

Remittance assignment and its impact on old-age reallocation system in Philippine NTA

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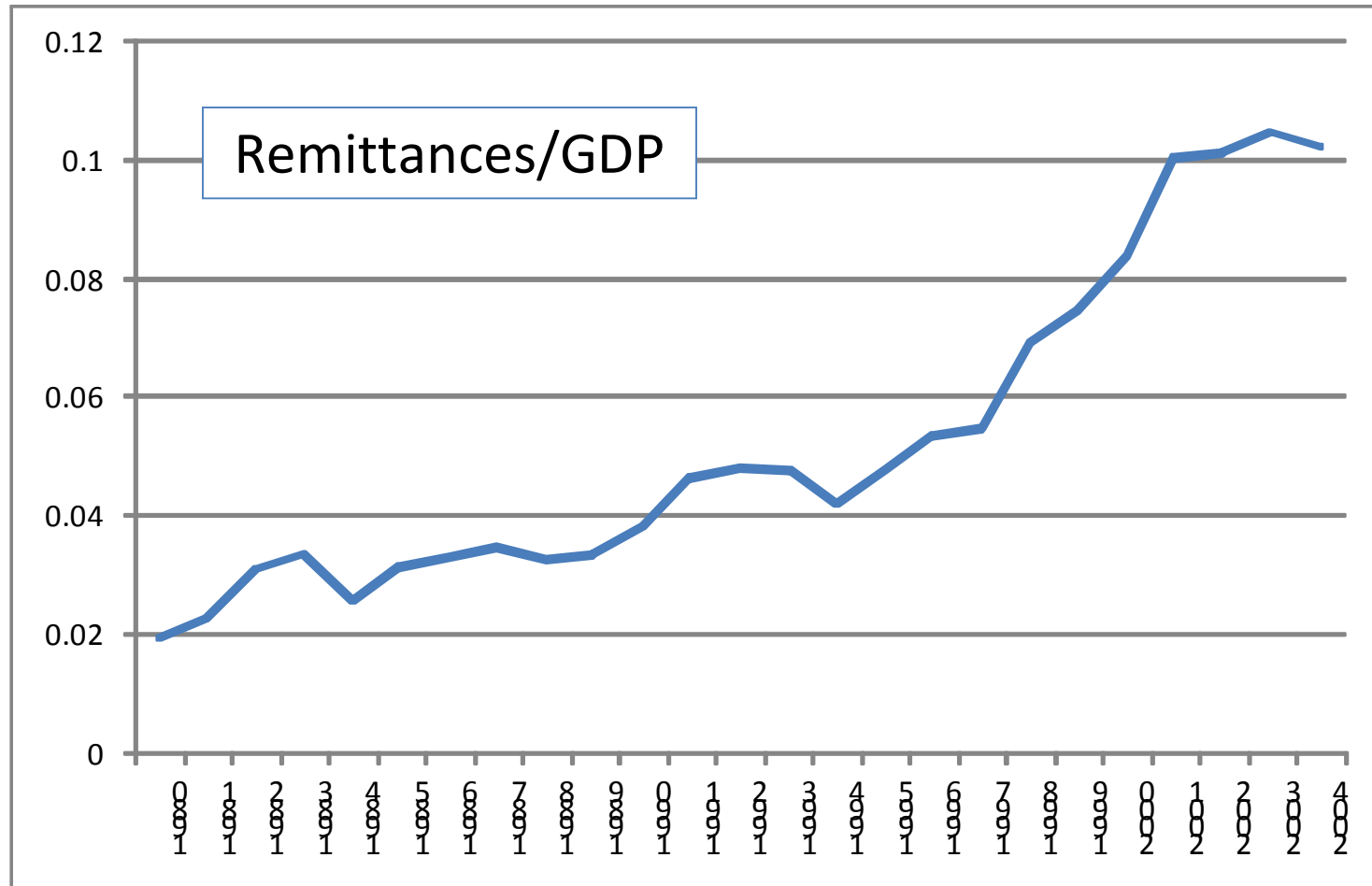
Goal

- To determine how sensitive the mix of transfer systems are for the elderly given different treatments of remittances.
- This is a only a cursory examination for the Philippine case based on the NTA accounting framework.

Outline

- Remittances in the Philippines
- How to treat it?
- How to assign it?
- Impact on old-age reallocation system

Why does it matter for the Phils.?



