

## TFSITS (06) 3

### **Breaking down the travel item of the Balance of payments according to the purpose of the trip into business and personal <sup>1</sup>**

#### **World Tourism Organization Issue Paper (for discussion)**

The review underway among balance of payments compilers seems to favor retaining the breakdown of the travel item according to the purpose of trip into business travel and personal travel as its main components,<sup>2</sup> and also of further identifications of parts of these components: expenditure of border workers separately identified within business travel and expenditure for educational and health-related purposes within personal travel. Nonetheless, the point of view of UNWTO, proposing that priority be given to the breakdown of the travel item by categories of products has been given some consideration in the last meeting of the Interagency Task Force on Statistics of International Traded Services.

The present note proposes some insight to clarify the debate, and to put it into a different perspective.

1. BOPCOM in its July 2005 meeting seems to agree that, although the Balance of Payments Compilation Guide states that "...these expenditures should be classified to business and personal travel because, in the national accounts, the former represents an intermediate expenditure of business and the latter represents final consumption expenditure",<sup>3</sup> the interpretation of these data in terms of national accounts is much more complex than there stated, and would require a major breakdown, by type of work relationship to the economy visited by the traveler, and by type of product, a breakdown that was rejected because it would go far beyond the scope of the Balance of Payments because of its "cost and practicality".

As a consequence, it seems as if no change of the recommendation has been considered by BOPCOM for BPM6.

Nevertheless, no other clear potential use of this breakdown has been proposed. It seems that the fact that the breakdown does not actually meet the needs of the National Accounts is not apparent to most countries leading them to feel uncomfortable about abandoning the present recommendation as the primary breakdown of Travel.

2. Regarding the further breakdown of personal travel in order to identify separately education-related and health-related expenditure, the BPM requirement does not state clearly what is to be identified: whether education-related and health-related expenditure while on travel for a purpose different from business; or whether it is the total expenditure of travelers when on a trip whose main purpose is to enter an educational program or to seek health treatment. The wording of the Manual of Balance of Payments seems to lead to the first interpretation, while the Eurostat-OECD Methodological Soundness Questionnaire used to collect current

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<sup>1</sup> Presented to the TFSITS meeting (21-22 February 2006, New York).

<sup>2</sup> See for instance the report by the Eurostat Technical Group Travel as well as the IMF report to the TFSITS last meeting

<sup>3</sup> Balance of Payments Compilation Guide para. 528

practices leads to the second one. The questionnaire also underlines the fact that these expenditures, as reported, should exclude “support payments (such as scholarship payments) related to travelers, made by the government or by other institution of the host economy (covered by transfers)”. As a consequence, the education-related expenditure included under the travel item would not include the total of such expenditure.

The challenge for the BPM6 is to define exactly what is to be measured in this breakdown, if maintained, and the purpose of this measurement in terms of its use and international comparability.

3. The present Balance of Payments Compilation Guide recommends <sup>4</sup> four broad approaches to the measurement of the travel item:

- The approach through the instruments used by travelers for payment of the services;
- The approach through the types of services acquired by travelers;
- The approach through partner country data, used mostly to estimate debits from the partner countries credits;
- The use of a data model, mainly multiplying estimates of the number of travelers by a per capita (or per day) estimate of traveler expenditure.

Not all can provide the information needed to estimate the required breakdowns.

4. In practice, three main methods are used to compile the required breakdown between business and personal:

- a) Using a border survey of travelers, in which questions are asked on the purpose of the travel, on expenditure, and deriving the total expenditures (except international transportation) by those traveling for business purposes and those traveling for personal purposes. In some cases, the results of such a survey are further adjusted to take into consideration the expenditures included in the travel item and corresponding to specific situations such as that of long term students and patients and that of border workers. This survey might be repeated every year, or periodic observations might be extrapolated to the current year using different types of procedures.
- b) Using border counts of travelers by purpose of trip, and applying to each category an average expenditure (per trip or better, per day) estimated in some period in the past, either appropriate for each category of purposes, or more often, unique for all categories.
- c) Using information from selected resident businesses and government agencies to estimate their intermediate consumption on travel of their personnel abroad, and assigning this value to business travel: this applies only to the debit side.

