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UPDATE of SNA 2008 & BPM6

Treatment of MNEs and IPPs in national accounts

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GZTT – Globalisation - AEG - BOPCOM
16 September 2020*



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Where have we been?

Potential approaches?

Proposals

Other thoughts
Feedback

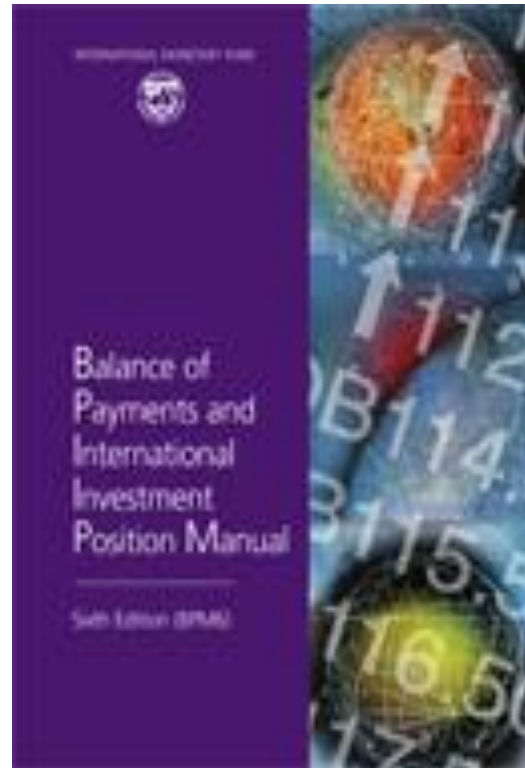
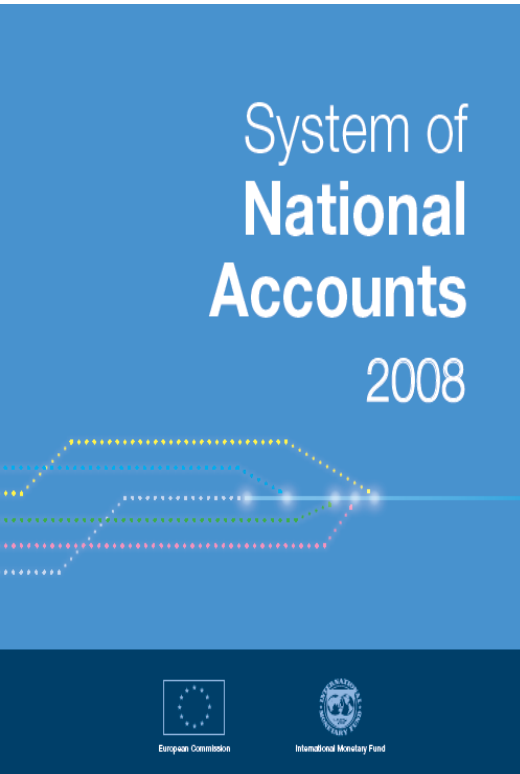


Recent History

Immediately (almost) after launch of SNA 2008 and BPM6 already clear significant challenges remained

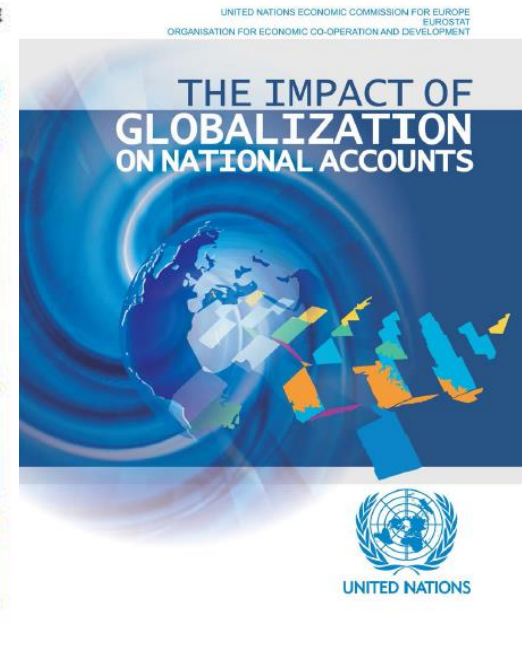
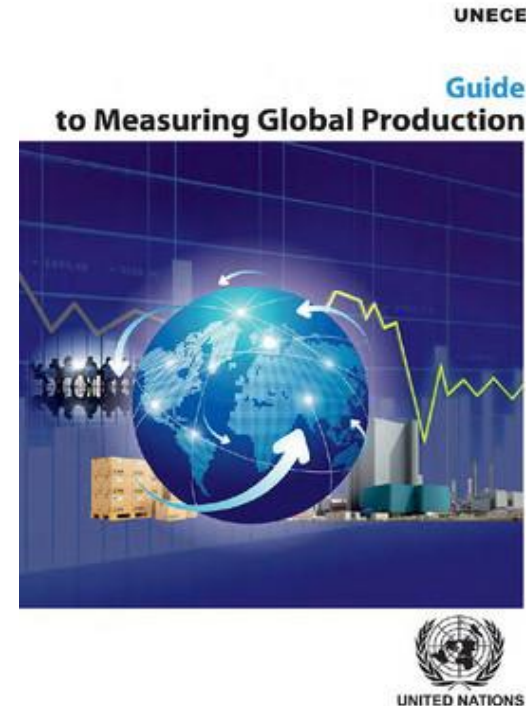
Working Groups, Expert Groups, Task Forcesremained engaged with the issues which were and still are primarily around :

- Determining (and changes in) economic ownership
- Residence and Institutional Units
- Intra Group Transactions – (IPP, Royalties/Licence fees, Profits)
- How do we correctly measure productivity

