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## Economic Commission for Europe

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#### Globalization and the future of economic statistics

## Responding to the impact of globalisation on Ireland's macroeconomic statistics

Prepared by Ireland

### *Summary*

This document describes the actions taken by the Central Statistics Office of Ireland in relation to the impact of globalisation on Ireland's macroeconomic statistics. It is presented to the Conference of European Statisticians for discussion under agenda item "Globalization and the future of economic statistics".



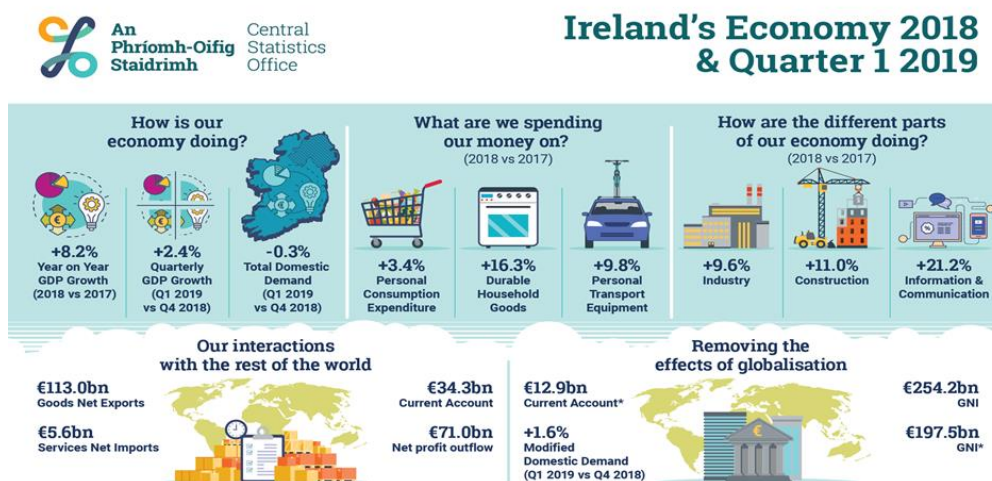
## I. Context

1. The highly globalised nature of the Irish economy was demonstrated in July 2016 with the publication of the national accounts and balance of payments statistics for 2015.
2. The level shift in GDP of 26% in 2015 was driven by relocations of entire balance sheets to Ireland, with the activity related to these relocations having a significant impact on the results. The relocated balance sheets were dominated by intellectual property categorised as intangible assets. The practice of relocating intellectual property to Ireland has been growing since 2014, but the scale of the relocations in 2015 was substantial and added €300bn to Ireland's capital stocks. Associated with the relocations were significant increases in contract manufacturing activity attributable to Ireland. When the net effect of sales of products produced abroad under contract were added to Ireland's trade in goods, the balance of trade in goods and services in the national accounts doubled from €35bn to €70bn between 2014 and 2015.

## II. Impact of globalised production activity

3. In the past, the impact of contract manufacturing activities on exports of goods was largely offset by imports of Research & Development services, as Irish companies made payments to non-resident parts of the group for the use of intellectual property. However, when the intellectual property is located in Ireland, these offsetting charges do not occur, and the full effect of contract manufacturing is attributed to GDP, as seen in the results for 2015.
4. Additionally, the capital assets in the relocated balance sheets have also led to significant increases in the estimates for depreciation of assets in the national accounts. Because of this increase in the depreciation charged in Ireland, foreign direct investment profits attributable to the rest of the world are reduced. These profits are a major part of the difference between GDP and GNP. The lower levels of profits, due to the increased depreciation charges, leads to narrowing the gap between GDP and GNP. GNP is often seen as a better measure of the underlying level of economic activity in Ireland, but as an indicator, it is now also elevated by these relocations.
5. To illustrate the impact of the relocations on GDP and GNP results for 2015, Net National Product (an alternative indicator from the National Accounts framework that measures economic activity after the effects of profits and depreciation) grew by 6.5% between 2014 and 2015, compared to the 26% growth in GDP. The infographic below from a set of annual macroeconomic results illustrates the ongoing impact of globalisation-related activities on the Irish economic statistics (figure 1).

