

# Some Notes on Inter-household Transfers in Mexico

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In this document a discussion regarding the use of macro controls in Mexican inter-household transfers is presented. Given the huge amount of remittances received by our country, some of the methods proposed by Gretchen [1] generate odd results when applied to Mexican data (Gretchen herself already pointed out that there might be some problems when dealing with large amounts of transfers). Here we present two different approaches intended to deal with adjusting large sums of remittances and domestic inter-household transfers.

Before explaining the details of our approaches, we include a very short review of the methods proposed by [1]. Notation is taken as in the original document,  $TF$  represents the control total for net private transfers,  $TFBI_{agg}$  is total aggregate inter-household inflows and  $TFBO_{agg}$  is total aggregate inter-household outflows.

**Method 1.** The multiplicative adjustment factor  $TFB_{adj}$  for total net private transfers is calculated as follows:

$$TFB_{adj} = \frac{TF}{TFBO_{agg} + TFBI_{agg}}$$

Please note that this factor depends on net transfers control and affects outflows and inflows in the same proportion.

**Method 2.** The multiplicative adjustment factors for outflows  $TFBO_{adj}$  and  $TFBI_{adj}$  are calculated as follows:

$$TFBO_{adj} = 1 + \frac{TF - TFBI_{agg} - TFBO_{agg}}{2 \cdot TFBO_{agg}}$$

$$TFBI_{adj} = 1 + \frac{TF - TFBI_{agg} - TFBO_{agg}}{2 \cdot TFBI_{agg}}$$

**Method 3.** The multiplicative adjustment factors for outflows only  $TFBO_{only\_adj}$  or inflows only  $TFBI_{only\_adj}$  are calculated as follows:

$$TFBO_{only\_adj} = \frac{TF - TFBI_{agg}}{TFBO_{agg}}$$

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<sup>1</sup> Some important ideas presented here resulted after valuable recommendations from Gretchen Donehower, Dr. Karen O. Mason, Dr. An-Chi Tung, Majorie C. Pajaron, Dr. Andrew Mason and Dr. Sang-Hyop Lee.

$$TFBI_{only\_adj} = \frac{TF - TFBO_{agg}}{TFBI_{agg}}$$

Note that the adjustment with Method 1 is made to the net transfers; to both inflows and outflows with Method 2; and either inflows or outflows, but not both, in the case of Method 3.

In our first approach, we used as aggregate control (*TF*) the Net Current Transfers from the rest of the World, where remittances are included and represent almost the total amount of these transfers according to the Central Bank in Mexico. However, some problems were detected. We observed that Method 1 can be applied and considered for the difference of inflows and outflows (net transfers), but unfortunately, aggregate values for inflows and outflows resulted huge; therefore, unrealistic. In the case of Method 2, adjusting both inflows and outflows resulted in positive outflows, which is clearly not a realistic situation. For Method 3 we decided to adjust the inflows only. We consider this method as the best option within this approach since aggregate inflows were not as large as with Method 1 and we did not observe strange behavior as in Method 2. However, this approach overlooks an important issue. According with NTA methodology, aggregate domestic inflows and outflows should have the same value; i.e., net domestic transfers should be zero, which is not the case within this approach because there is an implicit imbalance for inflows and outflows given the total amounts resulting from the survey.

In order to deal with this problem, we propose a second approach, where an independent profile for remittances (Net Current Transfers from the Rest of the World) is constructed (not considered as part of the inflows in the survey). Then, profiles for inflows and outflows are constructed as well, but this time adjusted using aggregate controls from the System of National Accounts (SNA), where the concept of *other current transfers* for households (which not includes Rest of the World -ROW) is used as macro control for inflows (resources less uses from ROW) and outflows (uses). The same methods shown above were used to adjust for aggregate controls in order to have a zero domestic balance ( $TF=0$ ). Once domestic values are adjusted, the profile from remittances is added to the inflows profile and considered in the computation of net inter-household transfers. In this approach, when adjusting domestic transfers, Method 1 is not reliable because the multiplicative factor must be zero given  $TF=0$ . Method 2 and Method 3 looked more reliable. However, the total inflows and outflows generated by Method 2 were not consistent with our macro controls. We decided to keep the outflow level given by our macro control and adjust only the inflows with Method 3. Once the net domestic transfers were adjusted, we merely added the remittances profile as international inflows in order to obtain net inter-household transfers.

1. Gretchen Donehower, *Additional Notes for Private Transfer Methodology*, April 20, 2007 [<http://www.schemearts.com/proj/nta/web/nta/show/Documents/Private%20Transfers>].