Multinational Enterprises
What should be measured for what purpose?

Robert Kirchner, Deputy Director General Statistics, Deutsche Bundesbank

Outline

The Irish case as a starting point

- The presentation is based on the outcomes of a **joint WG** of the **DG Economics and DG Statistics** of the Bundesbank

- Upturn in **Ireland's GDP** in early 2015 shows the fundamental problem

- Current treatment of MNEs' activities implies that GDP according to ESA2010 can reflect both **domestic and foreign physical production activity**

- Potential introduction of a measure of exclusively domestic economic activity (**„narrow GDP"**) → maybe also for IIP and BoP

- Requirement to maintain **international consistency**!

Measurement of domestic activity

Changes in MNEs' organization and ownership **imply changes in GDP**

- ESA 2010 → **ownership principle**

  → In case of **contract manufacturing**: Created value added is attributed to residence country of a MNEs' subsidiary that holds intangible assets

- **Intellectual Property Rights** (IPR) treated as **capital investment**

- Possible **consequences**:

  →More complicated assessment of domestic economic trends

  →Less information of domestic business cycle

  →Inappropriate monetary or fiscal policy measures

  - Impacts for GDP due to **shifts in intangible assets**

Measurement of domestic activity

3 practical problems for statistics when measuring MNEs' activities:

– Challenging translation of global transactions into statistical framework

– Confidentiality issues

– Volatile income flows

Measurement of domestic activity

Users' perspective: What should data tell us?

– Use and utilization of domestic productive factors

– Changes in production capacity

– Imbalance in BoP or unit labor costs

– Interdependencies between countries

– Analysis of spillovers

Measurement of domestic activity

Attractivity of classic NA comes from accounting identities encompassing

- **Production**

- **Final use**

- **Income and its distribution**

But: with cross-border activity involving MNE, the **picture becomes blurred!**

- MNE activities have gained importance for all levels of aggregation

- More relevant for smaller geographical units

- Do we need a fully-fledged NA on all levels of aggregation?

- For (smaller) countries: emphasis in publication on domestic production and domestic income, at the same time keeping NA as a framework of reference.

Measurement of domestic activity

Need for data that reflect **domestic physical production activity**

→ **different indicators for different purposes**

> ➢ Domestic physical activity versus comprehensive activity of entities resident in the domestic economy

→ **additional measure** focused on **specific activities relevant for domestic economic policy?**

!!Available suggestions strongly focused on the Irish case!!

Measurement of domestic activity

Two avenues:

a) Definition of an **aggregate domestic production index** (based on industrial production involving domestic labour and physical capital and services production/deflated turnover indices), as a measure of production in the domestic economy.

