



**An Phríomh-Oifig Staidrimh**  
Central Statistics Office

**Central Statistics Office (CSO) Response to the Main  
Recommendations of the Economic Statistics Review Group  
(ESRG)**

**3<sup>rd</sup> February 2017**

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## 1.0 Introduction

The CSO welcomes the publication of the ESRG's report today and wishes to thank the Chair and Group members for their comprehensive and considered analysis of the globalisation-driven challenges facing the CSO in fully capturing the reality of economic activity in Ireland. We outline below our response to the Group's recommendations under the main headings listed. Before doing so, we would like to make some general points to give context.

The recommendations were developed in an attempt to address current limitations in providing insights into Ireland's small, open and highly globalised economy. GDP and GNP continue to be the international standard indicators, but no longer provide a sufficient understanding of the domestic economy and therefore need to be supplemented with a broader suite of indicators that can provide the necessary insights into the domestic economy.

Delivering on the ESRG's recommendations will require additional analytical presentations of the Irish economic statistics. Compilation of National Accounts and Balance of Payments statistics will continue in line with the international standards and the new indicators and analyses will be further developments within the existing frameworks for the statistics.

Importantly, as the recommendations involve the development of new analyses and supplementary measures, progress will be by definition incremental. Progress will need to be kept under review and feedback will be sought from users on developments. The true value or otherwise of any supplementary measures to be calculated will only be fully realised over time. Initially, the developments will generally apply to annual results, but will be extended to the quarterly series where feasible and appropriate.

Finally, the legally binding guarantee of confidentiality given to all CSO respondents, individuals and companies alike, is essential to our ability to collect the data required to produce accurate outputs. As a result, some desired level of detail may have to be foregone to avoid confidentiality breaches, ensuring that the measures will be and can remain robust, repeatable, consistent and comparable.

## **2.0 Response to the Main Recommendations**

### **2.1 Level Indicator**

While GDP and GNP continue to be the international standard indicators, the development of a new level indicator GNI\* has been proposed to capture the specific nature of the Irish economy. The modified GNI indicator of the level or size of the Irish economy will exclude much of the globalisation effects affecting the Irish economic aggregates and will be a useful input to analytical and economic modelling work.

#### **Recommendations**

1. An adjusted indicator, Gross National Income\* (GNI\*) of the size of the economy should be published, appropriately adjusted for the retained earnings of re-domiciled firms and depreciation on foreign-owned domestic capital assets.
2. Corresponding adjusted presentations of the BOP/IIP (balance of payments/international investment position) data should also be published.

#### **CSO response**

- The CSO will develop this GNI\* indicator, taking a top-down approach; initially, we plan to adjust the existing GNI and corresponding BOP measures for the retained earnings of re-domiciled firms and for the depreciation related to intellectual property (IP) capital assets.
- We will publish an annual time series of this indicator as part of the annual National Income and Expenditure (NIE) and Balance of Payments (BOP) results in mid-2017.
- During 2017, we will also work to develop quarterly series for GNI\*. Further work will be required in the medium term to highlight the effect of IP asset relocation on individual components of the international investment position data (IIP) by 2018.

- In conjunction with this, we will continue with the current work programme to develop annual and quarterly net national product (NNP) time series in constant prices by end-2018. The quarterly estimates in particular pose various practical difficulties in terms of data availability and these will need to be addressed.
- We will continue to update annually the CSO information note outlining the impact of re-domiciled firms on the existing measures.

## **2.2 Structural Indicators**

The highly globalised nature of the Irish economy makes interpretation of the economic statistics difficult for users who are interested in the performance of the domestic firms in the Irish economy. Separating results by multinational enterprises (MNE) and other sectors will help to give users insight into how the ownership structure of our economy affects the statistics.

### **Recommendations**

3. CSO to implement Large Cases Unit/Remainder presentation to elements of National Income and Expenditure accounts and the Non-Financial Sector of the Institutional Sector Accounts.
4. The CSO to further explore the additional data classifications proposed in FitzGerald (2016) and Honohan (2016) in addressing the impact of the international and domestic activities of MNEs on the national accounts.
5. Publication of Table 1 of the QNA (quarterly national accounts) in current prices, as well as in constant prices.

### **CSO response**

- The CSO proposes to include in the annual Institutional Sector Accounts (ISA) publication a breakdown of the non-financial corporations (NFC) sector into two broadly-defined, foreign and domestic, sub-sectors. The NFC sector accounts for

most of the multinational enterprises (MNEs) operating in Ireland. Initially, the breakdown will be between the companies covered by the CSO's Large Cases Unit i.e. the largest and most complex MNEs, and the remainder.