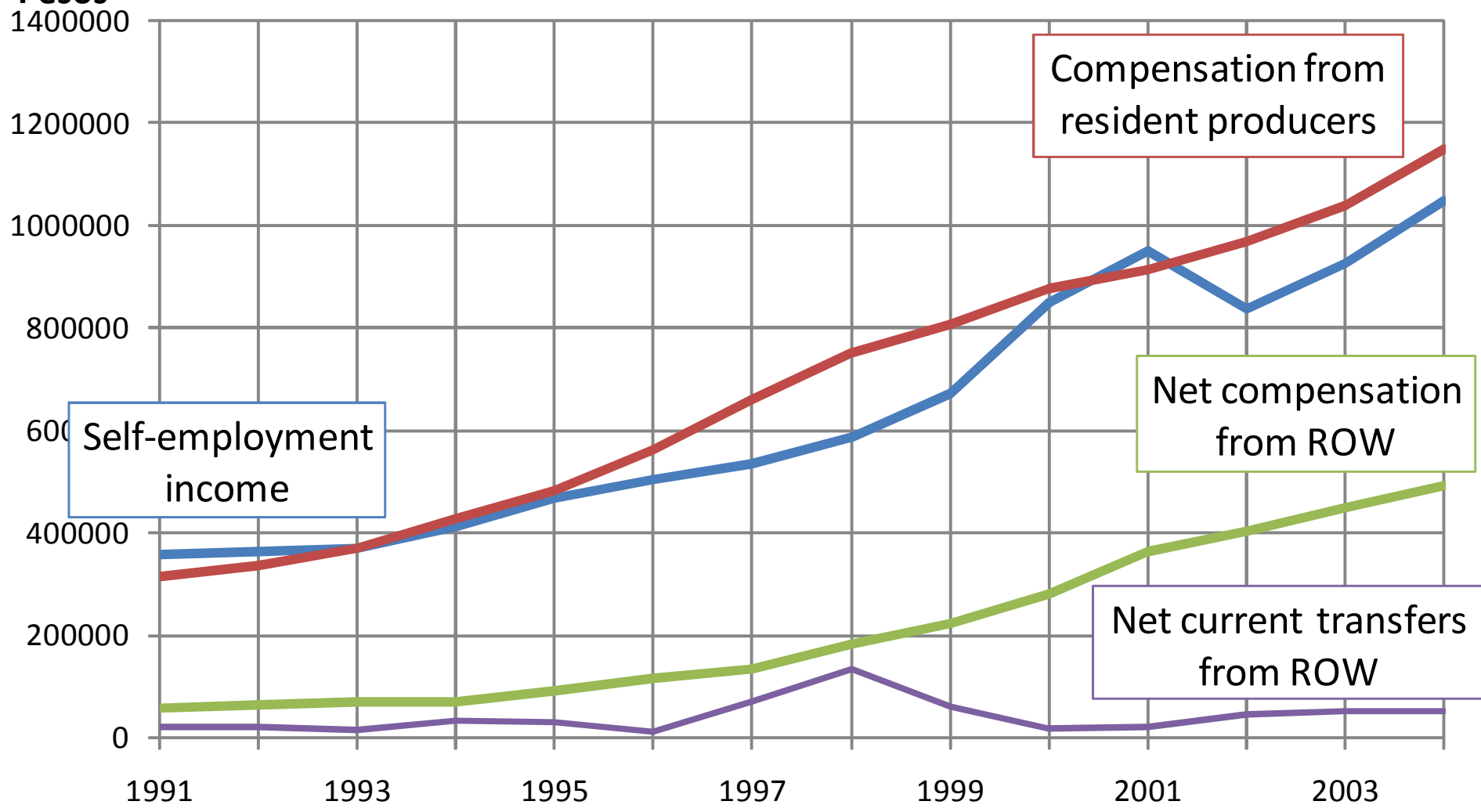
No. of overseas Filipinos

- About 10% of the population is working abroad

		2000	2007
Total Population		76,504,077	88,574,614
Overseas Filipinos		7,384,122	8,726,520
	Permanent	2,552,549	3,692,527
	Temporary	2,991,125	4,133,970
	Irregular	1,840,448	900,023

Million
Pesos

Philippine NIA figures, 1991-2004



What are remittances? (IMF)

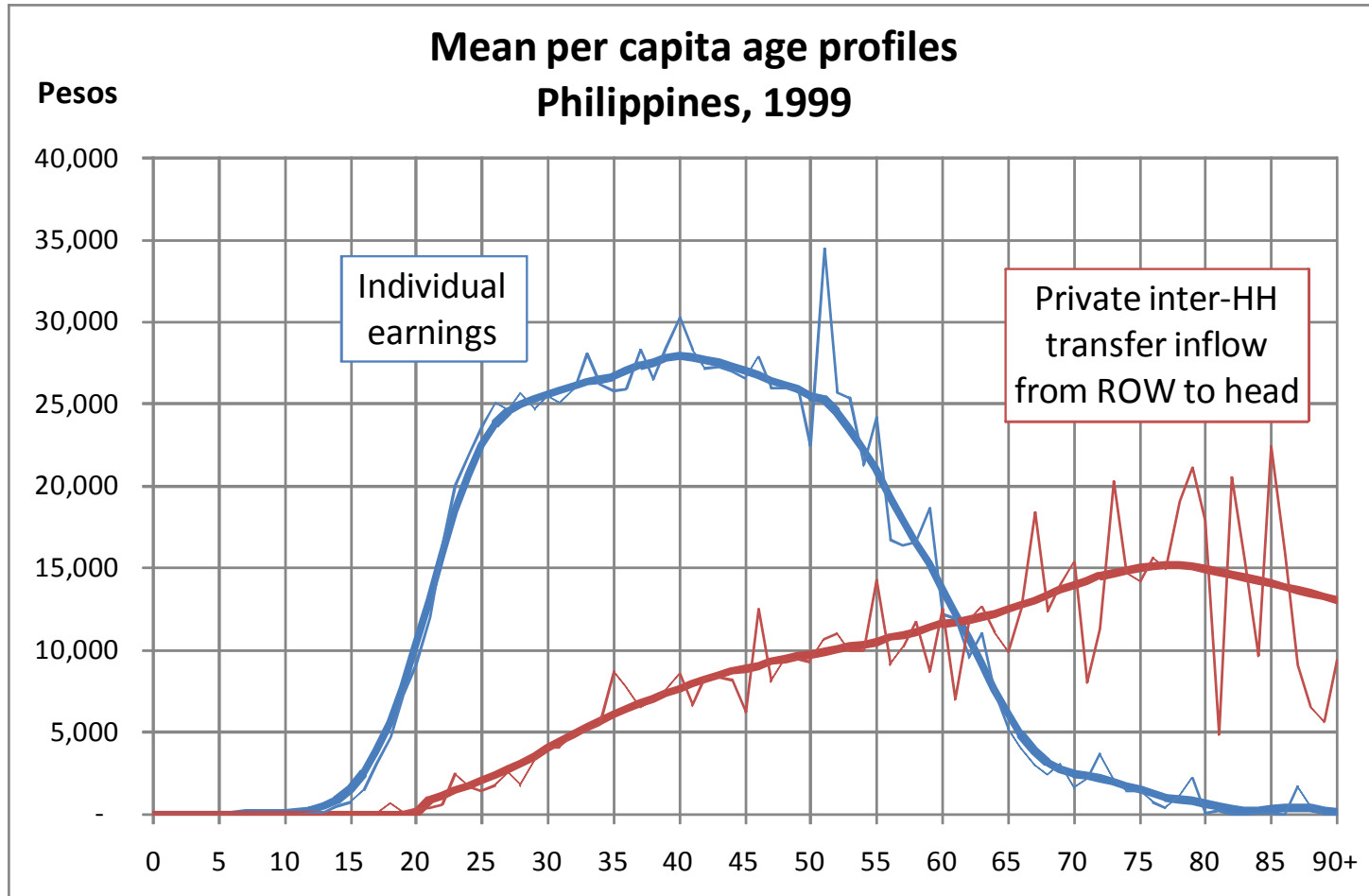
- Remittances represent household income from foreign economies arising mainly from the **temporary** or **permanent** movement of people to those economies.
- They largely consist of:
 - funds and noncash items sent or given by individuals who have migrated to a new economy and **become residents there**,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

- Residence classification is key in determining the treatment of remittances sent from foreign countries in NTA.
 - Adopted treatment will dictate how macro controls are adjusted **and** how remittances are assigned to specific age groups.

- If sender in the foreign country is:
 - only temporarily away from the origin country for the purpose of working, and
 - intends to go back to the origin country as soon as the work contract is finished,
- then we might treat the sender as still a resident in the origin country, and thus his/her earnings should be counted as part of the origin country's labor income.

- On the other hand, if sender in the foreign country is:
 - already a permanent resident of that country,
- then the remittance is a private (inter-household) transfer from that foreign country to the origin country.
- We assign the private transfer to the head of the recipient household (unitary model).

Per capita age profiles used for age distribution of remittance



Where are remittances in NIA?