5. It must be observed that even in the most advanced countries, in terms of their statistical systems, caution is expressed, with respect to their estimates of business and personal expenditure. They underline the weaknesses of their estimation procedures, and possible omissions or less reliable information (the case for instance, of border workers that require specific estimation procedures,

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<sup>4</sup> Table 12-3 Chapter XII p.123

or of students and long term patients whose expenditure cannot be observed through standard types of methods of observation).

6. Few countries provide the breakdown of the travel item by category of goods and services as it is not a Balance of Payments requirement. This might be explained not so much by the lack of information, as an increasing number of countries now have operating border surveys,<sup>5</sup> but on account of the fact that it is only a marginal item in the perspective of BOP compilers as the priority is given to the business / personal split; they might also consider that their estimation is not sufficiently satisfactory as to justify its inclusion.
7. Would this new requirement really overburden countries? The business/personal breakdown requires countries to resort to at least one source additional to the ITRS, as the ITRS refers only to payments recorded according to the financial instrument used. This additional source needs to provide information, separately, on the categories of travelers, as well as associated expenditure items, in order, in particular, to exclude expenditure on international travel. The further required breakdown of personal travel to identify education-related and health-related expenditure (whatever their definition in terms of purpose of trip or purpose of expenditure) requires (if it is not to be a global estimate using a model based on numbers of foreign students and an estimation of their average expenditure, and data from hospitals) a high level of breakdown, that most visitors expenditure surveys fail to provide now. This is a much stronger requirement than the alternate breakdown of the travel item proposed in the revised BPM5 Annotated Outline document, consisting of identifying separately, as supplementary information, goods, accommodation services, food and beverage serving services, and other travel expenditure (excluding international transportation that is included within transportation).
8. We think that this decision to maintain the present breakdown with recognized theoretical flaws and for which international comparability can only be achieved through important statistical investments that for the time being cannot be recommended, is not compatible with the fact that a new international standard has to be relevant for most countries for a long period of time.
9. Countries are increasingly interested in measuring the economic importance of tourism, not only globally within their economy, but also in their Balance of Payments statistics. Many countries rely on tourism in order to generate much needed foreign exchange. Some of them have already developed measurements that are integrated within their current dissemination of Balance of Payments data.<sup>6</sup> As countries increasingly implement their TSAs, they will also be interested in presenting some of their results within their Balance of Payments publication. International organizations should be recognizing this need and providing the necessary guidance.

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<sup>5</sup> See Annex 2

<sup>6</sup> Annex 3 present such initiative developed by Australia. Also Austria will publish this year similar data

10. Adopting this new proposed breakdown would have various positive effects:
- It would improve the logical structure of the EBOPS classification as “travel” is the only item of the classification encompassing a range of heterogeneous goods and services, and where the breakdown is governed by the characteristics of the consumer and not by the characteristics of the product component of the entry.
  - Furthermore, the introduction of such a breakdown would enhance the link with tourism statistics: visitors represent an important category of travelers. In the TSA, that is a satellite to SNA, their expenditure is analyzed by products in which tourism characteristic products are specially highlighted, and among them, expenditure on transportation, accommodation services, and food serving services.
11. UNWTO proposals are:
- To give priority, as a standard component of the Balance of Payments, to the breakdown of the travel item by major categories of products, specifically into goods, accommodation services, food and beverage serving services, and other services: all of them should qualify as *optional supplementary information items*
  - To include two memorandum items:
    - tourism related services (identifying these services both in the “travel” and “transportation” items)
    - business / personal (present breakdown and selected supplementary information).

## **ANNEX. 1**

### **Recording the present Balance of Payments requirements**

Balance of Payments Manual 5 asks for a breakdown of the “travel” item between “business” and “personal”, and defines the two categories in the following way:.

#### ***“Business travel***

**246.** The business travel category covers travelers going abroad for all types of business activities: carrier crews stopping off or laying over; government employees on official travel; employees of international organizations on official business; and employees doing work for enterprises that are not resident in the economies in which the work occurs.

**247.** Business travelers are those who visit an economy for sales campaigns, market exploration, commercial negotiations, missions, meetings, production or installation work, or other business purposes on behalf of an enterprise resident in another economy. *Travel* refers to personal acquisition of goods and services (including those for which the business travelers are reimbursed by employers)....

Personal expenditure on goods and services by seasonal, border and other non-resident workers in the economies in which they are employed are also recorded under *travel*....

