

CMFB Workshop on Globalisation: Measuring Cross-Border Activities of Multinational Enterprises Comparing Demand for and Supply of Official Statistics

Statistics Austria, Vienna, 4-5 July 2018

1. The CMFB Workshop on Globalisation aimed at sharing information about user needs and ongoing statistical developments in different institutions, exploring intersections between different work streams and addressing important (new) questions to existing work structures. CMFB members and observers, and representatives from international organisations (BIS, IMF, OECD) attended the workshop, which was hosted by Statistik Austria. Presentations and further information is available at the workshop website: <http://www.cmfb.org/publications/cmfb-globalisation-workshop>.

2. The **Irish episode** – the Irish CSO release in July 2016 of national accounts statistics showing an increase in real GDP of 26.3% – revealed the disruptive impact for official statistics of corporate practices. The episode is the outcome of globalisation and digitalisation. Corporate relocations and restructurings, intellectual property rights, contract manufacturing, etc. are not new phenomena, but the scale of their impact on statistics is probably unprecedented. Neither is the Irish episode unique: changes in US tax laws have modified incentives to corporate inversions. Furthermore, Brexit and the discussion on corporate taxation at European level may bring new cases. Ultimately, difficulties stem from the tension between the statistical goal of representing economic reality and the political interests shaping the relationship between governments and multinational enterprises (MNEs).

The workshop has emphasised the diverse challenges posed to official statistics:

- Concerns about the ability of official statistics to correctly represent economic reality;
- Difficulties in calibrating policies in real-time;
- Communication with users.

3. The national response in the Irish episode has been to follow current standards, supplementing usual statistics with a new selected set of “starred” national-level statistics which remove some globalisation effects.

This **ad hoc adjustment** is an effective solution to provide a more user-friendly measure of domestic activity for an economy where globalisation effects are important, especially in the short term. But it raises new problems:

- it implies a **considerable degree of discretion**, with the risk of cherry-picking (for example, the choice of which specific items to exclude from GNI or of whether considering indirect activity related to excluded items);

- it might create **discrepancies across statistical domains**, if applied on a selective basis rather than for the full set of accounts;
- it undermines **international comparability** if implemented only by one country, although it exposes problems that might have been otherwise ignored;
- it may cast **doubts on official procedures** that rely on the availability of a common set of statistics which are cross-country comparable (such as the use of GDP as the denominator for many of the indicators of the Macroeconomic Imbalance Procedure).

4. An alternative approach is to **examine the adequacy of current SNA and BPM standards for measuring domestic activity**. This can be approached from different perspectives.

- Re-consider basic **concepts of economic ownership and residency**. Is a clearer and more detailed interpretation and practical guidance sufficient? Is a deeper revision of standards needed?
- More specifically, examine existing operational definitions of **ownership of IPPs**: legal vs. economic concepts.
- Examine existing criteria to define **statistical residency** of units.
- Explore **further breakdowns** to the national accounts and balance of payment: e.g. MNEs vs. domestic groups/companies.
- If **updates to SNA and BPM standards** are seen as appropriate, how and when should these take place?

5. Granular data on MNEs are needed to paint a full picture of the geography of production. **Nationality-based statistics** (real and financial) are essential for specific analytical purposes. These approaches are **complementary** to residence-based national accounts.

6. Parallel to the conceptual debate, various concrete actions are in order:

- Ensure **coherence** of recording of similar transactions across countries and treatment of ownership and structures of MNEs in order to reduce asymmetries.
- Provide additional **detailed information** to allow users to better qualify developments in the accounts (e.g. memorandum items, additional breakdowns).
- Improve coverage and availability of data for **Special Purpose Entities**.
- Foster exchange of information between statisticians and **international tax policy-makers and national taxation offices**.
- Promote more in-depth dialogue with **data users** in order to better identify their needs.
- Build **databases with granular data** to enhance micro-macro consistency, and to allow for the construction of new indicators to respond to evolving analytical needs.
- Improve micro-economic statistics and databases to assure a better basis for the macro aggregates.

7. Considerable progress has been achieved (thanks to the G20-DGI and the BIS contribution) in developing **financial and banking statistics** according to the double principle of residence and nationality, with a greatly increased level of granularity. Additional work has been undertaken in the wake of the global financial crisis to fill data gaps. Activities are ongoing, but further efforts are required to

address risks arising from the operations of non-bank financial firms and non-financial corporations, as the latter may pose substantial threats to the stability of real economy and financial markets.

8. The ESS and ESCB have undertaken numerous initiatives to face these challenges, including participating in world-wide endeavours (e.g. G20-DGI). These cover global identifiers, business registers, data sharing as well as new ways of collecting information at the detailed enterprise level (Large Case Units, Early Warning System, EuroGroups Register, GNI pilot projects).

- Given the current division of responsibilities and the increasing overlapping of real and financial dimensions, there is the need of a **closer collaboration between the two European statistical systems**. This may involve consideration of the broadening of the mandates of some key European collaborative fora to avoid duplication of efforts.
- There is a continuing need for enhanced collaboration among statistical agencies at the global level.
- **Overcoming the legal and cultural obstacles to data sharing** among institutions (NSIs, NCBs, international organisations) and across countries at the European and global level is a “cornerstone” for future developments. At the European level, it is particularly necessary to identify existing legal barriers to data sharing and to find a way to remove them. At a global level, this objective finds a clear support in the G20 recommendations agreed by G20 leaders, finance ministers and central bank governors.

9. The **communication** of major changes in statistics must be paid close attention to. Whatever statisticians do, or do not do, in the face of significant cases of corporate relocations and restructuring there is a duty to communicate proactively what is happening to the media and the general public, explaining the rules and underlying rationale. This is necessary to avoid misuse of the data, to ensure that appropriate actions are taken with a defined time schedule, and to show awareness of users’ demands.

10. The **CMFB brainstorming exercise**, carried out prior to the workshop, has gathered many concrete ideas on how to intensify joint work on the common treatment of MNEs (e.g. organising access to relevant internationally harmonised primary data like the financial account information exchanged in the Common Reporting Standards, training activities and many others).

11. Statisticians strive for measuring economic reality, fulfilling users’ needs in an efficient way. But the agenda is very dense. There is a need for **prioritising tasks and initiatives into a feasible work-plan** – not the least for the constraints on economic and human resources faced by statistical agencies.

12. In line with its mandate and the joint interest of both statistical systems, the **CMFB will continue its work** on the measurement of cross-border activities of MNEs. The CMFB Executive Body will discuss concrete proposals of future actions that can be included in the CMFB work programme.