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	1,871,485
10. Surplus on current transactions	224,513
11. Capital transfers from the rest of the world	907

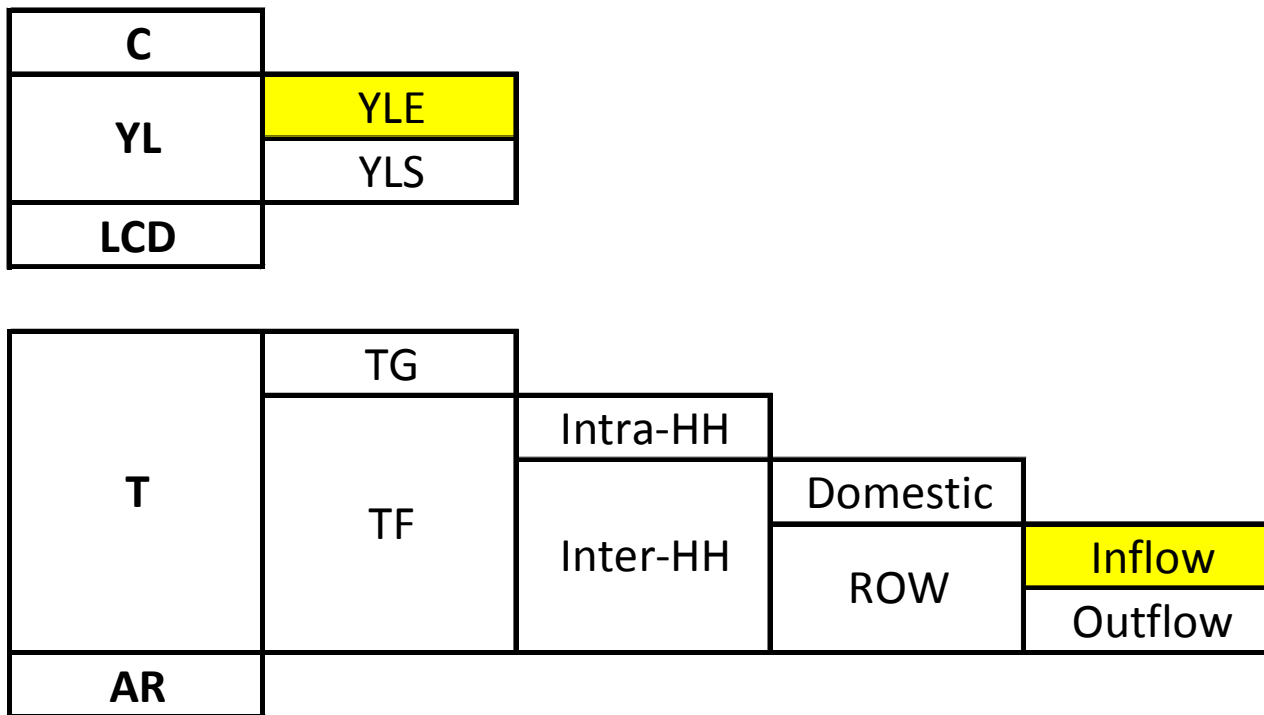
-suggests that remittances from temporary overseas workers are bigger than those from migrants

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	1,871,485
CURRENT DISBURSEMENTS	1,871,485
12. Net lending to the rest of the world	225,420

Where are remittances in NTA?

Flow Account:



$$C - YL = LCD = TG + TF + AR$$

Macro control for YL

- NTA aggregate control for labor income:

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

But,

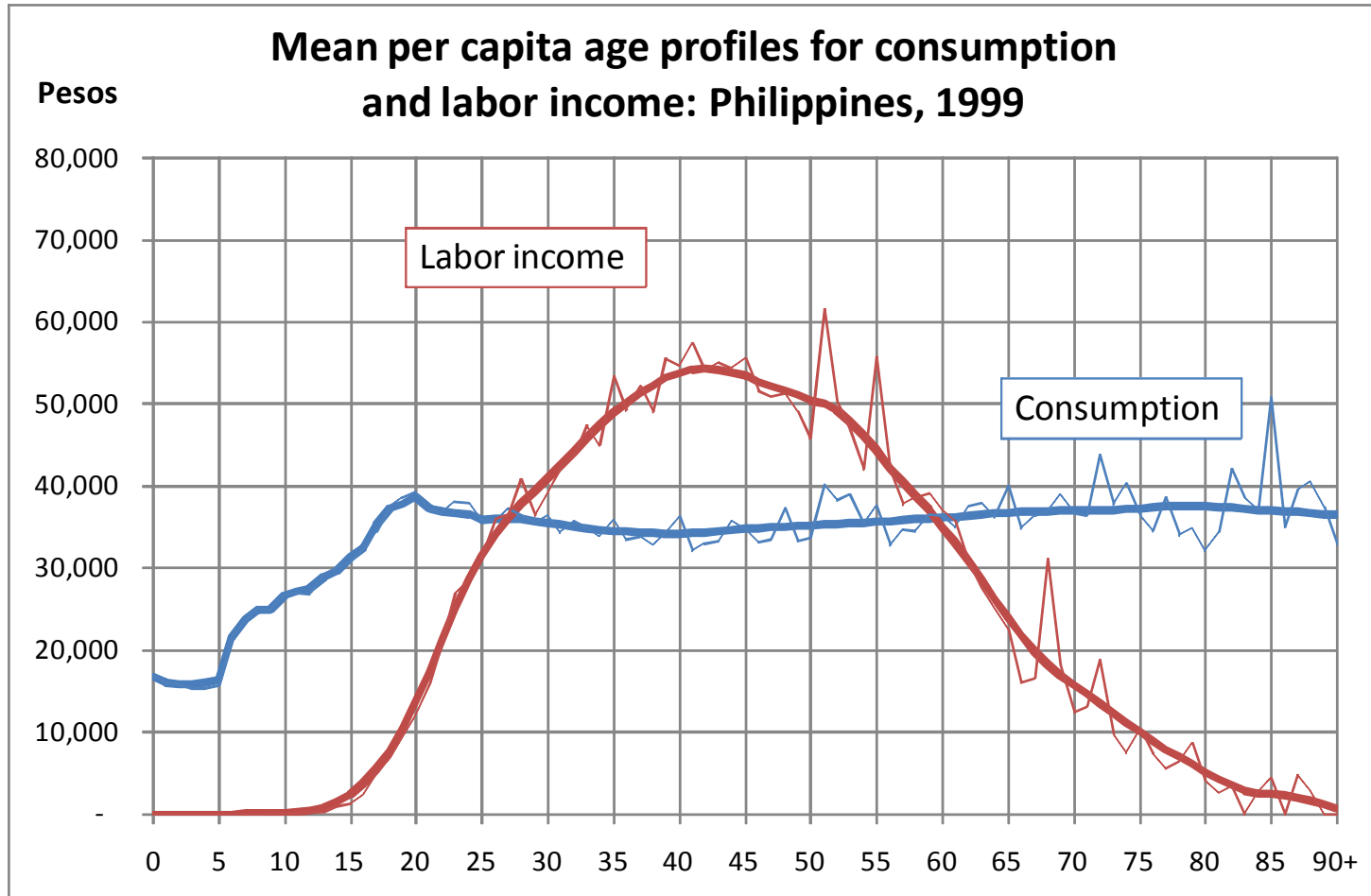
$$\text{Compensation} = \text{compensation from residents} \\ + \text{compensation from ROW} \\ - \text{compensation to ROW}$$