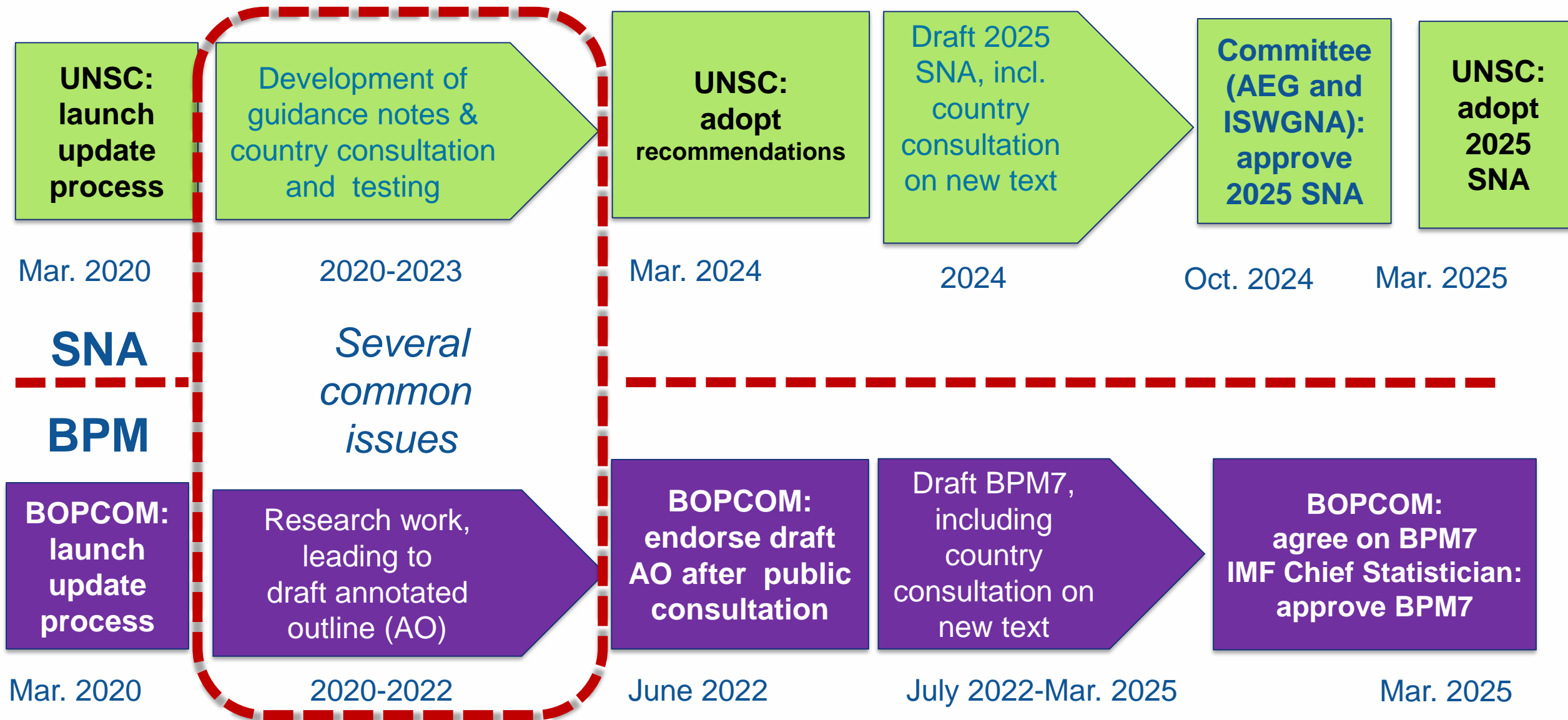


Are we making any progress ?

- Data sharing
- Global Production
- Understanding importance of Global Value Chains (GVCs)
- Large Case Units
- Profiling and Registers
- Defining IPP - decision tree etc.



The Update Process



On the path to the next update of the International Statistical Standards

- Guidance notes on **MNEs and SPEs**. Not only to consider the conceptual treatment but also the practical implementation aspects
- Very strong interlinkages between national accounts and external sector statistics. <=
Close collaboration between BPM update and SNA update.

Other issues under discussion are:

- Transferring ownership of intellectual property products (IPPs) within MNEs: economic versus legal ownership, location of IPPs and related intra-MNE flows.
- Other issues for the update related to MNEs, include harmonizing direct investment statistics with foreign affiliate trade statistics (FATS)/Activities of MNE (AMNE), and the discussion on the nationality concept for alternative framework in external sector statistics.

Globalization Task Team (GZTT)

- Intersecretariat Working Group on National Accounts (ISWGNA) Globalization Task Team set up to develop guidance notes on MNEs and SPEs leading to the update of *2008 SNA* and *BPM6* in 2025,
 - In consultation with the Advisory Expert Group (AEG) on National Accounts and related task teams created under the aegis of IMF Balance of Payments Committee (BOPCOM).

Building on much work and discussion that has occurred post *2008 SNA* and *BPM6*, these options were put forward:

(I) Emphasize existing macroeconomic indicators

(II) Develop granular or supplemental data

(III) Come up with alternative presentations or extensions

(IV) Change standards





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(I) Emphasize
existing
macroeconomic
indicators