**248.** Government employees and employees of international organizations on official travel are distinguished from employees stationed or living, respectively, in the country....

#### ***Personal travel***

**249.** This category covers travelers going abroad for purposes other than business (e.g., for leisure activities such as holidays, participation in sports, and other recreational and cultural activities, visits with relatives and friends, pilgrimage and religious observances, studies and health-related purposes). Also included in this category are government employees on leave in economies other than those in which they are residents (or those in which they are stationed) and transit travelers visiting countries en route to other destinations.”

## ANNEX. 2

### Available metadata regarding the measurement of “travel” and the “Business/Personal” split in country practices.

1. It must be recognized that important transformations have taken place over the past twenty years in the measurement of cross-border flows. Indeed, as a result of three initiatives undertaken by UNWTO in past years,<sup>7</sup> it is possible to identify - from a common sample of these - certain prominent features with respect to the data on international visitor arrivals and the corresponding tourism expenditure:
  - it can be observed how the methods used tend to vary: while the number of countries using entry or exit cards has remained stable (entry cards) or has gone down slightly (exit cards), it is notable that the number of countries using border surveys has practically tripled over the past twenty years;
  - there has been a strong tendency for Tourism Administrations to take the lead in observing visitor flows, as compared to security forces or migration authorities;
  - the use of internationally accepted definitions is evidently growing, and there is an increased coverage in the identification of "other types of travellers" (such as immigrants, seasonal and border workers, long-term students, etc.) which, when added to the set of all visitors, covers the entire group of travellers. On the other hand, there has been a reduction in the number of countries that record the sub-group of same-day travellers.
2. A growing number of countries are using surveys of non-resident travellers to observe their tourism behaviour and to estimate the corresponding expenditure. Table 1 “Countries that measure inbound tourism expenditure through surveys to non-resident travellers” (as of December 2005) identifies eighty countries that are using surveys of this kind.<sup>8</sup>
3. Because of this situation, and because of its leadership in the development of international comparability of data, UNWTO is responsible for generating guidelines for promoting the improvement of the data and their increased comparability.
4. Table 2 is an extract of Table 1 and identifies OCDE countries and their practice in publishing the Business /Personal split.

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<sup>7</sup> The three publications in which such initiatives have been published are as follows:

- *“Methodological supplement to world travel and tourism statistics”*. UNWTO. Madrid. 1985.
- *“Methodological supplement to world tourism statistics”*. UNWTO. Nice. 1999
- *“Comparative study of international experiences in the measurement of travellers flows at national borders”* UNWTO. Madrid. 2004.

<sup>8</sup> The sources used would allow increasing the examples provided (just eighty countries) but the available metadata (basically IMF countries notes) do not always have the necessary precision to identify the existence of this type of survey. UNWTO also underestimates other potential examples due to the following reasons:

- countries that use mirror statistics have not been considered;
- also not included are countries that carried out a survey more than five years ago and that state that they still use the results obtained at that time, adjusted in accordance with the Consumer Price Index;
- lastly, surveys targeting hotel establishments have not been considered.

Sources used have been:

IMF:	Balance of Payments Statistics – November 2005
OECD:	Statistics on International Trade in Services 1999-2002 – 2004 Edition
Eurostat-OECD:	Draft report on responses to the Eurostat-OECD methodological soundness questionnaire on the measurement of trade in services in the balance of payments – Room document 6 (12-15 September 2005)
Eurostat, Unit C4	“Consultation on National Plan to Collect Travel Statistics in 2005-2006”, May 2005 (paper presented to Technical Group Travel, Heerlen, Netherlands, 9-10 June, 2005)
UNWTO	Different initiatives