Treatment of remittances

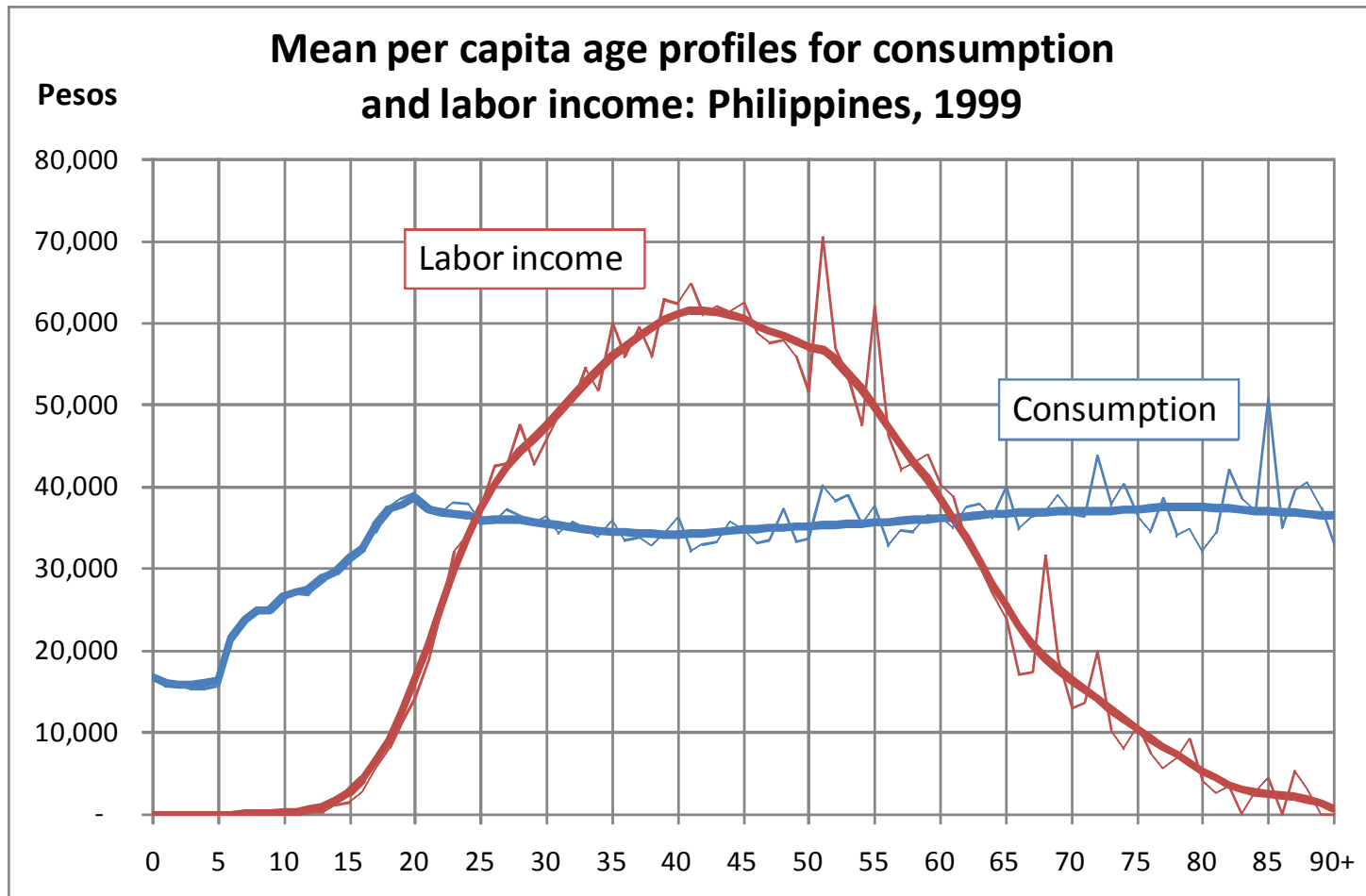
- Treatment of remittances as net compensation from ROW is not internally-consistent within the NTA framework because remittances do not include consumption expenditures of overseas workers (it is income but already net of consumption).
- Workable if consumption of overseas workers can be added to YL **and** C, but there is no data to do this!

- Treating remittances as private inter-HH transfer from ROW would be more convenient in skirting the income net of consumption issue, but this essentially ignores the labor income contribution of temporary overseas workers in reducing the lifecycle deficit.
- For the sake of argument, let's try to see what happens to the LCD in either case.

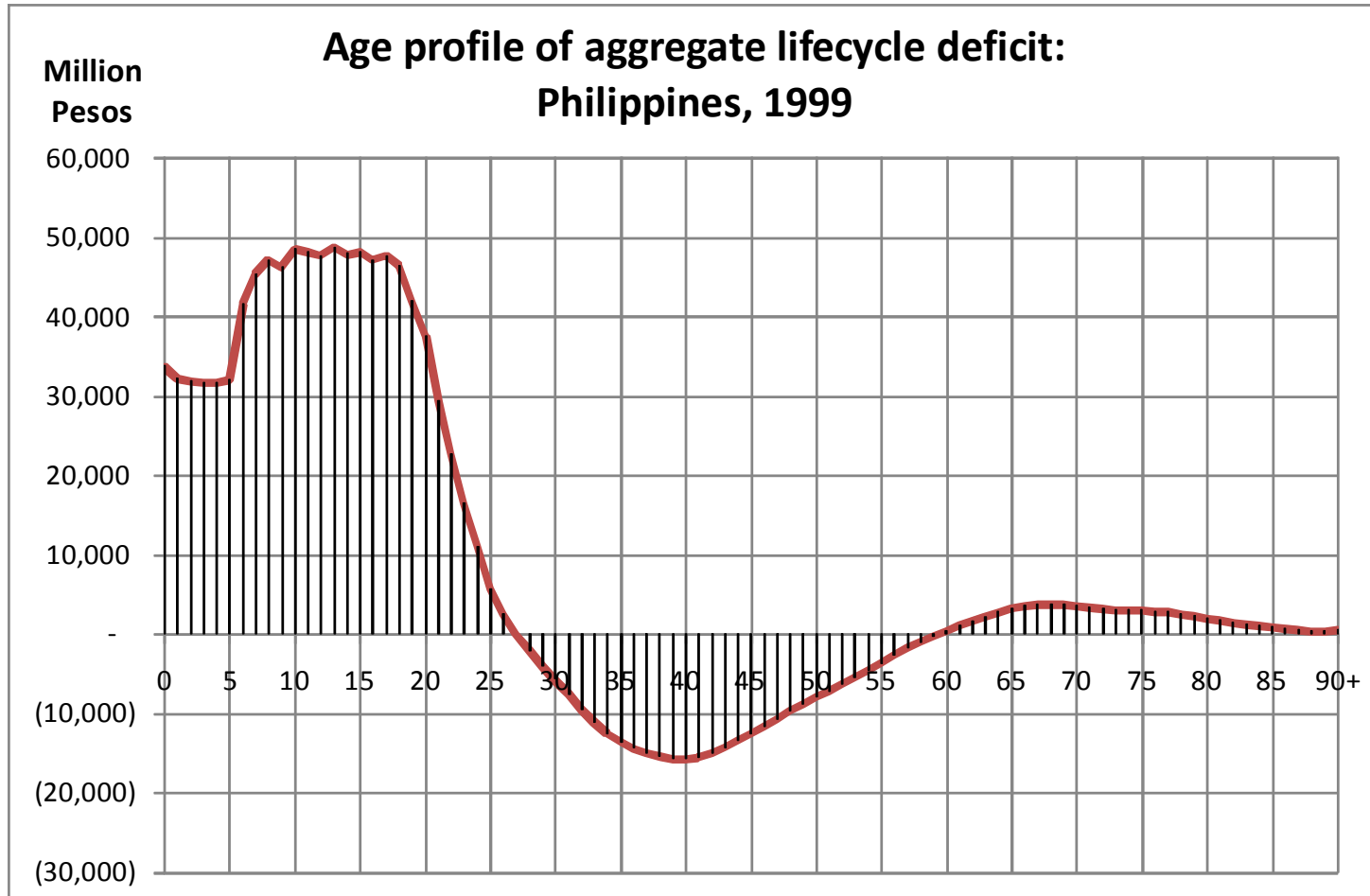
Remittances treated as private transfer from ROW



