
2 June 2017
Group of Experts on National Accounts

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CSO National Accounts Integration and LCU

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Background

• Published NIE 2015 – July 12, 2016

• GDP Constant Prices – growth 26.3%

• GNP Constant Prices – growth 18.7%

• Represented a level shift in our figures
Results 2015

Year-on-Year Growth Rates

GDP  + 26.3% (+7.8%)
GNP  + 18.7% (+5.7%)

Previous provisional estimate in brackets
Balance Sheet Impact
Impact on Capital Stocks
(Incl. transactions and reclassifications)

€billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>676</td>
</tr>
<tr>
<td>2012</td>
<td>696</td>
</tr>
<tr>
<td>2013</td>
<td>714</td>
</tr>
<tr>
<td>2014</td>
<td>748</td>
</tr>
<tr>
<td>2015</td>
<td>1054</td>
</tr>
</tbody>
</table>
Impact of relocations on GDP – GNI transition

- BOP Entrepreneurial income is calculated after depreciation
- Impact of additional depreciation

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Depreciation</th>
<th>Net Factor Flows</th>
<th>GNI</th>
<th>NNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>193,160</td>
<td>30,891</td>
<td>-29,715</td>
<td>161,759</td>
<td>130,868</td>
</tr>
<tr>
<td>2015</td>
<td>255,815</td>
<td>61,558</td>
<td>-53,173</td>
<td>200,762</td>
<td>139,204</td>
</tr>
<tr>
<td>Diff</td>
<td>62,655</td>
<td>30,667</td>
<td>-23,458</td>
<td>39,003</td>
<td>8,336</td>
</tr>
<tr>
<td>Change</td>
<td>32.4%</td>
<td></td>
<td></td>
<td>24.1%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>
MNE vs Domestic

GVA at Constant Basic Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Foreign-owned MNE dominated
- Other

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Trend in Irish and EU Household Savings

GDI  PCE  Saving Ratio  EU Saving Ratio

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Some details

• National Accounts data related to relocations were based on hard data from respondents
• Important role of CSO’s Large Cases Unit (LCU) – quality and consistency across macro and business statistics
• Changes driven by globalisation activities
• Ongoing trend – but scale was different
• Significantly - a small number of entities involved
• Figures compiled in compliance with ESA 2010
• Figures were verified by Eurostat
Globalisation Measurement Challenges

• Centre of economic interest (resident units)
  – Corporate Relocations - of assets, particularly intellectual property (IP)
  – Headquartering: re-domiciled firms & corporate inversions

• Change of economic ownership
  – Contract Manufacturing, significant MNE activity, but also carried out by domestic firms
  – Aircraft leasing
1. Background
2. ESRG
3. CSO Response
4. Challenges for CSO
ESRG – Summary of Terms of Reference

• Provide direction to the CSO on how best to meet user needs for greater insight into Irish economic activity
• A focus on measures additional to the CSO’s legal requirement to produce national accounts and balance of payments statistics
• New presentations of existing information to improve understanding
• Recommendations to be feasible, consistent over time, cover short- and long-term initiatives
Expert Group

- Increasingly difficult to represent the complexities of Irish economic activity using single headline indicators such as GDP or GNP
- Expert group focus on recommendations for the improvement and development of indicators and analyses giving additional insight to the domestic economy
- First meeting of the group September 19th and the group met six times between mid-September and November 2016
- Group reported to the Director General of CSO on 23 December 2016
Update – Expert Group Membership

- High-level cross-sector consultative group
  - Philip Lane (Chair) - Central Bank Of Ireland
  - Alan Barrett - ESRI
  - Seamus Coffey - UCC
  - Thomas Conefrey - IFAC
  - John Fitzgerald - TCD and Irish Times
  - John McCarthy - Department of Finance
  - Dan O'Brien – IIEA, Irish Independent
  - Fergal O'Brien - IBEC
  - Frances Ruane - TCD, ESAC
  - Marie Sherlock - SIPTU
  - Rossa White - NTMA
  - Jennifer Banim and Michael Connolly - CSO
  - Eurostat and IMF - International observers
ESRG – Main findings

• 13 recommendations across 5 main themes
  – **Level Indicators**: modified measure of the size or level of economy to support additional analysis – “denominator issue”
  – **Structural Indicators**: understand the MNE vs Domestic structure of the economy
  – **Cyclical Indicators**: to provide additional detail on what is happening domestically (focus on expanded component analysis of Expenditure side of National Accounts)
  – **Communications**
  – **Co-operation**

• Focus on insight into domestic activity
Level Indicator

• Gross National Income* (GNI*)
  – GNI adjusted for retained earnings of re-domiciled firms and depreciation on foreign-owned domestic capital assets
• Modified measure of the size or level of economy
• Additional and useful input to economic modelling and analysis, including use “under the line” for ratio analysis
• Top-down approach to developing GNI*
  – Annual series initially in mid-2017, with focus on re-domiciled firms and depreciation related to intellectual property products
  – Longer-term: quarterly series at current and constant prices
Level Indicator - Illustration