Figure 1  
Ireland's Economy 2018 & Quarter 1 2019



### III. Compilation and role of the Large Cases Unit

6. Ireland's macroeconomic statistics are built on the information supplied directly by companies and our broader range of data providers to the CSO's Large Cases Unit (LCU). The LCU is located in CSO's Economic Directorate and is dedicated to engaging with the largest 75 companies in Ireland, having developed significant expertise in globalisation activities over its years of operation. Ireland's Balance of Payments statistics are compiled by the CSO and the LCU, the Business Statistics, National Accounts and Balance of Payments teams work together to ensure consistent and coherent results across the range of economic statistics published by the CSO.

7. As well as data supplied directly by multi-national enterprises (MNEs), the Large Cases Unit has access to a wide range of data from CSO's Balance of Payments and Business Statistics surveys. Additionally, the LCU has access to sources such as Trade in Goods data and Corporation Tax data. The broad range of information available to the LCU ensures consistent recording of activity across CSO business and economic outputs and its engagement with the largest multi-national companies ensures that the complex structures of multi-nationals are correctly profiled and reflected in the statistics. The MNEs covered by CSO's Large Cases Unit typically account for approximately 70% of Ireland's exports of goods and 65% of imports of services, with royalty imports dominating the service import amounts.

8. In a broader context, the growth in globalisation activities presents a significant measurement challenge for the CSO, Eurostat, the UN and the IMF, particularly around providing indicators of domestic performance for national users. It is increasingly difficult to represent the complexities of activity in highly globalised economies, such as Ireland's, in single headline indicators such as GDP and GNP.

9. The CSO compiles National Accounts and Balance of Payments statistics in accordance with the standards set by the UN and the IMF and as required under the EU ESA 2010 legislation. Adhering to the international standards ensures the provision of results that can be compared across countries and across time. In this context the figures are highly relevant and play an important role in understanding the complexity of our economy. However, the headline indicators of GDP and GNP can be of limited value in providing insights into the domestic economy.

### IV. Meeting the challenges

10. In September 2016, a cross-sector group (Economic Statistics Review Group) was convened by the CSO to discuss how best to meet the needs of both national users and international observers represented on the group. Indicators already published by the CSO such as information on personal consumption and data on employment and earnings formed part of the solution to providing insight into activity in the Irish domestic economy, but the discussions of the group also covered the need for new indicators and for additional detail in existing outputs.

11. The group reported in December 2016, and the report was published on the CSO's website along with the CSO's response and supporting information.

12. The recommendations to the CSO were grouped under five themes and covered proposals for:

- **Level indicators:** Development of a modified measure of the size or level of the economy to overcome the "denominator issue", as GDP is used so widely "under the line". The supplementary indicator suggested was a modified GNI (called GNI\*) where the effects of the relocation of global headquarters and of intellectual property, and the impact of the activities of aircraft leasing companies, were removed. The GNI\* indicator is now widely used alongside GDP by analysts in their commentary. As measured by this new annual indicator, the size of the Irish economy is reduced by about one third when compared to GDP.

- **Structural indicators:** To better understand how the economic activity of different sectors is impacted by the presence of multi-national enterprises, new sectoral analyses were proposed by the group. Breakdowns by MNE and Other Enterprises in Ireland's institutional sector accounts were recommended, as was a quarterly output on activities of MNE-dominated NACE sectors.
- **Cyclical indicators:** To provide additional detail on quarterly domestic economic activity, the group recommended an expansion of the detail on the Expenditure side of the National Accounts. The proposals covered development of modified domestic demand indicators where the impact of globalisation activity that disproportionately affected the results were removed. Again, the globalisation effects removed were related to the relocation of intellectual property and the activities of aircraft leasing companies.
- **Communications and co-operation:** The importance of collaboration nationally and internationally was underlined by the group, as was the critical role played by communication in meeting the globalisation challenges facing compilers. Bringing users to an understanding of the full range of indicators and detail available across the frameworks for National Accounts and Balance of Payments statistics was seen as a critical success factor for moving the discussion on economic activity beyond the usual headline indicators of GDP and GNI.

13. The discussions in the cross-sector Economic Statistics Review Group were a very valuable input on user needs and complemented the on-going work of the standing CSO Macroeconomic Statistics Liaison Group. Engagement with users continues to be critical for the CSO, as the impact of globalisation activities in the results needs to be explored and discussed regularly with users and with the standard setting international organisations.