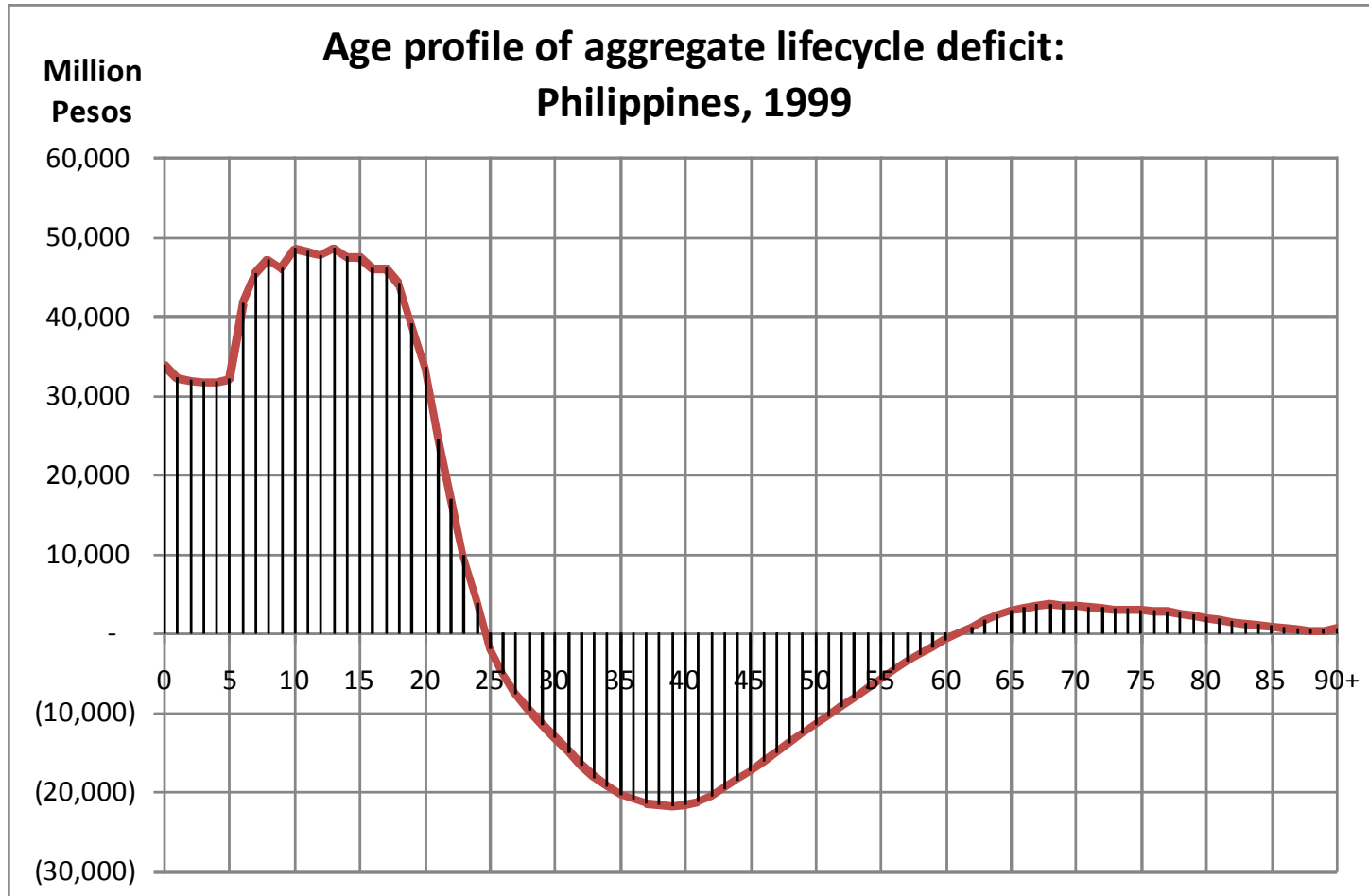
Remittances treated as compensation from ROW



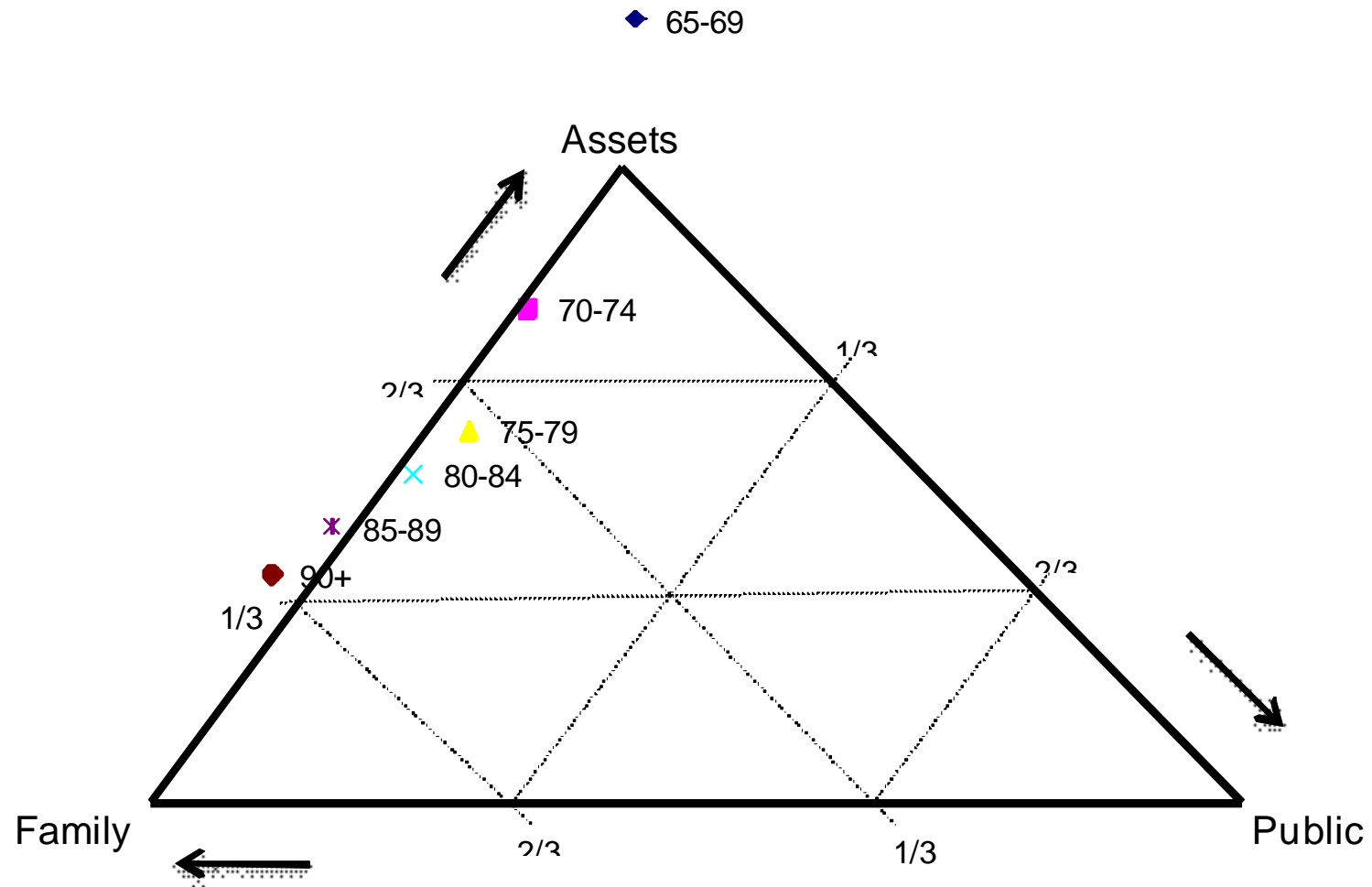
Remittances treated as private transfer from ROW