- This initial work is scheduled for publication at the time of the annual sector accounts results in October 2017, following which the CSO will investigate extending this analysis to a quarterly basis.
- The breakdown by Large Cases firms and the remainder in the sector accounts is an initial step; during 2018, we will develop the basis for the breakdown by ownership into MNE and other sectors and we will review other possibilities such as the feasibility of implementing this foreign / domestic split in other presentations of the national accounts data.
- In addition, we will explore the data classifications proposed in the FitzGerald (2016) and Honohan (2016) papers.
- The publication of Table 1 of the QNA in current prices is a longer term project; it is dependent upon the work already underway on the calculation of an output-based annual estimate of GDP to complement the existing income and expenditure measures. The schedule for this work extends into 2018.

## **2.3 Cyclical Indicators**

Globalisation activities are not limited to MNEs and activities related to globalisation such as contract manufacturing can be carried out by all types of firms and can happen in both directions; Irish-owned firms are involved in contract manufacturing and Irish firms can also be providers of contract manufacturing services to foreign customers. The additional detail on activities related to globalisation such as IP relocation, contract manufacturing and aircraft leasing that the Cyclical Indicator recommendations propose will provide important information on how these activities affect the statistics. Along with the analyses in the Structural Indicators recommendations, these additional details will help to give users a comprehensive view of the effect of globalisation on the Irish economy.

## **Recommendations**

6. Quarterly publication of underlying investment and underlying domestic demand measures that take account of the impact of IP relocations, contract manufacturing, aircraft leasing and re-domiciled firms.
7. Publication of similarly-adjusted exports and imports data to provide more meaningful indicators of domestic trade in both current and constant prices.
8. Quarterly publication of Gross Value Added (GVA) for sectors dominated by foreign-owned Multinational Enterprises (MNEs) and other sectors.
9. Quarterly publication of net national product (NNP) data.
10. Publication of supplementary monthly industrial production and turnover (IPT) data adjusted for the impact of foreign MNE-related activity, alongside alternatively-weighted IPT indices, using sectoral manufacturing wages rather than gross value added as fixed base weights.

## **CSO response**

- The CSO currently publishes a breakdown of investment by tangible and intangible assets on a quarterly basis. We will add to this detail by quantifying the flows of IP relocations and aircraft leasing activity in 2017, in current and constant prices, at the time of the annual National Income and Expenditure results in mid-2017.
- The CSO compiles External Trade statistics for Ireland from Intrastat and Extrastat data collected by the Revenue Commissioners. Data is published monthly at a detailed product category level. We propose initially to publish, during 2017, a ‘walkthrough’ analysis for our annual data which will highlight the relevant adjustments applied to these external trade statistics (which are compiled on the basis of the “crossing the border” concept) in order to calculate exports and imports on a balance of payments/national accounts basis (which are compiled on an “economic ownership” basis).

- The CSO publishes Gross Value Added (GVA) annually for sectors dominated by foreign-owned Multinational Enterprises (MNEs) and other sectors. Compiling a quarterly version of this data is a project in the medium term, with planned publication beginning during 2018.
- Work on variables such as quarterly Net National Product (NNP) is long-term in nature; it crosses national accounts & balance of payments outputs and poses various practical difficulties in terms of, for instance, calculating a soundly-based quarterly estimate of depreciation on foreign-owned domestic capital assets. The outcome from this work is planned for 2018. The wider debate about the use of ‘gross’ and ‘net’ measures forms part of the work programme of the international statistical community in which the CSO fully participates.
- CSO will review the weighting of the industrial production and turnover (IPT) data for wages in addition to existing indices. The turnover and production GVA-based indices provide a critical input to the calculation of GVA for Industry and, ultimately, of GDP. The Production and Turnover index weighted by earnings would provide insight into the trend in GVA accruing to Ireland through wages and taxes after foreign owners etc. are compensated through dividends and reinvested earnings. Index weighted by earnings to be provided, together with base-year 2015=100 indices, in early-2018.

## **2.4 Co-operation with Institutions**

11. The CSO works to deliver the full benefits of domestic inter-institutional collaboration, in particular with the Central Bank in the design and production of macro-financial statistics.
12. The CSO continues its substantial engagement with the ongoing analysis of globalisation-related issues across macro-economic and business statistics domains by the international statistics community.



### *CSO response*

- The CSO's focus continues to be on the compilation of consistent macro-financial statistics in its collaboration with other domestic institutions.
- The international organisations continue to co-operate closely on globalisation issues and the CSO will continue to be closely involved with this work.
- Several important initiatives in which the CSO is involved are in progress to meet the measurement challenges posed by globalisation.
  - Developments and changes to the international standards for national accounts statistics are led by the UN and are co-ordinated through the Inter Secretariat Working Group on National Accounts (ISWGNA) where the UN, Eurostat, OECD, IMF and the World Bank are represented.
  - CSO is a member of the Advisory Expert Group to the ISWGNA that assists the ISWGNA in resolving issues in the system of national accounts and emerging research issues.
  - Developments of the standards for balance of payments statistics are co-ordinated through the IMF Committee on Balance of Payments Statistics.
  - CSO currently chairs the UN Expert Group on Economic Globalisation and International Trade where many of the issues considered by the ESRG are also being addressed by the global statistical community.
  - In addition, the CSO chaired the UN Task Force on Global Production that produced the Guide to measuring Global Production, where there are comprehensive discussions and recommendations on many of the same issues related to economic globalisation.