## V. Implementation and communication

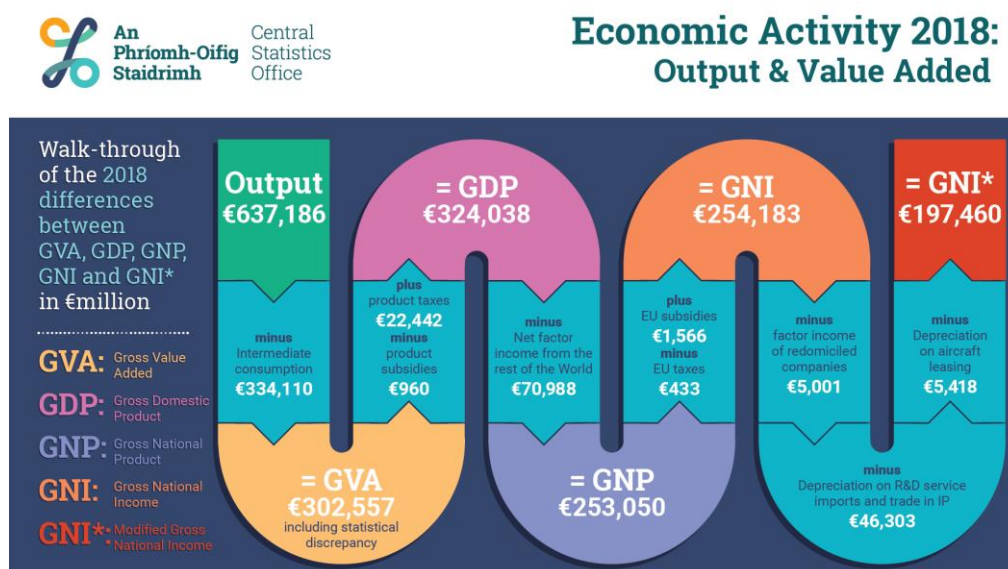
14. The Economic Statistics Review Group's (ESRG) recommendations were implemented incrementally by the CSO:

- The first estimates of the annual GNI\* series and the quarterly modified demand series introduced in mid-2017 at the time of the annual National Income and Expenditure results.
- An estimate of GNI\* at constant prices was published in 2019 at the time of the CSO's annual National Income and Expenditure publication, finalising the work on the ESRG recommendations for Level and Cyclical Indicators.
- At the end of 2017, an LCU / Other analysis of the non-financial sector was included in the annual institutional sector accounts as an initial step to meeting the user needs identified under the ESRG's Structural Indicators heading.
- Work on the Structural Indicator recommendations continued during 2018 and 2019, and in October 2019, an MNE / Indigenous split for non-financial and financial sectors was included in the annual institutional sector accounts.

15. On the communications work, regular media briefings and user seminars continue to be an important part of the engagement with the different users of macroeconomic statistics. Attendance at the quarterly media briefings is extended beyond the press to include analysts and users from policy areas, helping the CSO as compilers to appreciate the challenges that users face in interpreting the results. The discussions in the Q&A sessions at these briefings help to build a deeper understanding for all types of users and feedback from attendees is very positive.

16. To help meet the ongoing globalisation communication challenges, the regular statistical outputs (statistical releases, explanatory presentations and FAQs) are supported by an increased use of visualisation tools such as infographics and by the publication of detailed technical notes on specific complicated issues. These supporting tools have been widely welcomed by users and an infographic that has earned a lot of positive reaction from users is included as an illustration of the benefits of visualisation (figure 2).

Figure 2  
Economic Activity 2018: Output and Value Added



17. Additionally, engagement with users has also focused on building understanding of the broad range of indicators available within the National Accounts framework, and a focus at media briefings on personal consumption and other demand-related indicators has helped to move users to looking at the wide range of detail available across the macroeconomic statistics. Encouraging users to look at activity by sector has also helped to build a deeper user understanding of economic activity in the MNE-dominated sectors and in the domestic-facing sectors.

18. User focus on Ireland's Balance of Payments statistics has increased in recent years. The CSO's BOP team has developed a suite of new products and technical notes that build on regular BOP and FDI outputs and that include additional structural and labour market detail to help explain the impact of MNE activity. The quarterly media briefings on the macroeconomic results cover both National Accounts and Balance of Payments results, giving users a complete and coherent picture of macroeconomic activity every quarter.

19. Finally, as the globalisation-related issues develop and evolve, the CSO continues its involvement with the international organisation on the review and update of the standards for the statistics and on the ways that compilers can meet user needs for meaningful, coherent and consistent results on the range of activities of multinational groups across the globe.