Remittances treated as compensation from ROW

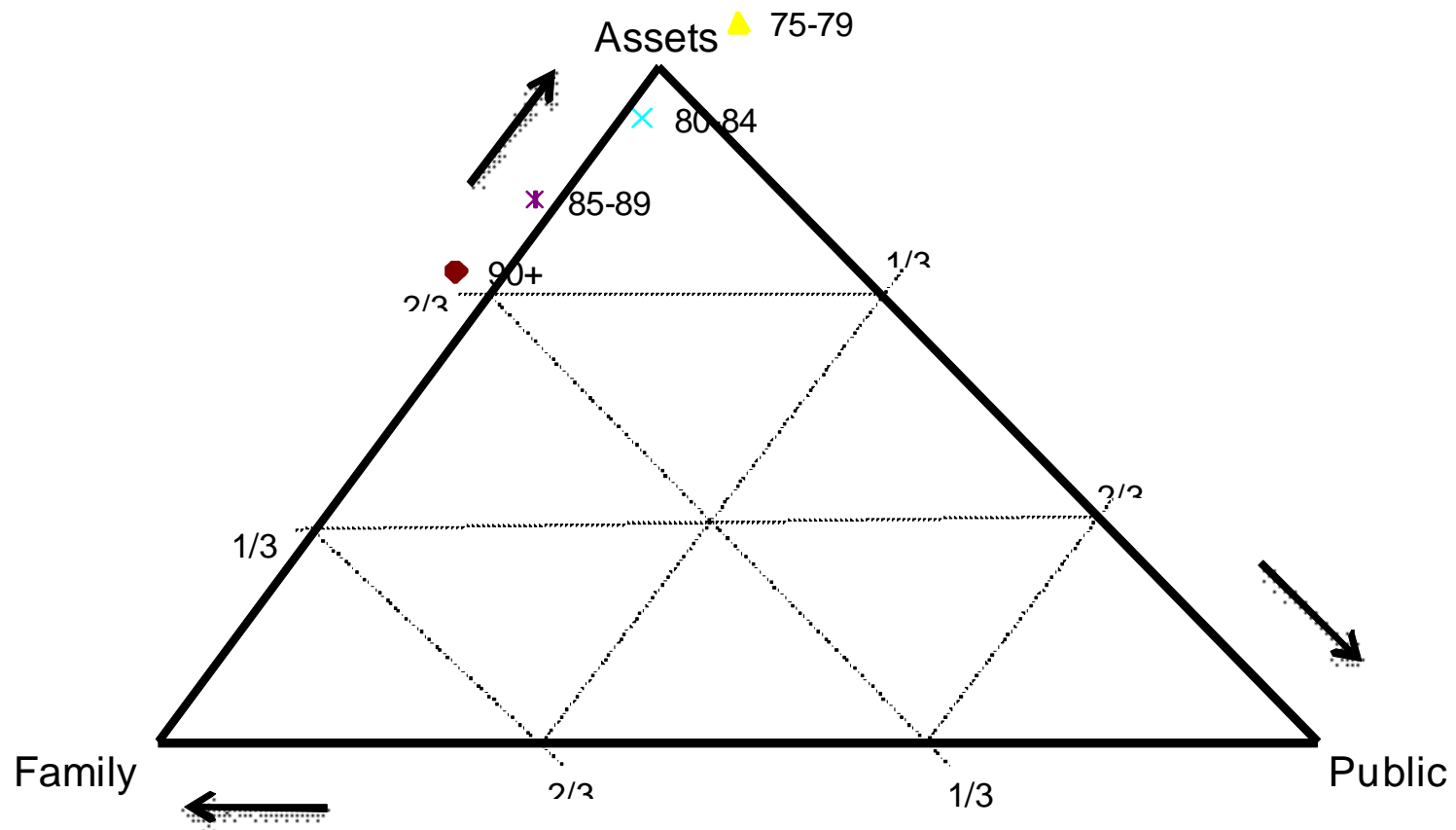


Remittances treated as private transfer from ROW



Remittances treated as compensation from ROW

■ 70-74



Balance of Payments

- We utilize the Balance of Payments (BOP) account produced by the central bank to thresh out the remittance issue.

BOP alignment with BPM5

- Data 1999 onwards were revised starting 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

INFLOWS to ROW

TRANSACTION ITEMS

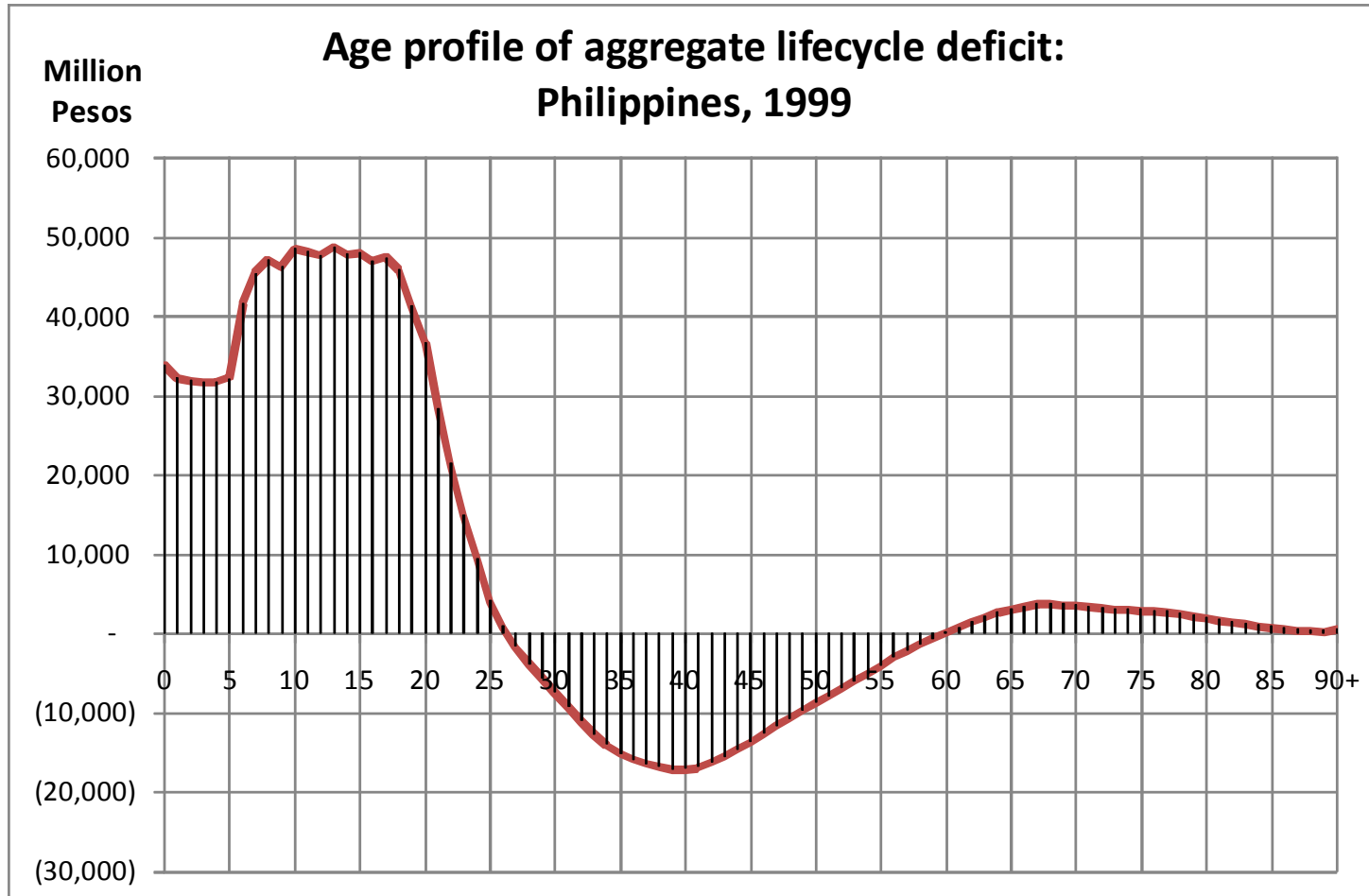
Break down into:
-INCOME 22.1%
-CURRENT TRANSFER 77.9%