b) Computation of "**narrow GDP**", including only the activities considered "domestic economic production".
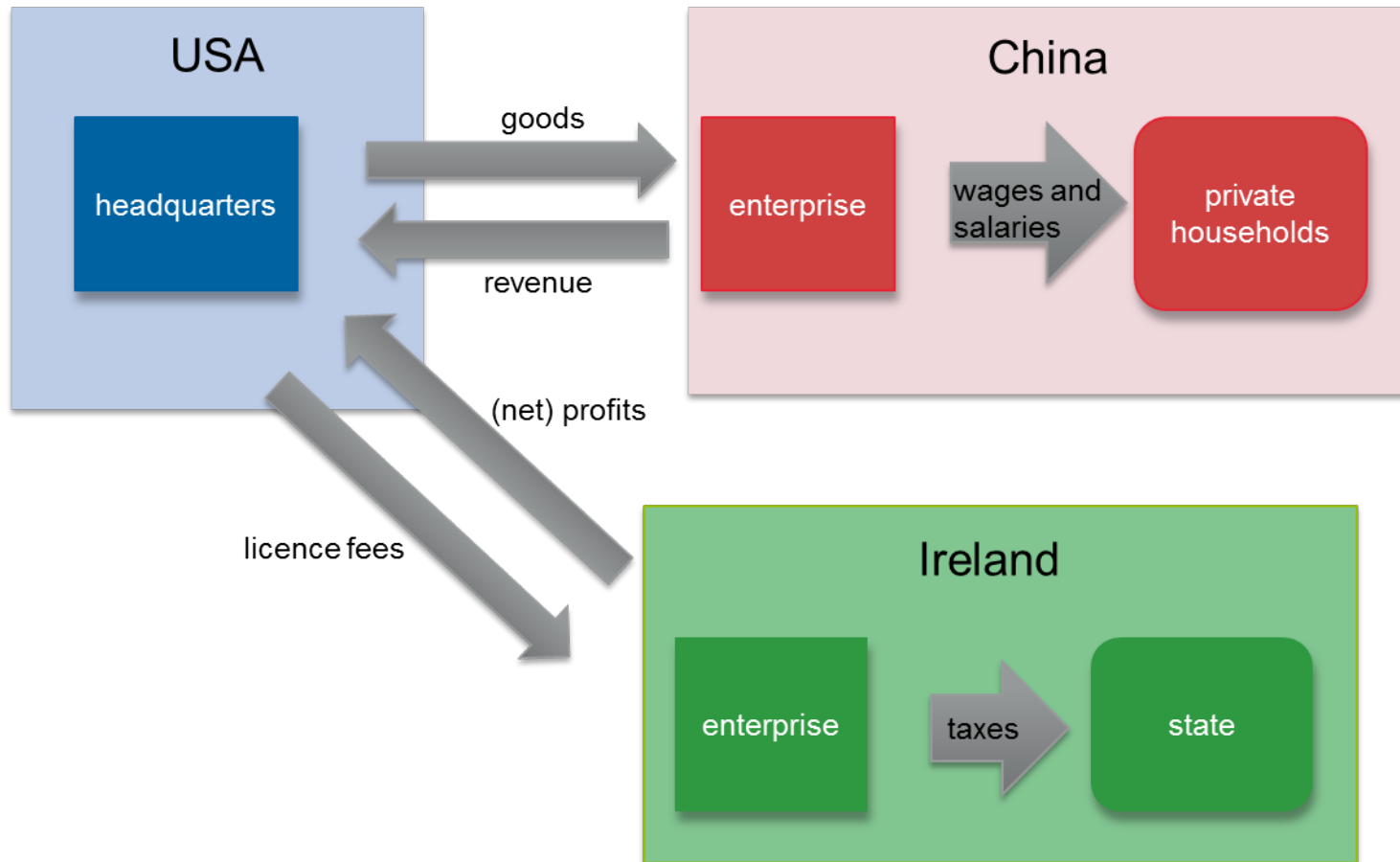
Measurement of domestic activity

Some statistical considerations

- **Ideally: decide transaction by transaction** on domestic nature

- **Second best** (1): Break down enterprise level to **local-kind-of-activity units**
    - Necessary information often not available

