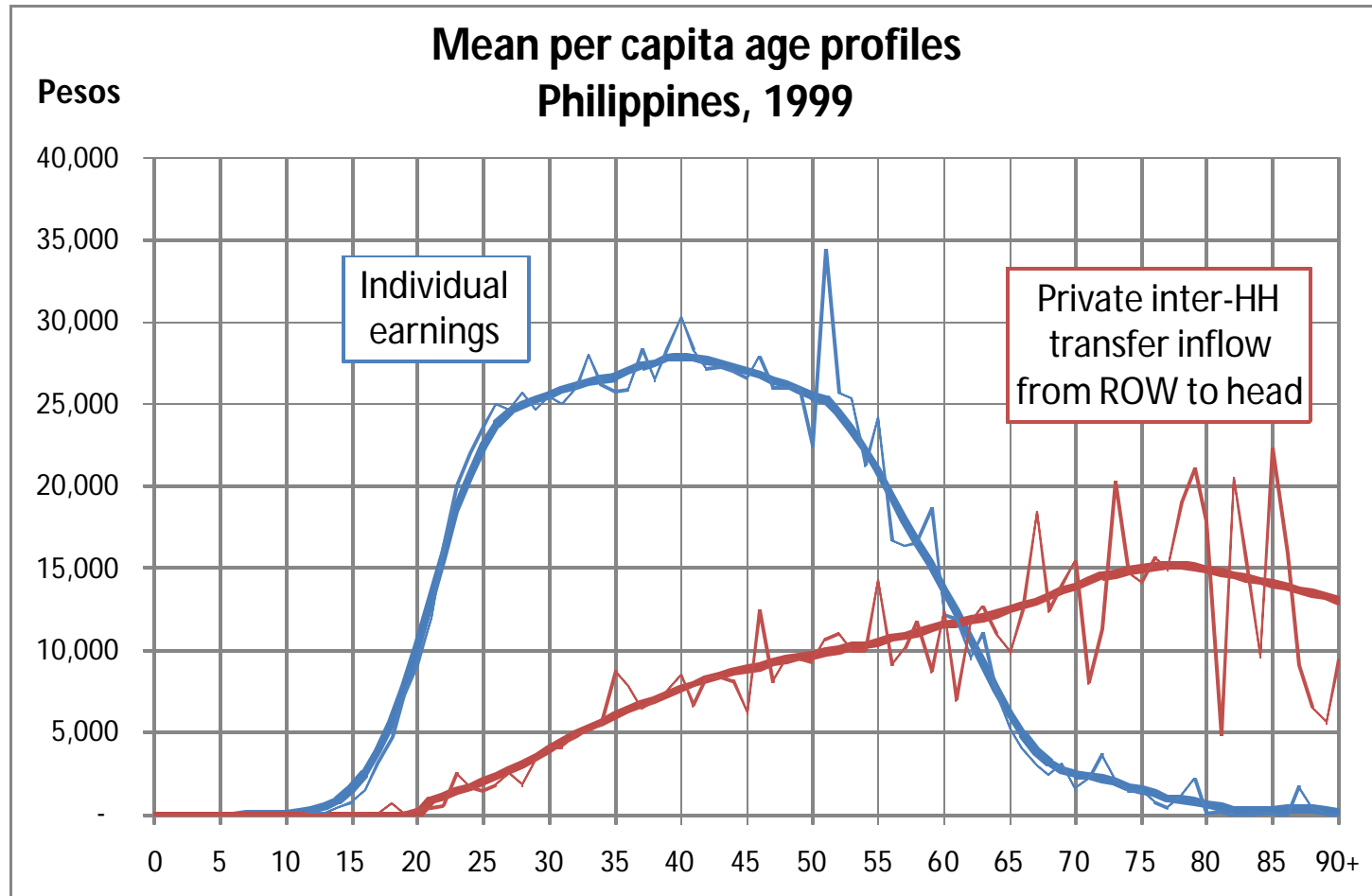
Treatment of remittances	LCD/GDP
Purely compensation from ROW	17.5%
Purely private transfer	25.0%
Combined (using BOP breakdown: 77.9% current transfer)	23.4%

# Combined treatment





# Per capita age profiles used for age distribution of remittance



# Some other issues

- Ensure consistency between macro control definitions and micro-data variables used
- BOP reported in US dollars, SNA in pesos (hence ratios were used)
- In BOP, gross compensation from ROW is used, while remittances data recorded in household surveys are net of consumption (so estimated profiles may not capture intended gross compensation profile)
- 5-year threshold for residency determination adopted in SNA and population census while 1-year for BPM5+

# Some other issues

- Merging problem: missing unique individual ID
- Is assignment to head the best we can do given household-level data on remittances? This might make intra-HH reallocations larger than they really are and distort per capita transfer profiles for household heads.