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B. Non-factor services	186,741	313,789	B. Non-factor services
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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
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		225,420	12. Net lending to the rest of the world

Impact on aggregate LCD

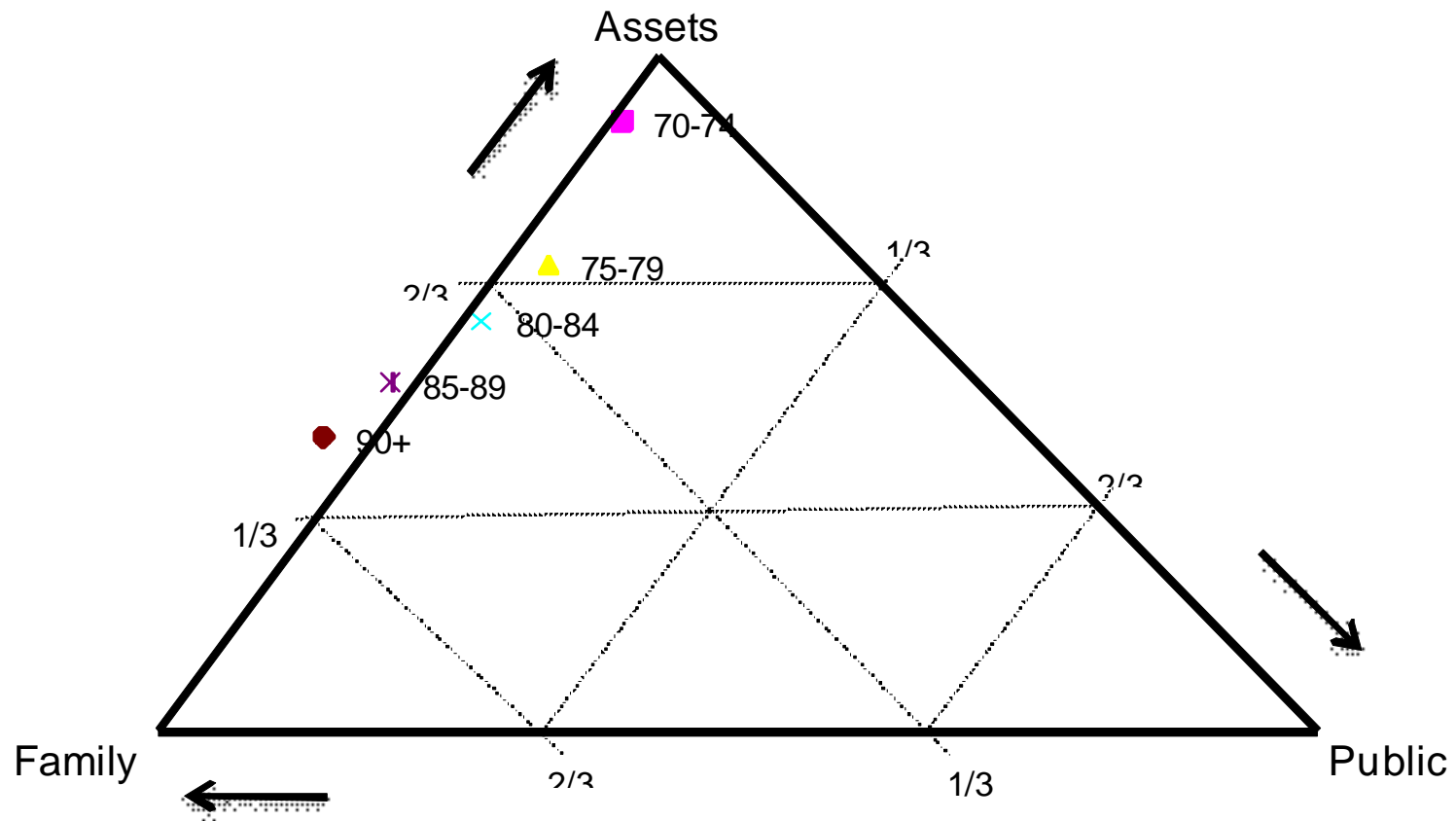
Treatment of remittances	LCD/GDP
Purely compensation from ROW	17.5%
Purely inter-HH transfer from ROW	25.0%
Combined (using BOP breakdown)	23.4%