## **2.5 Communications**

13. The CSO to improve its communication strategy in relation to the release of national accounts data, taking into account the importance of transparency and the wide range of domestic and international counterparties.

### ***CSO response***

- The CSO has appointed a head of communications and plans are in train to establish a press office function and to restructure the existing information unit in line with the CSO's new communications policy.

### 3.0 Closing Comments

There is a multi-year programme of work ahead for the CSO to deliver recommendations, with both short-term (during 2017) and longer-term deliverables and the progress made will be dependent on the availability of sufficient resources. The annex to this document lists the deliverables planned for 2017.

The CSO will take an incremental approach – initial development of the various new indicators and supplementary details, followed by review and feedback from users. In the course of this work, what looks reasonable on paper may not always be feasible in practice and it will be an iterative process to refine the shape of the final outcomes.

Other CSO work in progress or starting on globalisation-related issues includes:

- Productivity Analysis work that looks at multi-factor productivity, with a focus on labour and capital productivity
- Micro-to-macro analysis in line with work of the Eurostat task force set up to investigate how best to show and explain how micro activity feeds into the macro picture for an economy
- A publication in the first half of 2017 to explain aircraft leasing in Ireland and how the data effects our National Accounts, Balance of Payments, Trade and Business Statistics.

The CSO will also continue to produce results and updated additional analysis of key issues affecting our macroeconomic data such as:

- Annual results for 2017 on Gross Value Added for Foreign-owned MNE and Other Sectors
- Information on Re-domiciled Firms in the Irish Balance of Payments
- A note on Trends in Net Factor Income
- An analysis of Ireland's FDI Asymmetry with the United States.

Finally, the CSO will meet the members of the Economic Statistics Review Group again in the first half of 2017 to review progress on the short-term actions in advance of the publication of the annual National Income and Expenditure results. A structure for ongoing user input on the implementation of the recommendations will be agreed with the members of the Group and with other CSO user liaison groups following this initial progress review.

## **Annex: Deliverables Planned for 2017**

**Recommendation 1:** An adjusted indicator, Gross National Income\* (GNI\*) of the size of the economy should be published, appropriately adjusted for the retained earnings of re-domiciled firms and depreciation on foreign-owned domestic capital assets.

**Deliverable:**

- The CSO will develop this GNI\* indicator, taking a top-down approach; initially, we plan to adjust the existing GNI and corresponding BOP measures for the retained earnings of re-domiciled firms and for the depreciation related to intellectual property (IP) capital assets.
- We will publish an annual time series of this indicator as part of the annual National Income and Expenditure (NIE) and Balance of Payments (BOP) results in mid-2017.

**Recommendation 3:** CSO to implement Large Cases Unit/Remainder presentation to elements of National Income and Expenditure accounts and the Non-Financial Sector of the Institutional Sector Accounts.

**Deliverable:**

- The CSO proposes to include in the annual Institutional Sector Accounts (ISA) publication a breakdown of the non-financial corporations (NFC) sector into two broadly-defined, foreign and domestic, sub-sectors. The NFC sector accounts for most of the multinational enterprises (MNEs) operating in Ireland. Initially, the breakdown will be between the companies covered by the CSO's Large Cases Unit i.e. the largest and most complex MNEs, and the remainder.
- This initial work is scheduled for publication at the time of the annual sector accounts results in October 2017, following which the CSO will investigate extending this analysis to a quarterly basis.

**Recommendation 6:** Quarterly publication of underlying investment and underlying domestic demand measures that take account of the impact of IP relocations, contract manufacturing, aircraft leasing and re-domiciled firms.

**Deliverable:**

- The CSO currently publishes a breakdown of investment by tangible and intangible assets on a quarterly basis. We will add to this detail by quantifying the flows of IP relocations and aircraft leasing activity in 2017, in current and constant prices, at the time of the annual National Income and Expenditure results in mid-2017.

**Recommendation 7:** Publication of similarly-adjusted exports and imports data to provide more meaningful indicators of domestic trade in both current and constant prices.

**Deliverable:**

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**Recommendation 13:** The CSO to improve its communication strategy in relation to the release of national accounts data, taking into account the importance of transparency and the wide range of domestic and international counterparties.

**Deliverable:**

- The CSO has appointed a head of communications and plans are in train to establish a press office function and to restructure the existing information unit in line with the CSO’s new communications policy.