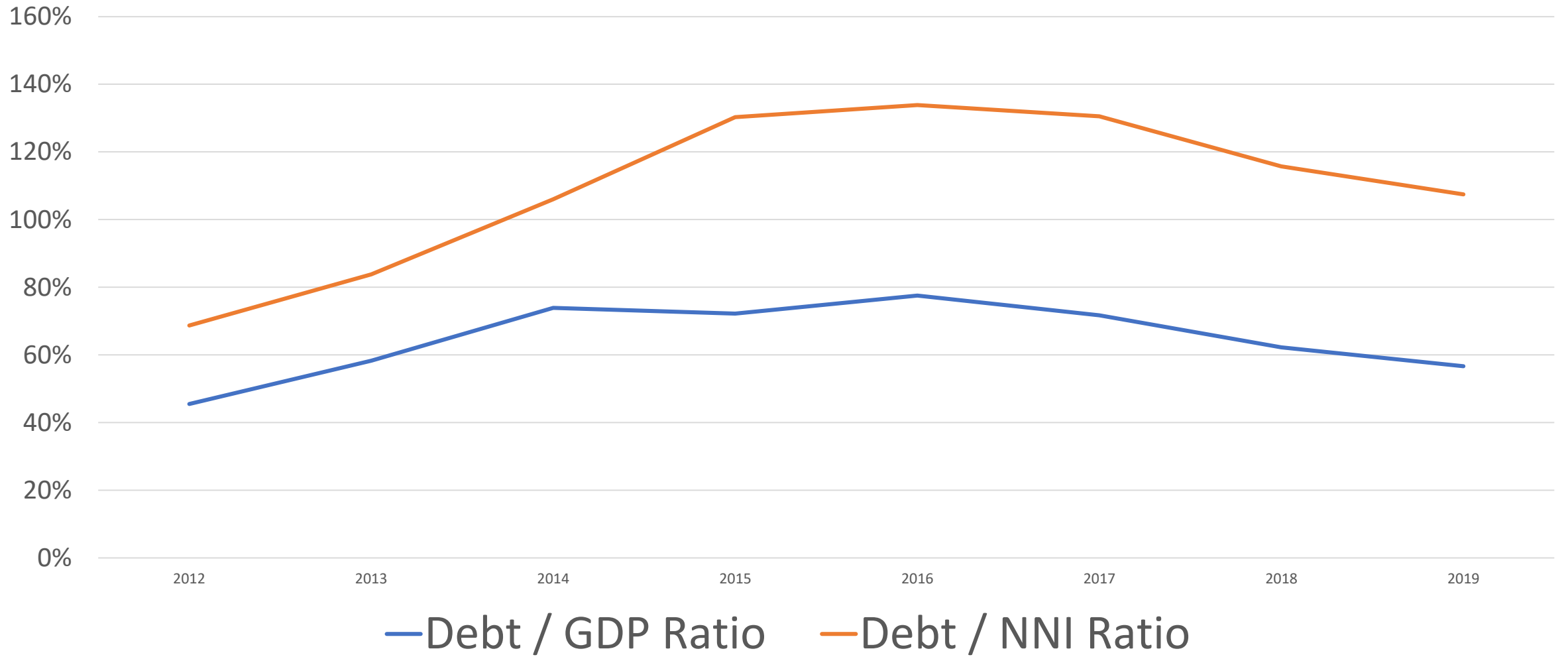
Existing indicators - Beyond GDP

- SNA is NOT just GDP!
- Leveraging all indicators within SNA, that are **less sensitive to the impacts of globalization** such as GNI, GNDI, NNI, NDI.

National Income Concepts

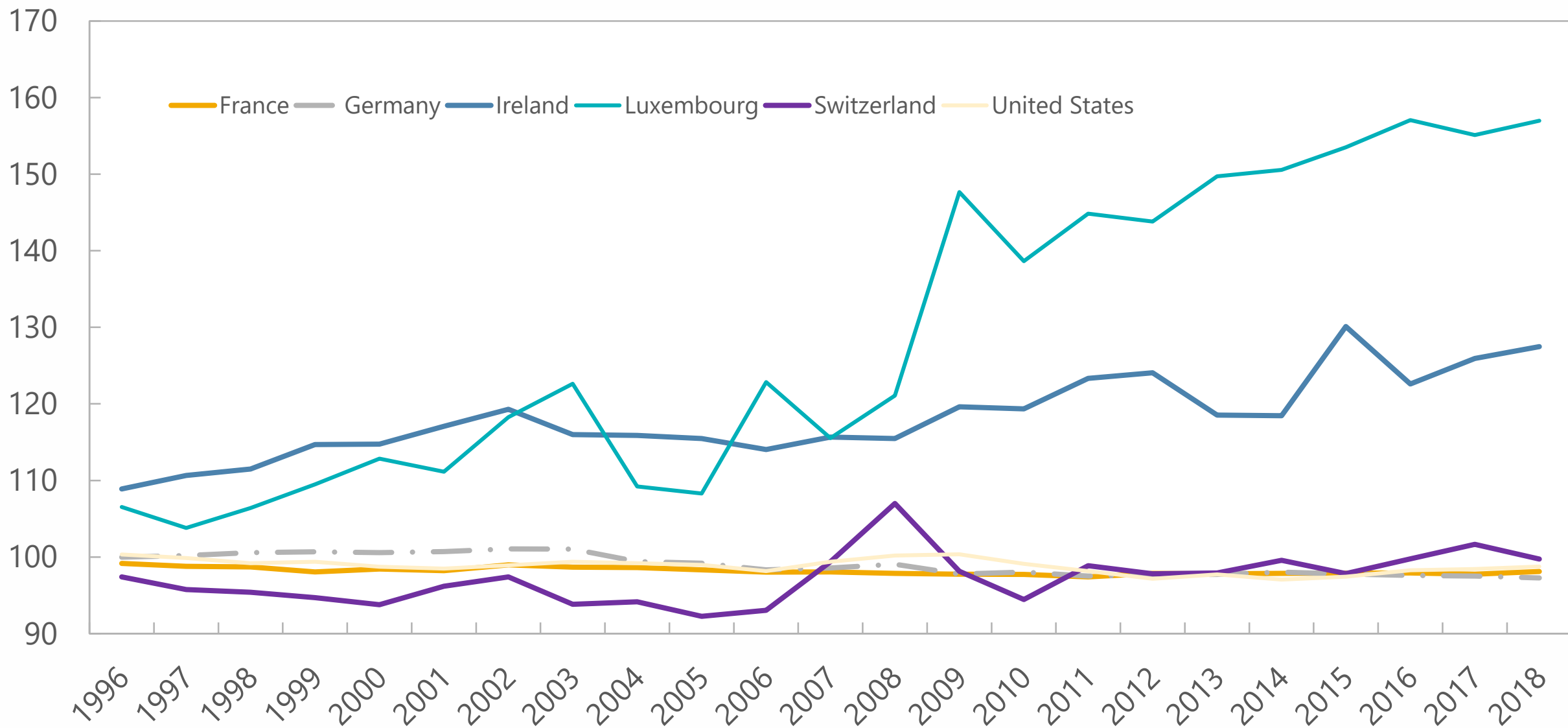
- 
- | | |
|--------------------------------|---|
| □ Per Capita Income | □ Personal Income |
| □ Real Income | □ Disposable Income |
| □ Gross National Product (GNP) | □ Net Domestic Prod (NDP) |
| □ Net National Product (NNP) | □ N.I. @ Mkt Price & Factor Cost |
| □ Gross Domestic Product (GDP) | □ N.I. @ Current Price & Constant Price |