- **Second best** (2): Concentrate on **Special Purpose Entities (SPE)**
    - Construct **building block of activitie**s of SPEs
    - **Exclude** SPE-block **from GDP** composition
    - Provides **upper bound** for measurement of **domestic activity**
    - **Additional information on non-financial assets** would be needed
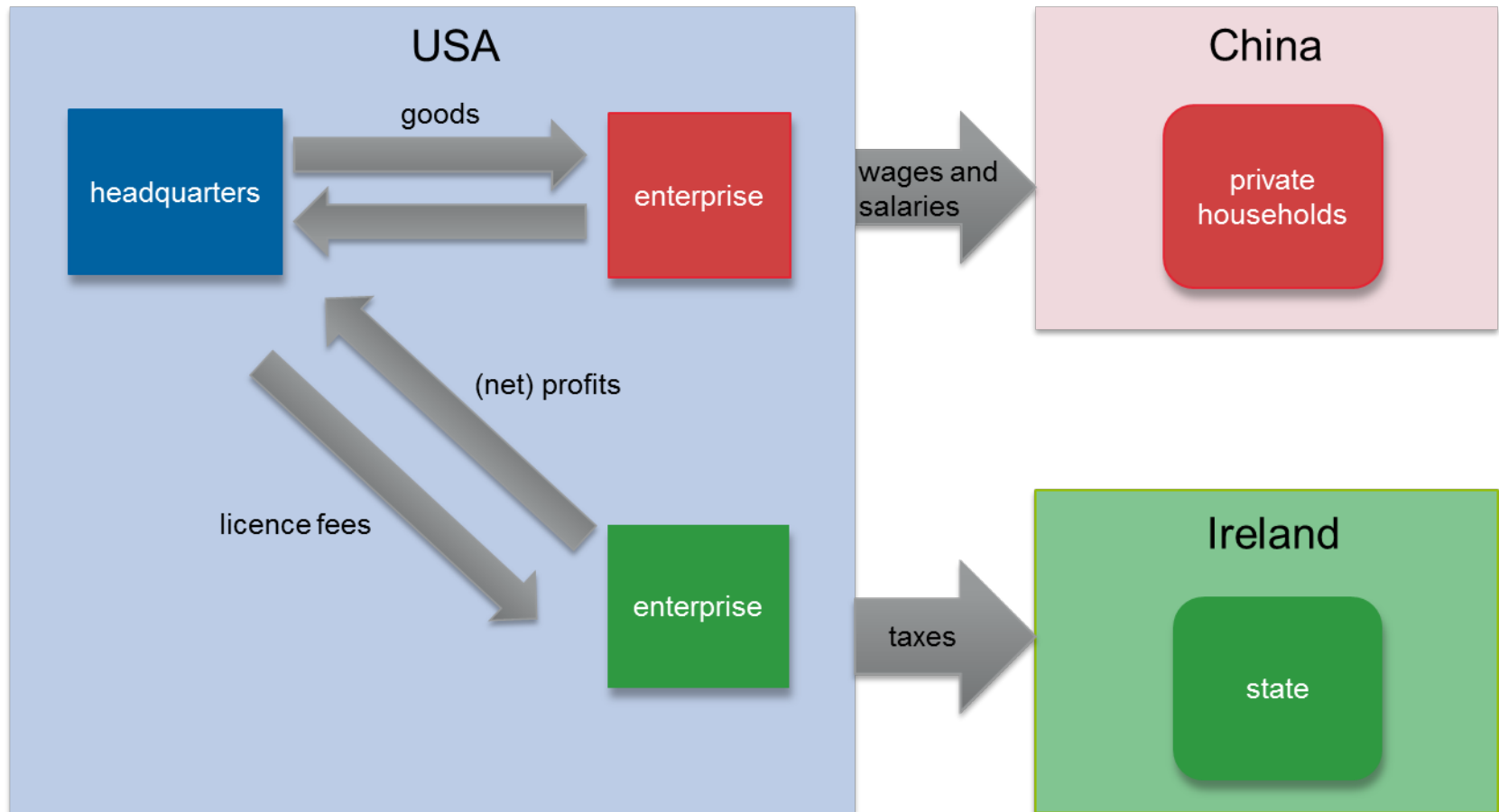   - **Harmonized definition of SPE** under preparation