**Table 1. Countries that measure inbound tourism expenditure through surveys to non-resident travellers**

Countries (80)	UNWTO's Compendium of Tourism Statistics country notes	IMF country notes	UNWTO Metadata project	UNWTO Survey 1999	UNWTO Comparative research 2004	Eurostat
Albania						
Argentina						
Aruba						
Australia						
Bahamas						
Barbados						
Belize						
Bolivia						
Botswana						
Brazil						
Canada						
Chile						
China						
Colombia						
Costa Rica						
Croatia						
Cuba						
Cyprus						
Denmark						
Dominican Republic						
Ecuador						
Egypt						
El Salvador						
Estonia						
Fiji						
Finland						
France						
French Guiana						
Gambia						
Greece						
Guatemala						
Honduras						
Hong Kong, China						
Hungary						
Indonesia						
Ireland						
Israel						
Italy						
Jamaica						
Japan						
Jordan						
Kenya						
Korea, Republic of						
Lao PDR						
Latvia						
Lithuania						
Macao, China						
Malaysia						
Malta						
Mexico						
Morocco						
Namibia						
New Zealand						
Nicaragua						
Norway						
Oman						
Panama						
Paraguay						
Peru						
Philippines						
Poland						
Portugal						
Russian Federation						
Seychelles						
Singapore						
Slovakia						
South Africa						
Spain						
Sweden						
Syrian Arab Republic						
Thailand						
Trinidad and Tobago						
Turkey						
Uganda						
United Kingdom						
United Republic of Tanzania						
United States						
Uruguay						
Venezuela						
Yemen						

**Table 2. OECD countries**

Countries	Borders Surveys	B/P split published
Australia	X	X
Austria		X (only debit)
Belgium		X
Canada	X	X
Czech Republic		X
Denmark	X	
Finland	X	X
France	X	
Germany		
Greece	X	X
Hungary	X	X
Iceland		
Ireland	X	
Italy	X	X
Japan	X	X
Korea, Republic of	X	
Luxembourg		X
Mexico	X	X
Netherlands		X
New Zealand	X	X
Norway	X	X
Poland	X	
Portugal	X	
Slovakia	X	X
Spain	X	
Sweden	X	X (only debit)
Switzerland		
Turkey	X	X
United Kingdom	X	
United States	X	

Source: Eurostat-OECD: Draft report on responses to the Eurostat-OECD methodological soundness questionnaire on the measurement of trade in services in the balance of payments – Room document 6 (12-15 September 2005)

## ANNEX. 3 The experience of Australia

From Australian Bureau of Statistics  
International Trade in Goods and Services  
July 2004

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### SERVICES(a)(b), Summary: Original

	2001-02	2002-03	2003-04	1 MONTH ENDED JULY					Change
				May 2004	Jun 2004	Jul 2004	2003	2004	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Credits</b>									
Freight	1 001	920	909	85	84	86	70	86	22.9
Other transportation	6 664	6 547	6 655	518	515	557	528	557	5.5
Travel	15 645	15 452	17 122	1 039	1 166	1 928	1 758	1 928	9.7
Other services	8 940	9 650	9 302	784	797	766	761	766	0.7
<b>Total services credits</b>	<b>32 250</b>	<b>32 569</b>	<b>33 988</b>	<b>2 426</b>	<b>2 562</b>	<b>3 337</b>	<b>3 117</b>	<b>3 337</b>	<b>7.1</b>
<b>Debits</b>									
Freight	-5 626	-5 808	-6 052	-531	-554	-566	-465	-566	21.7
Other transportation	-5 150	-5 152	-5 538	-495	-526	-562	-488	-562	15.2
Travel	-10 918	-11 012	-12 140	-974	-1 038	-1 169	-1 014	-1 169	15.3
Other services	-10 937	-10 919	-10 667	-862	-897	-886	-877	-886	1.0
<b>Total services debits</b>	<b>-32 631</b>	<b>-32 891</b>	<b>-34 397</b>	<b>-2 862</b>	<b>-3 015</b>	<b>-3 183</b>	<b>-2 844</b>	<b>-3 183</b>	<b>11.9</b>
<b>Memorandum items:</b>									
Tourism related service credits	19 800	19 503	21 040	1 320	1 445	2 257	2 069	2 257	9.1
Tourism related service debits	-15 577	-15 691	-17 245	-1 434	-1 530	-1 694	-1 465	-1 694	15.6

(a) For sign conventions, see paragraph 7 of the Explanatory Notes.

(b) For more detailed trade in services by commodity, see Table 7.

## Notes

“15 The tourism related services memorandum items provide timely indicators of the movements in tourism related activities, not an absolute measure of the level of these activities. These series are not compiled on a Balance of Payments conceptual basis. However, they do provide a reasonable approximation of world tourism related activities.

16 The memorandum items have been derived by re-aggregating relevant components of the international trade in services series of the balance of payments accounts. The tourism related indicator has been derived by combining total travel services (business, education-related and other personal travel), passenger fares, and the air transport component of other transportation services which relates to agency fees and commission receipts”.