Ireland : GDP and NNI: Debt Ratios



GDP as a percentage of GNI

(percentage)

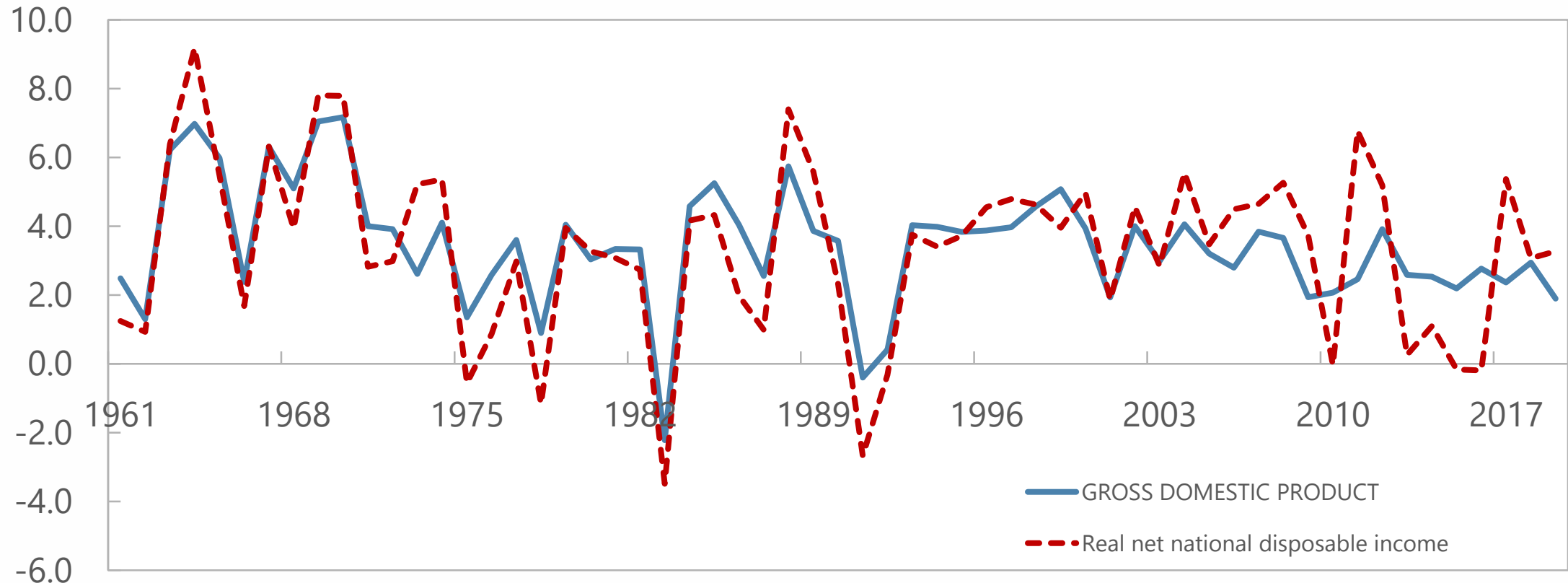


Source: OECD, data.oecd.org

Comparison of Australia's GDP and real net national disposable income (RNNDI)

Trend in GDP and RNNDI

(percentage change, financial year end June)



Source: Australia Bureau of Statistics - Table 1. Key National Account Aggregates (cat. no. 5204.0)



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(II) Develop granular or supplemental data



Satellite Accounts for GVCs Institutional Sector Accounts

- The extended institutional sector accounts introduce additional detail in regard to the types of institutional units and in regard to the financial assets and liabilities through distinguishing additional functional detail.

