

## Methodological note

# GUIDANCE ON THE CLASSIFICATION OF UKRAINIAN REFUGEES AND STATISTICAL RECORDING OF CROSS-BORDER TRANSACTIONS RELATED TO UKRAINE

EUROSTAT, DIRECTORATE C

UNIT C5 — INTEGRATED GLOBAL ACCOUNTS AND BALANCE OF PAYMENTS

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*BPM6/ESA 2010* Interim recommendations for compilers of balance of payments and International Investment Position statistics

This note has been subject to consultation of the members of the balance of payments working group.

### General situation

Russia's military aggression against Ukraine since February 24, 2022, has caused huge destruction of civilian infrastructure forcing people to flee across the borders into European Member States seeking safety, protection and assistance. To answer calls for European statistics to provide more targeted information on this situation, this note aims to provide some basic guidance to compilers for the recording of balance of payments transactions in the current, capital and financial account and the classification of Ukrainian refugees.<sup>(1)</sup> This guidance note is based on the *BPM6* and *ESA 2010*.

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<sup>(1)</sup> The immense statistical difficulties to single out activities of Ukrainian refugees are well understood.

## Status of refugees and impact on recording in BOP

In order to help Ukrainian refugees, the European Commission activated the Temporary Protection Directive, which aims to help refugees bypass the usual asylum procedures, allow to stay for at least one year in the host country (with an automated extension for a further year) and have immediate right to work and access to health care, social welfare and education. Such a mechanism attempts to provide immediate protection for displaced Ukrainians who cannot return to their home country due to the war and which can be granted by any EU country, not only by the first country reached by the refugee.

The relevant paragraph *BPM6* §4.128 states that “*No special treatment is adopted for refugees. Their residence will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more, even if that residence is involuntary or transient, and its future status is unclear.*”

*ESA 2010* §11.06 states that :”*A person who is staying, or intends to stay, on the economic territory of the country for a period of one year or more is regarded as permanently settled there*”.

Tracking through surveys the actual intention of refugees is a challenging task in a situation where intention cannot be based on solid grounds (a general wish to return to Ukraine at some point in the future is not so statistically useful). Also, identifying the expenses of Ukrainian refugees from those of resident nationals by whom they are often housed would be extremely difficult at the current juncture.

There are good arguments for classifying the Ukrainian refugees as resident households from their time of arrival/registration. There is an uncertainty on the development of the war and of the extent to which refugees could return to Ukraine within a foreseeable future and it may be expected that many refugees would fully use the 1-year right of residency, extensible, awarded by the EU. Administrative data (proof of residency under the EU Temporary Protection Directive, residence cards of an EU national family member) may help with the estimate of the number of arriving refugees.

On the other hand, the accounting treatment of Ukrainian nationals in the EU should in principle be similar to the one applied to EU nationals residing in other Member States. For instance, in some countries other EU countries nationals are split between residents and non-residents according to their intention to stay, assessed through a set of criteria which could be in principle applied in the same way to Ukrainian refugees.

### **Conclusion: proposed classification in national accounts and BOP**

Ukrainian nationals in the EU should, in principle, be split between resident and non-resident households based on *ESA 2010/BPM6* criteria of actual or intended duration of residence. However, in the absence of reliable data at the current stage, it is proposed as an interim approach in national accounts and BOP to classify Ukrainian refugees within domestic households when they are appropriately registered with the national authorities.

If a Member State gathers sufficient (and reliable) information<sup>(2)</sup> to split Ukrainian refugees between residents and non-residents [that include “persons in transit”<sup>(3)</sup>] in line with the *ESA 2010* and *BPM6* requirements, a country could implement the split, while ensuring that a consistent treatment is applied across different sets of statistics.

In this case, it is important that additional and reliable information be gathered on the economic activities of Ukrainian refugees, in particular their expenditures and revenues, so that a proper split may be made in national accounts and BOP data, without resort to sweeping assumptions. Applying consistent procedures across EU countries should be looked for (sharing best practice), and in particular for those countries most affected by the influx of refugees for the sake of consistency of national accounts and BOP in the EU, and in particular for the calculation of GNI.

*The above interim approach could be reassessed with regard to the evolving situation in Ukraine in the coming months.*

## POTENTIAL TRANSACTIONS IF UKRAINIAN REFUGEES ARE RECORDED AS RESIDENTS

If refugees, for balance of payments purposes, are treated as persons who change from Ukraine to one of the European Member States where they intend to live for 12 months or more, an attempt should be made to estimate any donations in cash or in-kind remitted to support relatives in Ukraine and recorded as personal transfers (*BPM6* §12.21).

Applicable to some refugees would be *BPM6* §9.21, which says that “*when persons [...] change their economy of residence, their existing financial assets and liabilities are added to or removed from the IIP through a reclassification*”; this is because the residence of the owner changes but not the ownership of assets (such as bank balances and real estate ownership) between economies. For the ownership of land and buildings, the person now non-resident in Ukraine (resident in the EU Member State) is treated as owning a notional resident unit in Ukraine, see *BPM6* §4.34. And, “*In addition to change in the status of existing assets, new financial claims and liabilities may be created by transactions around the time of change of residence. For example, new bank accounts may be created in the new economy of residence*” (*BPM6* §9.22).