The nationality concept of enterprise groups

The nationality concept of enterprise groups
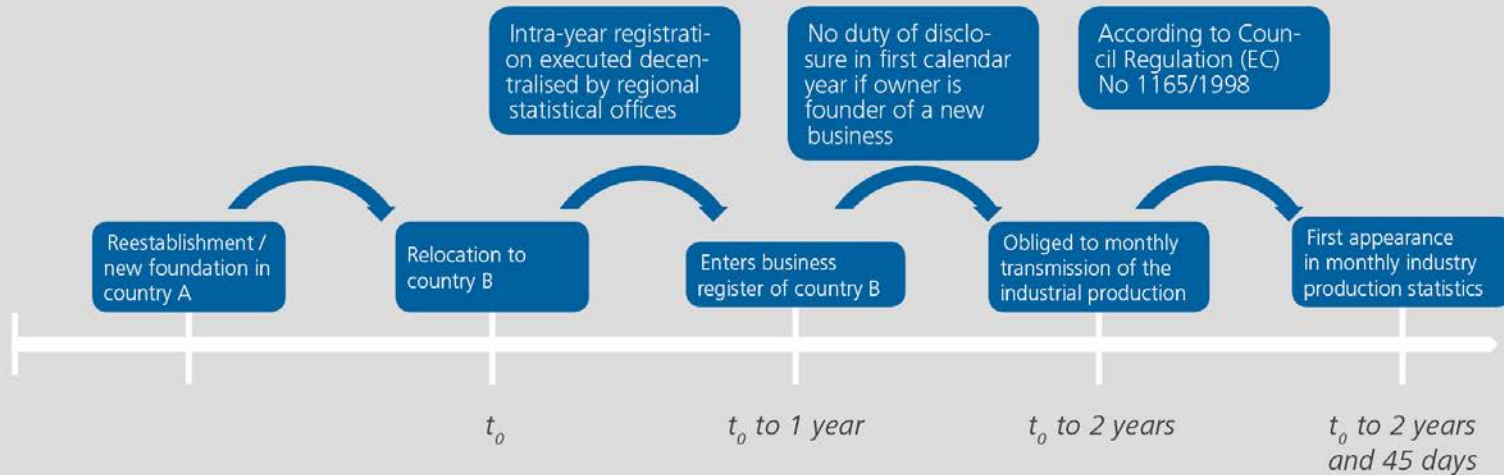

Nationality concept

The nationality concept of enterprise groups

- **Nationality-based approach** requires **combination of business accounting**, **supervisory standards** (if available) and **statistical standards** across geographical and sectoral boundaries

- Provides a **picture beyond institutional units** on the basis of (legal or economic) ownership and control

- Constitutes a **concept of control and intra-group positions.** Flows are consolidated

- Major challenge: **international consistency**

- Nationality concept not well developed for **non-financial statistics**

Asymmetries in preliminary statistical figures

Possible time lags between the relocation of an enterprise from EU country A to B

Stylised scheme of the present situation with asymmetric information

Intra-year registration executed decentralised by regional statistical offices

No duty of disclosure in first calendar year if owner is founder of a new business

According to Council Regulation (EC) No 1165/1998

Reestablishment / new foundation in country A

Relocation to country B

Enters business register of country B

Obliged to monthly transmission of the industrial production

First appearance in monthly industry production statistics

t_0

t_0 to 1 year

t_0 to 2 years

t_0 to 2 years and 45 days

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Asymmetries in preliminary statistical figures

- To overcome asymmetries, **micro data exchange** between the responsible statistical institutions is essential

- However, fundamental **differences in the interpretation of European law** still exist

- **Legal issues** need to be clarified

- Appropriate **organizational and technical solutions** needed.

Operational issues

- Due to **confidentiality issues with the reporting of large firms**, some important **details cannot be sufficiently analysed**

- **Confidentiality issues** need to be addressed and overcome at the European level

- **High degree of discretion** when determining the value of **intellectual property rights**

- **Outliers in aggregate statistics** cannot be understood without sufficiently detailed information

- A **European or worldwide database** with links to useful background documents to improve the understanding and analysis of economic developments would be useful

Conceptual issues

- **IIP** and **BoP** also affected by the relocation of national units of MNEs

- Ownership concept needs to be complemented. Data **closer to the concept of domestic activity** required

- **Nationality concept** may provide additional risk and decision-oriented perspective for analyzing MNEs

- Overcoming **asymmetries** in the reporting of preliminary figures requires a **clear legal basis** and an **appropriate technical infrastructure**

- **Brexit** may pose new problems related to relocation in the context of MNEs