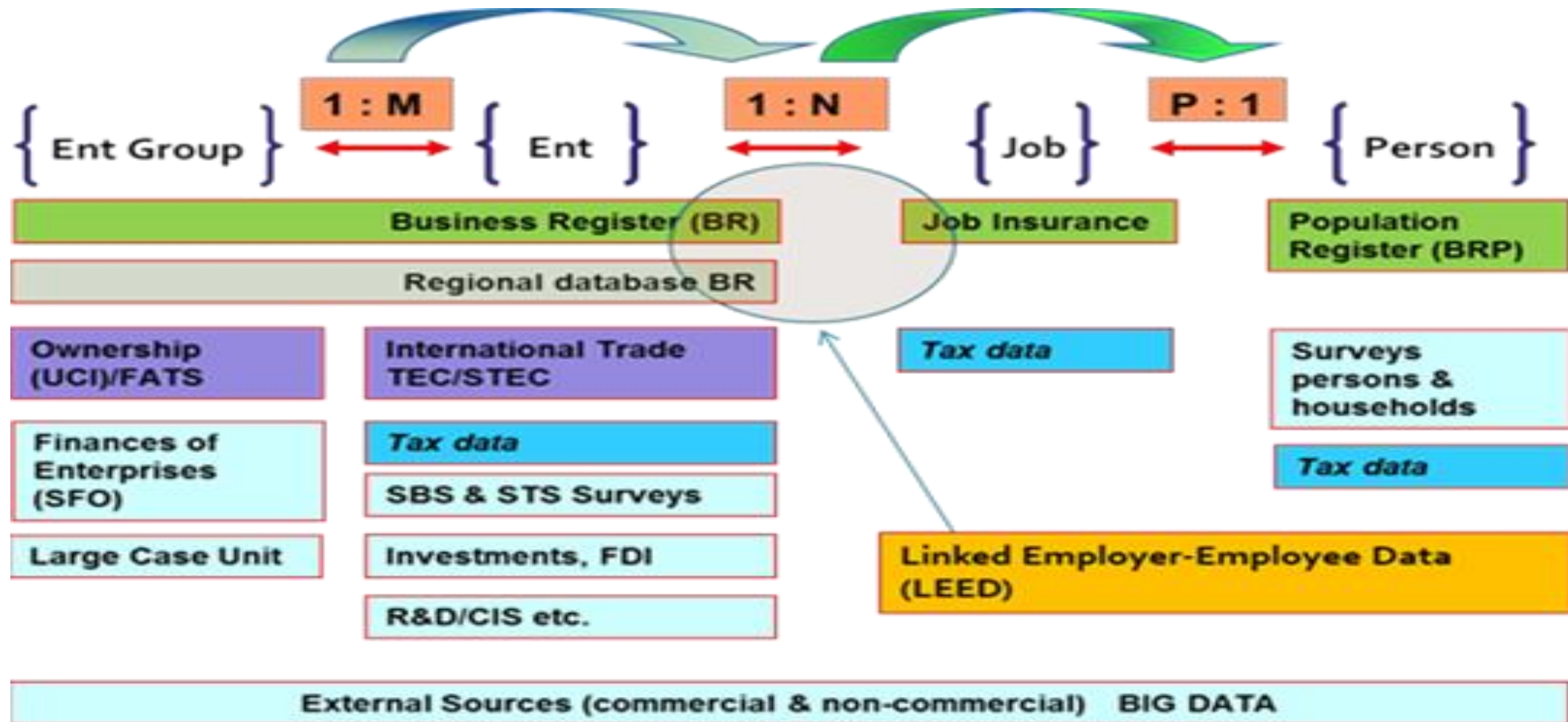
Value-Added to Income

| | Institutional Sector | | | | | | | Household Sector | | | | | | |
|-----------------------|----------------------|-------------------|--------------------|----------------------|---------------------|-----------------------|---------------------|------------------|-------------------|--------------------|----------------------|---------------------|-----------------------|---------------------|
| | Value Added | Net Factor Income | Net Primary Income | Net Secondary Income | Net Tertiary Income | Net Quaternary Income | Net Quintary Income | Value Added | Net Factor Income | Net Primary Income | Net Secondary Income | Net Tertiary Income | Net Quaternary Income | Net Quintary Income |
| Value Added | 100 | | | | | | | 100 | | | | | | |
| Net Factor Income | | 100 | | | | | | | 100 | | | | | |
| Net Primary Income | | | 100 | | | | | | | 100 | | | | |
| Net Secondary Income | | | | 100 | | | | | | | 100 | | | |
| Net Tertiary Income | | | | | 100 | | | | | | | 100 | | |
| Net Quaternary Income | | | | | | 100 | | | | | | | 100 | |
| Net Quintary Income | | | | | | | 100 | | | | | | | 100 |
| Value Added | 100 | | | | | | | 100 | | | | | | |
| Net Factor Income | | 100 | | | | | | | 100 | | | | | |
| Net Primary Income | | | 100 | | | | | | | 100 | | | | |
| Net Secondary Income | | | | 100 | | | | | | | 100 | | | |
| Net Tertiary Income | | | | | 100 | | | | | | | 100 | | |
| Net Quaternary Income | | | | | | 100 | | | | | | | 100 | |
| Net Quintary Income | | | | | | | 100 | | | | | | | 100 |
| Value Added | 100 | | | | | | | 100 | | | | | | |
| Net Factor Income | | 100 | | | | | | | 100 | | | | | |
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| Net Quaternary Income | | | | | | 100 | | | | | | | 100 | |
| Net Quintary Income | | | | | | | 100 | | | | | | | 100 |

Breakout by type of Control



General MDL Model used at Statistics Netherlands



Satellite Accounts for GVCs

Multi Country Global Framework



- From whom-to-whom tables for
 - FDI
 - Other Investments, Derivatives, Portfolio Investments and Official Reserves
 - Non-Financial Assets, Net Worth
- Multi country GVC SUTs