## POTENTIAL TRANSACTIONS IF REFUGEES ARE TREATED AS NON-RESIDENTS

In case refugees remain non-resident for the time being, all their expenditures for goods and services in the EU host or transit country would have to be recorded according to *BPM6* §10.94 as “*no special treatment is adopted for refugees*” (*BPM6* §4.128). This would entail that goods and services (including rental payments *BPM6* §10.86) acquired by refugees either financed by government transfers (current transfer debits) or by drawing on their private wealth (financial account debits – increase of financial assets or decrease of financial liabilities) would need to be recorded on the credit side of the EU host or transit country under personal travel similar to purchases by foreign tourists. Furthermore, if refugees were to take up work, all income

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<sup>(2)</sup> For instance, in Poland, according to a NBP survey, there is a relatively high share of Ukrainians who arrived in the country after the war broke out, but did not register in Poland or plan to do so in the future. Here the assumption could be made that these refugees do not have the intention to stay in Poland and either return to Ukraine as soon as it is possible or move on to another EU country. In cases when no clear intention can be applied, the *ESA 2010/BPM6* 1-year-rule would apply.

<sup>(3)</sup> Some EU Member States can be considered as “transit country” rather than “host country”.

received would need to be recorded as debits under compensation of employees with the corresponding social contributions and wage tax receipts as credits.

## Cross-border transactions to support Ukraine:

### MILITARY EQUIPMENT

Several countries across the globe and in Europe are sending military aid to Ukraine. Also, the EU is financing the purchase and delivery of arms to Kyiv.

From a methodological point of view, all goods to help Ukrainian military forces are part of ITGS, even if it is difficult to include these goods in the ITGS as national legislation on military secrecy may prevent this. The counter-entry of these exports depend on whether the equipment is donated to Ukraine by the Member States or otherwise paid for.

#### If donated, transfer in kind:

*BPM6 §13.26* applies for the delivery of military equipment in the form of weapons, tanks, or aircrafts that are classified as fixed assets and delivered to Ukraine without a quid pro quo. These exports are counterbalanced through capital transfers in the form of investment grants. The split between the recording as capital or current transfers depends on whether gross capital formation will be impacted or not (*ESA 2010 §3.127 and § 3.129*).

Single-use items, such as ammunition, missiles, rockets and bombs are treated as military inventories (*ESA 2010 §20.190*). If the military aid is in form of delivery of military inventory (*BPM6 §12.14 and 12.51*), a current transfer (current international cooperation) is recorded. Special attention should be paid to the valuation (*BPM6 §12.49*) of these goods provided by governments to Ukraine without charge; i.e. they should be valued at “market prices, that is, the prices paid by the purchasers”.

#### If subsidized:

There are cases where the EU finances the purchase and delivery of arms to Ukraine via other EU Member States. For instance, an EU Member State delivers military equipment directly to Ukraine and gets reimbursed via the EU (e.g. the European Peace Facility (EPF<sup>(4)</sup>)). In this case, compilers would record an export of the military equipment to Ukraine counterbalanced by the EU payment in the financial account (acquisition of financial assets in the BOP of the Member State), which is in fact a re-routed regular payment by Ukraine. (In effect, the EU would send a capital transfer (investment grant) to Ukraine to pay for the military equipment of the Member State). The same treatment would apply for aid in the form of current transfers.

#### Circular provision of military equipment (“Ringtausch”)

There are also cases when one EU Member State facilitates the delivery of military equipment to Ukraine by another EU Member State (so-called “Ringtausch” – circular provision). As an example, Germany suggests that Country X delivers T-72 tanks to Ukraine; later on, Germany delivers different tanks from its own stock back to Country X.

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(<sup>4</sup>)

[https://www.europarl.europa.eu/RegData/etudes/ATAG/2022/729301/EPRS\\_ATA\(2022\)729301\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2022/729301/EPRS_ATA(2022)729301_EN.pdf)

Pending the specific arrangements, related transactions could be recorded as follows:

### Option 1

Country X agreed to export its T-72 tanks to Ukraine without any payment for the benefit of the Ukrainian forces that need no extra training on this equipment; therefore, the export is counterbalanced by a capital transfer. Later on, Germany delivers an x-amount of new tanks of a different type to Country X once available; also without any payment. This also would be counterbalanced by a capital transfer. Country X would thus show two capital transfers (and an export/import). The probably positive “difference” (delta of D.9) of the latter capital transfer compared to the former shows the difference in value/number of the newer and more modern tanks for which Country X takes ownership (the new tanks have a substantially higher value and a different depreciation). These new tanks enter the asset boundary of Country X with their new value while the old tanks leave the asset boundary of Country X. In other words, Country X’s net worth does change for the difference between what was provided to Ukraine and what was received from Germany.