GNI * Proxy: GNI less Depreciation for Large Case firms

GDP NFF LCU GNI* GDP
Structural Indicators
MNE vs Domestic

- Foreign-owned vs domestic view of economic structure
- Initially use LCU firms as basis for split
- Ultimately build up from the micro (company) data for all foreign-owned firms

Estimated split of foreign/domestic value added (2014) based on sources of foreign marker

<table>
<thead>
<tr>
<th>Total Gross Value Added (€bn)</th>
<th>Foreign-owned firms (€bn)</th>
<th>Domestic firms (€bn)</th>
<th>% Foreign-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>177</td>
<td>42 (LCU firms)</td>
<td>135</td>
<td>24.0%</td>
</tr>
<tr>
<td>177</td>
<td>58 (LCU + all other firms with foreign marker)</td>
<td>119</td>
<td>32.9%</td>
</tr>
</tbody>
</table>

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Cyclical Indicators

• Expanded component analysis of Expenditure side of National Accounts
  – Additional detail on globalisation-related activities

• To support development of additional measures of underlying investment, additional detail in mid-2017 on
  – Intellectual property product relocations
  – Aircraft leasing
  – Re-domiciled firms
  – Contract manufacturing in Exports and Imports data

• With the Structural Indicators, will give good information of effect of globalisation on Irish economy

• Longer-term work: annual and quarterly Net National Product (NNP) at current and constant and prices
Introduce new classifications

- Aircraft leasing
- Re-domiciled firms
- Foreign owned multi national corporations - non financial
- Financial Corporations
- Irish Corporations
Extend existing classifications

- Help develop a more developed understanding of Nat Acc and BOP
- Extend presentation on Sector Accounts of Non-Financial Corporations to show domestic and foreign owned sectors
- Extend from Gross aggregates to Net - NDP, NNP and NNI
Extend existing classifications

• Publication of supplementary monthly industrial production and turnover (IPT) data adjusted for the impact of foreign MNE-related activity

• Alternatively-weighted IPT indices, using sectoral manufacturing wages rather than gross value added as fixed base weights.
1. Background

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4. Challenges for CSO
CSO response

• Report welcomed
• Multi-year programme to deliver recommendations
  – Short-term (during 2017) and longer-term deliverables
• Dependent on resources and availability of data with frequency required
• CSO will take incremental approach – initial development, focusing on annual analyses and then review
• What looks reasonable on paper may not always be feasible in practice
• Other CSO work started / planned on globalisation:
  – Productivity Analysis
  – Micro-to-macro in line with work of Eurostat TF

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Example:
Extended Sector Accounts

S11 Non-Financial Corporations
- S11 Foreign-owned MNEs incl. Large Case firms
- S11 Domestic incl. Irish MNEs

S12 Financial Corporations

S13 Government

S1M Households and NPISH

S2 Rest of World

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MNE & LCU Dominance
2015 Data

- Turnover
- Goods Exports
- Goods Imports
- Services Exports
- Services Imports
Cyclical Indicators

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Net National Product

GNP and NNP

NNP Total Economy

GNP Total Economy

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Key Messages

• Focus of the ESRG - analyses or indicators that would provide a better understanding of the domestic components of highly globalised Irish economy
• GDP and GNP continue to be the international standard indicators
• GNI* proposed to address the specific nature of the Irish economy
• Additional structural and cyclical measures recommended to give users more broad-based information on the Irish economy
• Implementation will be incremental with some of the new measures available in mid-2017 at time of annual National Income and Expenditure results
• Progress will be kept under review and feedback will be sought from users on developments
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European Statistical System Framework

Managing the balance between:
European Statistics Code of Practice
• Principle 11: Relevance
• Principle 15: Accessibility and Clarity

and

• Principle 5: Confidentiality
Implications for CSO

• **Approach** - “top down” or “bottom up”
  – Or both: top down in short term and bottom up in long term?

• **Viability** - are the proposals viable in all cases?

• **Resources**: Do we need additional staff to meet these recommendations?

• **Skill set**: Is there a specific skill set that meets the implementation of the recommendations - Economics based rather than data analytics
Implications for CSO

• Has the ESRG highlighted gaps in our programmes that are focussed on ESA etc
  – Importance of productivity analysis
  – Importance of wellbeing and beyond GDP agenda
  – Are there other areas?
• Resource requirements here also
Implementation

• Multi-year programme to deliver recommendations
  – Short-term (during 2017) and longer-term deliverables
• CSO will take incremental approach – initial development, focusing on annual analyses and then review
• Focus in 2017 will be on:
  – Modified Gross National Income indicator GNI*
  – Large Case vs Other firms view in Sector Accounts
  – Additional detail on intellectual property products (IPP), aircraft leasing & contract manufacturing