From Whom to Whom for FDI

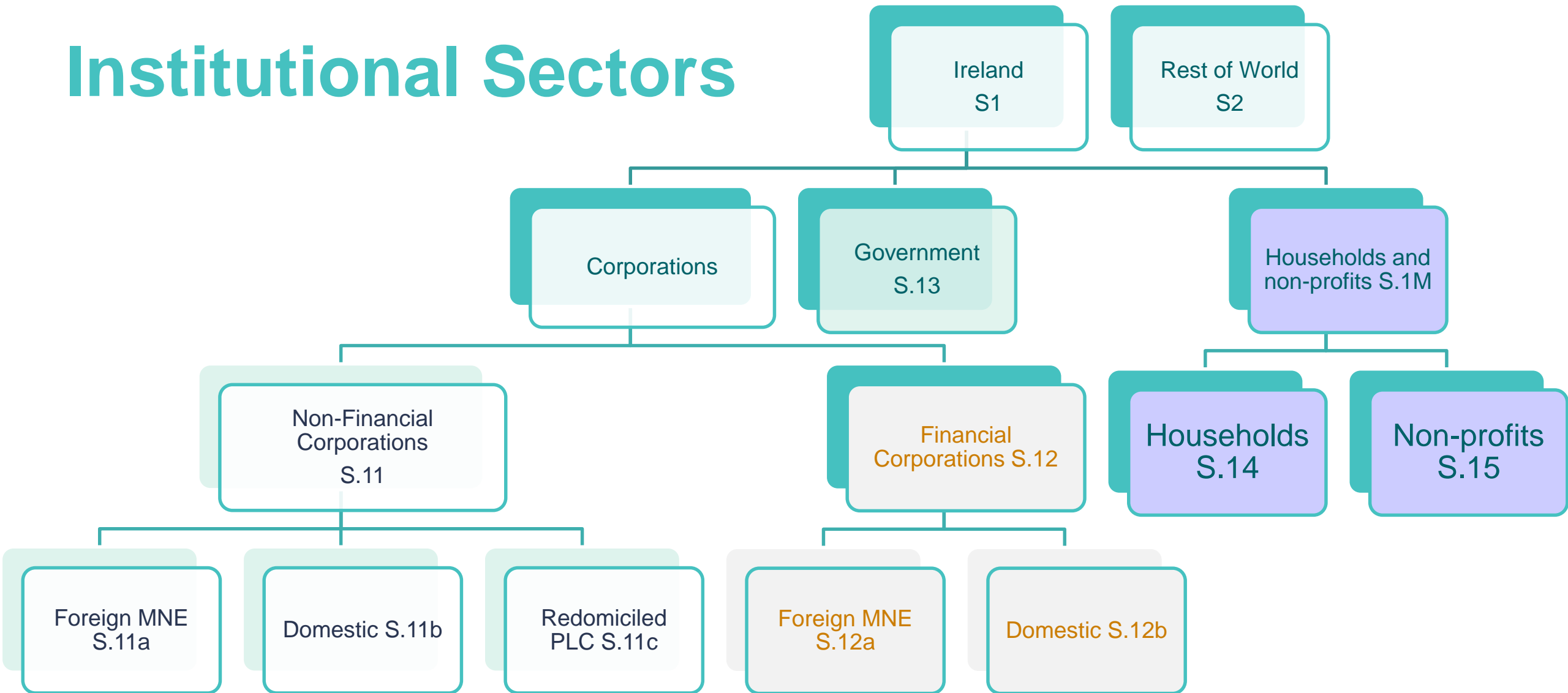
| | | | Liabilities | | | | | | | | | | | | Total Assets |
|-------------------|-----------|----------------|-------------|-------|-------|----|-----------|-------|-------|----|-----------|-------|-------|----|--------------|
| | | | Economy 1 | | | | Economy 2 | | | | Economy 3 | | | | |
| | | | S-FDI | S-ONF | S-OTH | NF | S-FDI | S-ONF | S-OTH | NF | S-FDI | S-ONF | S-OTH | NF | |
| Assets | Economy 1 | DI Enterprises | | | | | | | | | | | | | - |
| | | Other Corp | | | | | 80 | | | | | | | | 80 |
| | | Other Sectors | | | | | | | | | | | | | - |
| | | Net Worth | | | | | | | | | | | | | - |
| | Economy 2 | DI Enterprises | | | | | | | | | 40 | | | | 40 |
| | | Other Corp | | | | | | | | | | | | | - |
| | | Other Sectors | | | | | | | | | | | | | - |
| | | Net Worth | | | | | | | | | | | | | - |
| | Economy 3 | DI Enterprises | | | | | | | | | | | | | - |
| | | Other Corp | | | | | | | | | | | | | - |
| | | Other Sectors | | | | | | | | | | | | | - |
| | | Net Worth | | | | | | | | | | | | | - |
| Total Liabilities | | | - | - | - | - | 80 | - | - | - | 40 | - | - | - | |



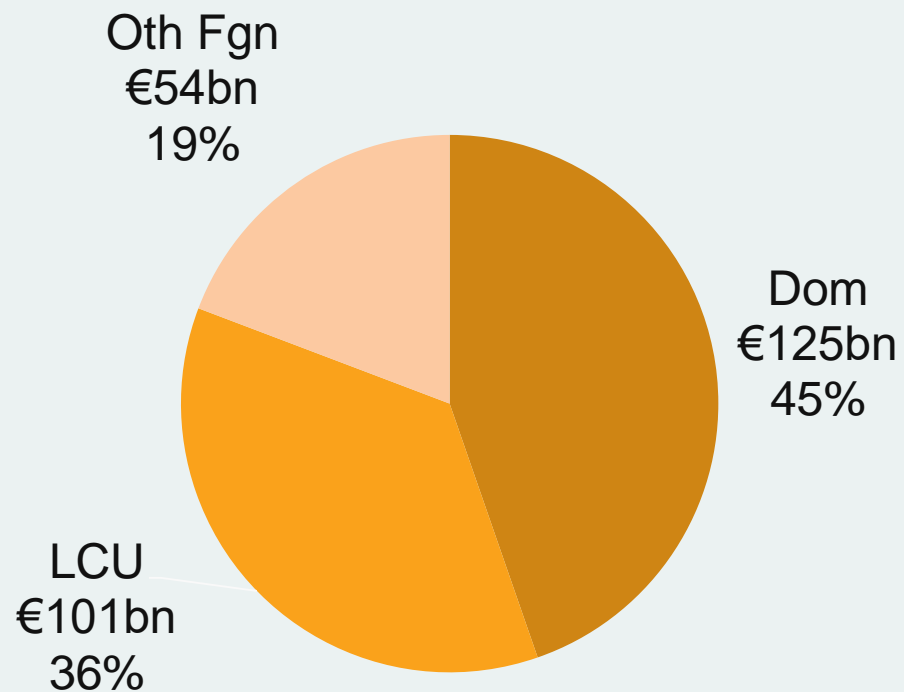
| Foreign-owned MNE | | | | | | Domestic-owned MNE | | | | | | Non-MNE | | | | | |
|-------------------|---------|---|--------------|---------|---|--------------------|---------|---|--------------|---------|---|----------|---------|---|--------------|---------|---|
| Exporter | | | Non-Exporter | | | Exporter | | | Non-Exporter | | | Exporter | | | Non-Exporter | | |
| Imp | Non-Imp | | Imp | Non-Imp | | Imp | Non-Imp | | Imp | Non-Imp | | Imp | Non-Imp | | Imp | Non-Imp | |
| S | M | L | S | M | L | S | M | L | S | M | L | S | M | L | S | M | L |

- Dimensions: Ownership, Export orientation, Import orientation, Firm size class
- OECD “possible” breakdown of columns and rows for each industry in extended supply use table (SUT)
- Experimental approach
 - Focus on MNE breakout
- Microdata linking
 - Expanded to export orientation and firm size class in current work
 - Will consider import orientation and other possible criteria in long-run research