### Option 2 (Trilateral arrangements<sup>(5)</sup>)

The actual capital transfer is between Germany and Ukraine. In this case, we would record a barter transaction between Germany and Country X: Germany “buys” (imports) the T-72 tanks from Country X and Country X receives new tanks from Germany (exports) in return. The difference in value is recorded as a capital transfer from Germany to Country X. Germany exports the T-72 tanks to Ukraine counterbalanced by a capital transfer. Timing differences would be bridged with accounts receivable/payable by Country X and Germany.

### Option 3

Principal party recording. Country X exports T-72 tanks to Ukraine with a counterbalance in accounts receivable (vis-à-vis Germany) for the time being. Germany records a capital transfer to Ukraine counterbalanced by an accounts payable (vis-à-vis Country X) for the time being. Subsequently, Germany delivers substitute tanks to Country X (exports) counterbalanced by a reduction of accounts payables; Country X reports imports of substitute tanks by Germany counterbalanced by a reduction of accounts receivables. A difference in value would be a capital transfer from Germany to Country X.

*It would be of utmost importance that the Member States’ compilers involved in this circular provision would agree (internally and with each other) on one option in order to avoid inconsistencies and asymmetries.*

## GOODS FOR HUMANITARIAN AID, MILITARY AID, OTHER GOODS DONATIONS

In contrast to military equipment, goods for humanitarian aid to help civilians (emergency aid for disaster: food, clothes, medical supplies, transfusion equipment and blood, etc.) are excluded from the ITGS (see *European business statistics compilers’ manual for international trade in goods statistics 2022*, Reg. No 2020/1197 Appendix, point (m) Identified by NoT code 34)<sup>(6)</sup> and would therefore have to be separately incorporated in Member States’ goods exports for

<sup>(5)</sup> Option 2 and 3 are the proposed options by Eurostat Unit D1 (Government Finance Statistics). Experts argue that the underlying nature of this trilateral arrangement is the provision of a gift solely by Germany to Ukraine.

<sup>(6)</sup> It would be a practical impossibility for the ITGS compilers to compile any meaningful information for value, quantities or product code.

BOP purposes. Goods for humanitarian aid directly provided by EU Member States to Ukraine on behalf of the government or NPISHs are then counterbalanced as current international cooperation in the secondary income of the current account. Again, the valuation should be based on market prices - the prices paid by the purchasers.

Other goods donations for military and civil defence aid (protective equipment, military aid package in specialized equipment, cameras for surveillance, drones, food and water purifiers, fire engines, power generators, etc.) would in principle be included in ITGS<sup>(7)</sup> (national rules on military secrecy may not allow to provide such data) and counterbalanced accordingly in current transfers.

Also here, goods could be financed by the EU and provided directly by one of the EU Member States to Ukraine on behalf of the EU. These are treated similarly as above: an export by the EU Member State to Ukraine is treated as being paid for by Ukraine and financed through a current account donation or capital transfer by the EU to Ukraine. In practice, the EU Member State is directly reimbursed via EU funds.

Goods donations channelled to Member States' IOs (International Organisations) branches on their way to Ukraine shall be treated without imputations for the Member State where the IO branch is located.

Estimates could be undertaken to account for privately organised deliveries (private households or NPISHs organising buses and trucks to bring donations to the Ukrainian border). These should be recorded in goods exports and current transfers.

## SERVICES

In addition to goods, countries also provide a variety of services to Ukraine. These can include training (of medical or military staff) services, provision of maintenance services related to military and other equipment, services by forensic experts, intelligence services, surveillance and reconnaissance support services, as well as legal support to the Office of the High Commissioner for Human Rights. These services can be provided online, physically in one of the Member States, or directly in Ukraine. They need to be classified according to the service categories and counterbalanced by current transfers (*BPM6 §12.7*).

A special circumstance is when one country provides material or services to Ukraine and is physically "stationed" within a neighbouring Member State (e.g. mobile hospital). These goods and services are deemed to benefit directly Ukraine and no extra imputation on behalf of the hosting Member State shall be made. <sup>(8)</sup>

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(7) In theory, customs declarations should be provided. When the military goods are delivered as aid to Ukraine, then they are free of charge and NoT code 34 should be used. These should not fall under "goods for charitable or philanthropic organisations and goods for the benefit of disaster victims" as Ukrainian military forces cannot be considered as a charitable/philanthropic organisation or a disaster victim.

(8) One example of a supporting service where the beneficiary and thus the geographical allocation is not clear is when American military equipment is transported to Ukraine using a Member State X's airport. The service of airport and transport provided by country X should be recorded in the BOP; either as provision of services to the US (in exchange for funds provided) or to Ukraine (if there are no funds provided in return).

## DONATIONS AND GRANTS

Ukraine will also need significant short-term financial relief to sustain basic services, provide humanitarian aid and fix essential infrastructure.

All financial payments to Ukraine made by governments, private households or non-profit organizations to finance current expenditures (e.g. to support citizens) are recorded as current transfers; donations for purposes of capital formation (rebuilding of infrastructure) are recorded as capital transfers (*BPM6 §12.47*). Financial payments from resident refugees are personal transfers (*BPM6 §12.21*).