Combined treatment



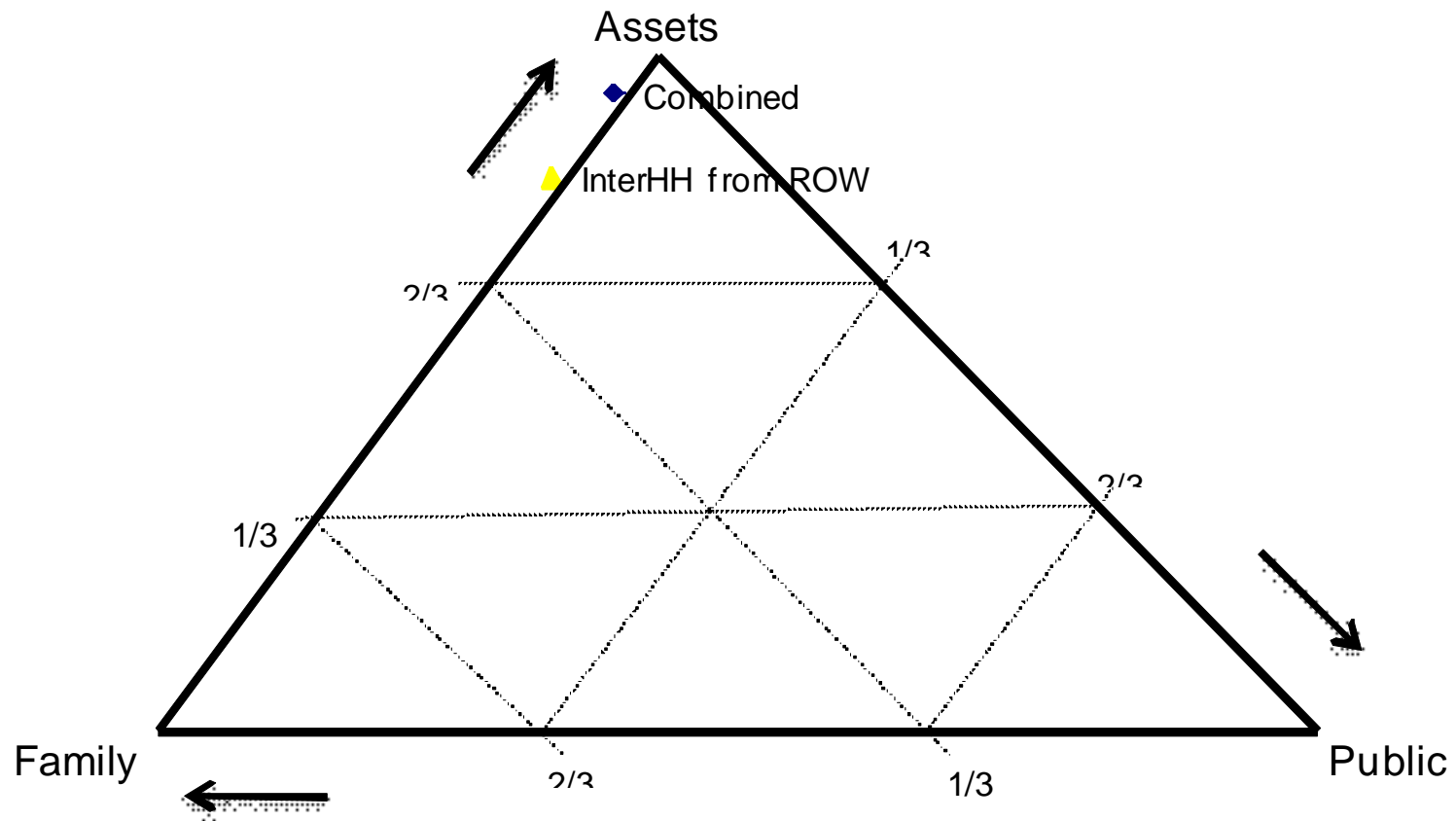
Combined treatment

◆ 65-69

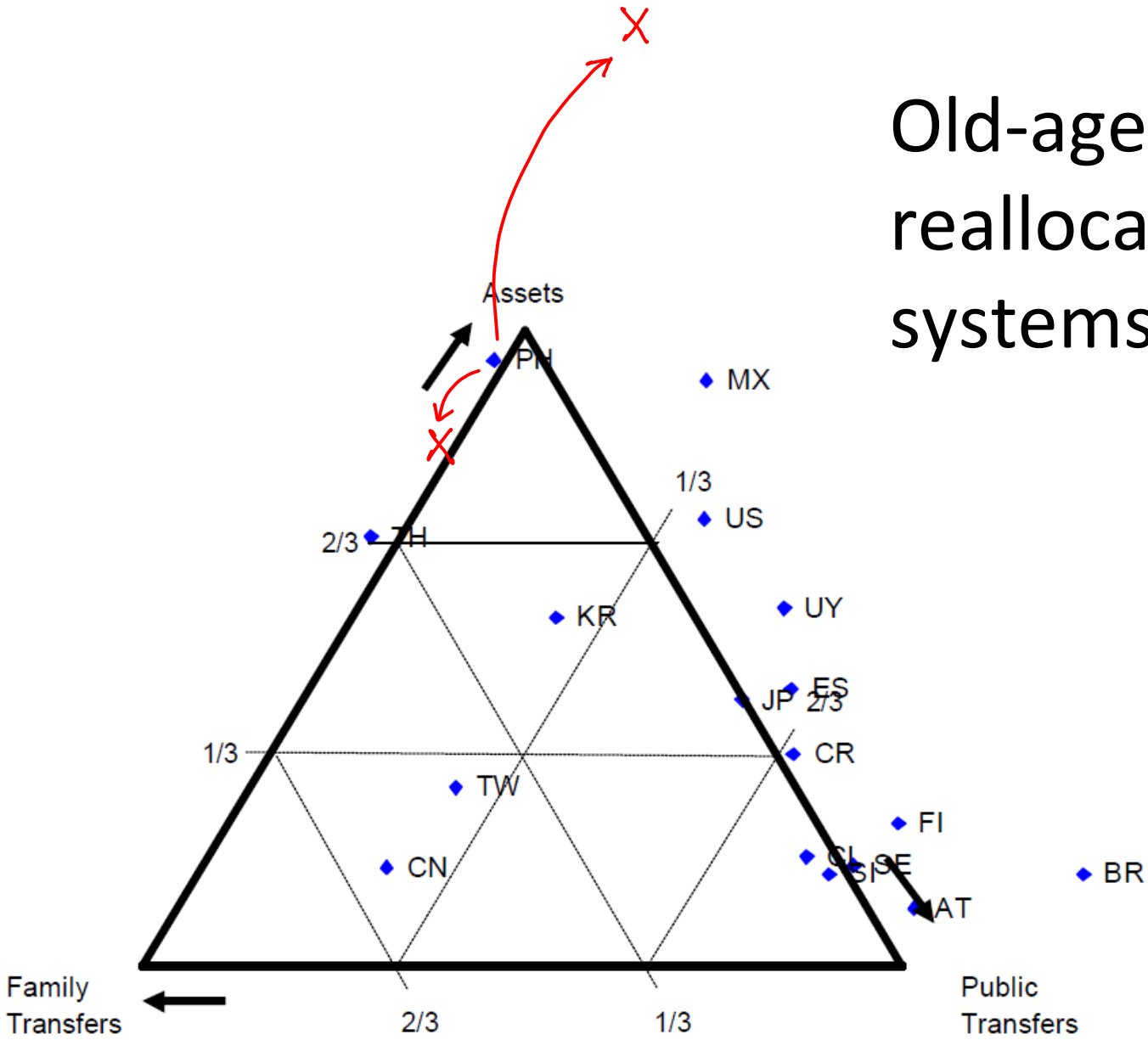


Comparison for 65+

■ Compensation from ROW



Old-age reallocation systems



Data concerns

- BOP reported in US dollars, NIA 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 NIA, population census, and microdata surveys, while 1-year for BPM5+

Conclusion

- Data issues both at the aggregate control level and at the survey microdata level preclude a satisfactory treatment of remittances in the Philippine NTA.
- For the Philippines, the existence of private familial transfer inflows to the elderly depends on the adopted treatment of remittances.