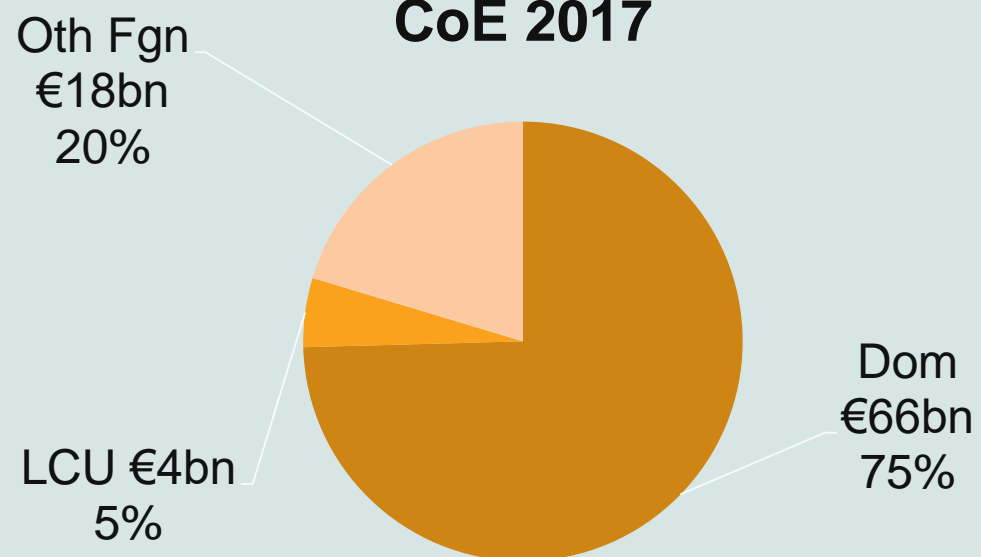
Institutional Sectors



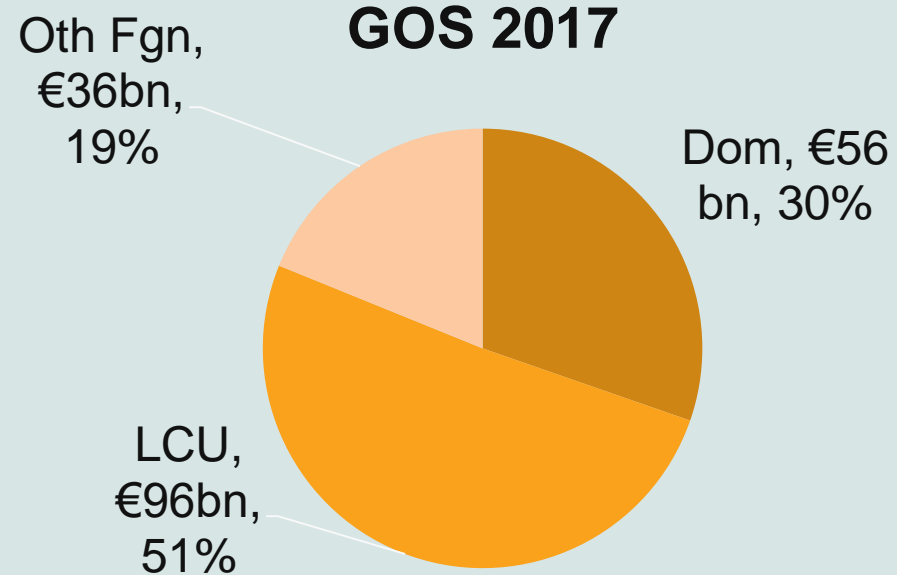
**GVA
2017
S.1**



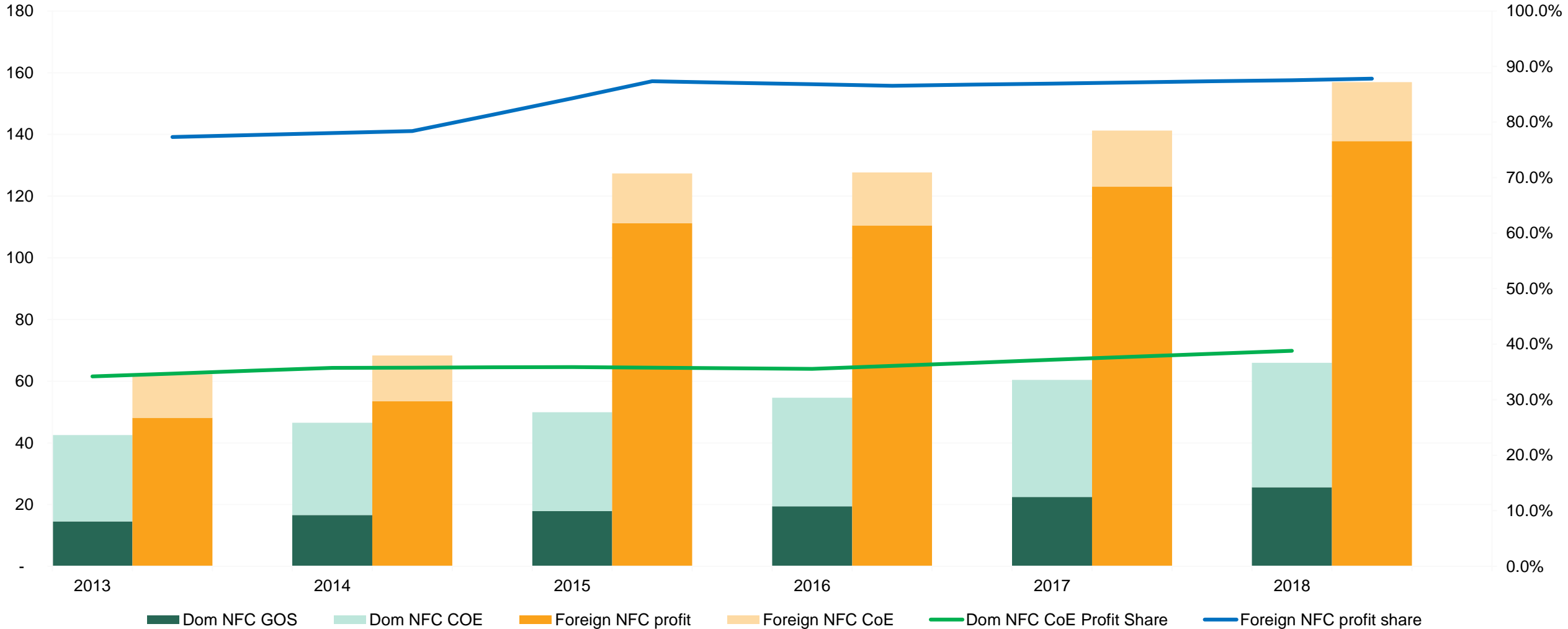
CoE 2017



GOS 2017



Profit, compensation of employees and profit share of Foreign NFCs and Domestic NFCs



Foreign-Dominated Sectors

- Reproduction of recorded media (18.2)
 - pharmaceutical (20-21)
 - Computer, electronic (26)
 - Electrical equipment (27)
 - Medical and dental instruments and supplies (32.5)
 - Software and communications (58-63)
- Current and constant price
- Annual and quarterly
- 1995Q1 - 2019Q3

Sector Accounts: GVA S.11a, S11c, S12a

- Parts of all NACE sectors
- Current price only
- Annual only
- 2013-2018



New Breakdown by NACE and sector

Select  Advanced selection  Information 

Select at least one item from each list. The tick button selects all, and the dash button deselects all. To select a row of lines, press the left mouse button and slide it over the lines you want. To select or deselect individual lines, use Ctrl-click. You can also type a letter to get to the next line starting with that letter.

Current Account (3)

☒ ☐

More options...

Compensation of employees (D.1)
Gross value added (B1g)
Gross operating surplus/Mixed income (B.2g/B.3g)

CoE/GOS/GVA

Institutional Sector (9)

☒ ☐

More options...

Domestic financial corporations (S.12b)
Domestic Non-Financial Corporations (S.11b)
Foreign-owned financial corporations (S.12a)

Institutional sector

NACE Rev 2 Economic Sector (20)

☒ ☐

More options...

Agriculture, forestry and fishing (A)
Mining and quarrying; manufacturing (B,C)
Electricity, gas, steam and air conditioning supply (D)

Economic activity sector

Year

☒ ☐

More options...

2018
2017
2016

Year

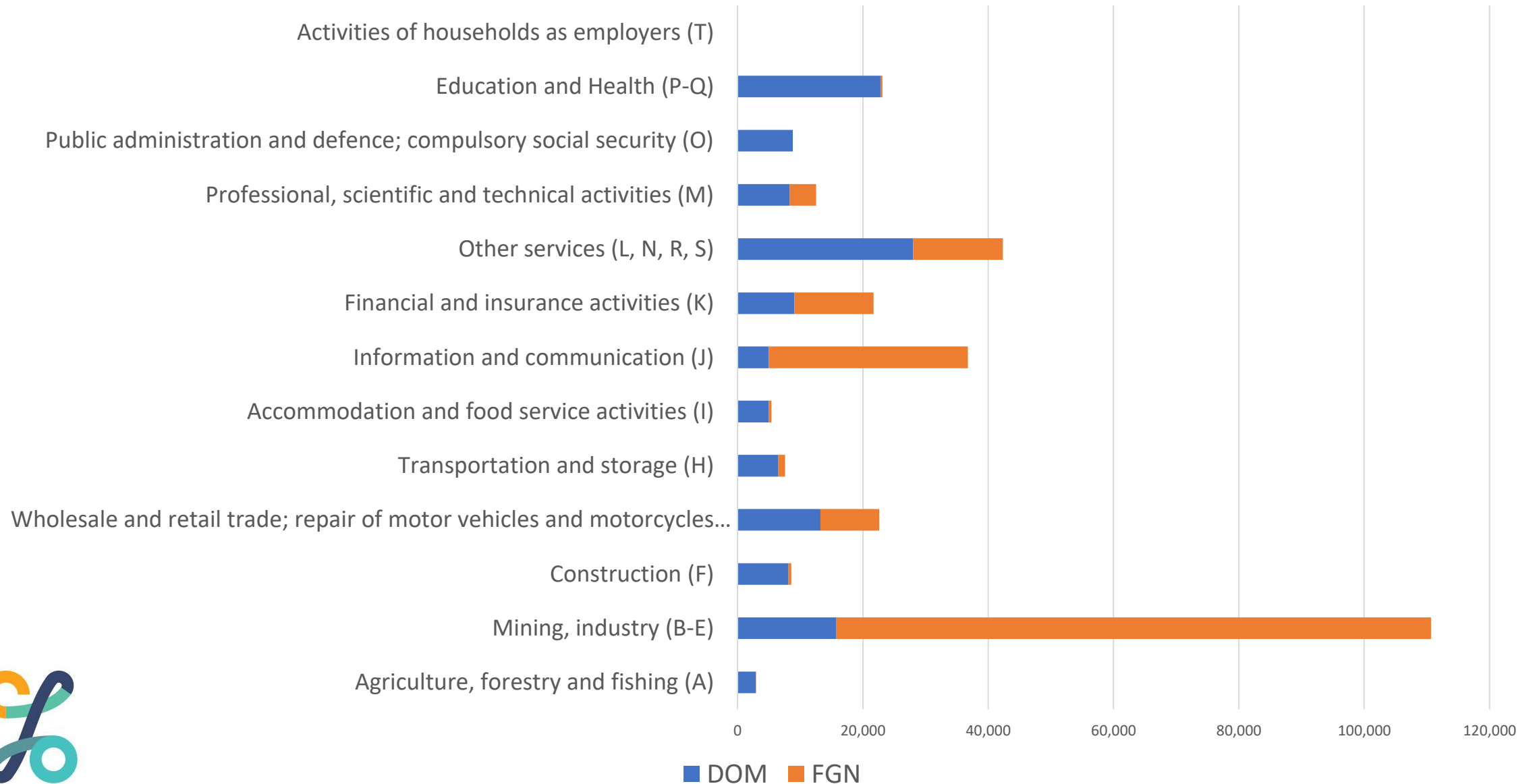
Number of selected data cells for the table: **1**
(select a maximum of 300000 data cells)



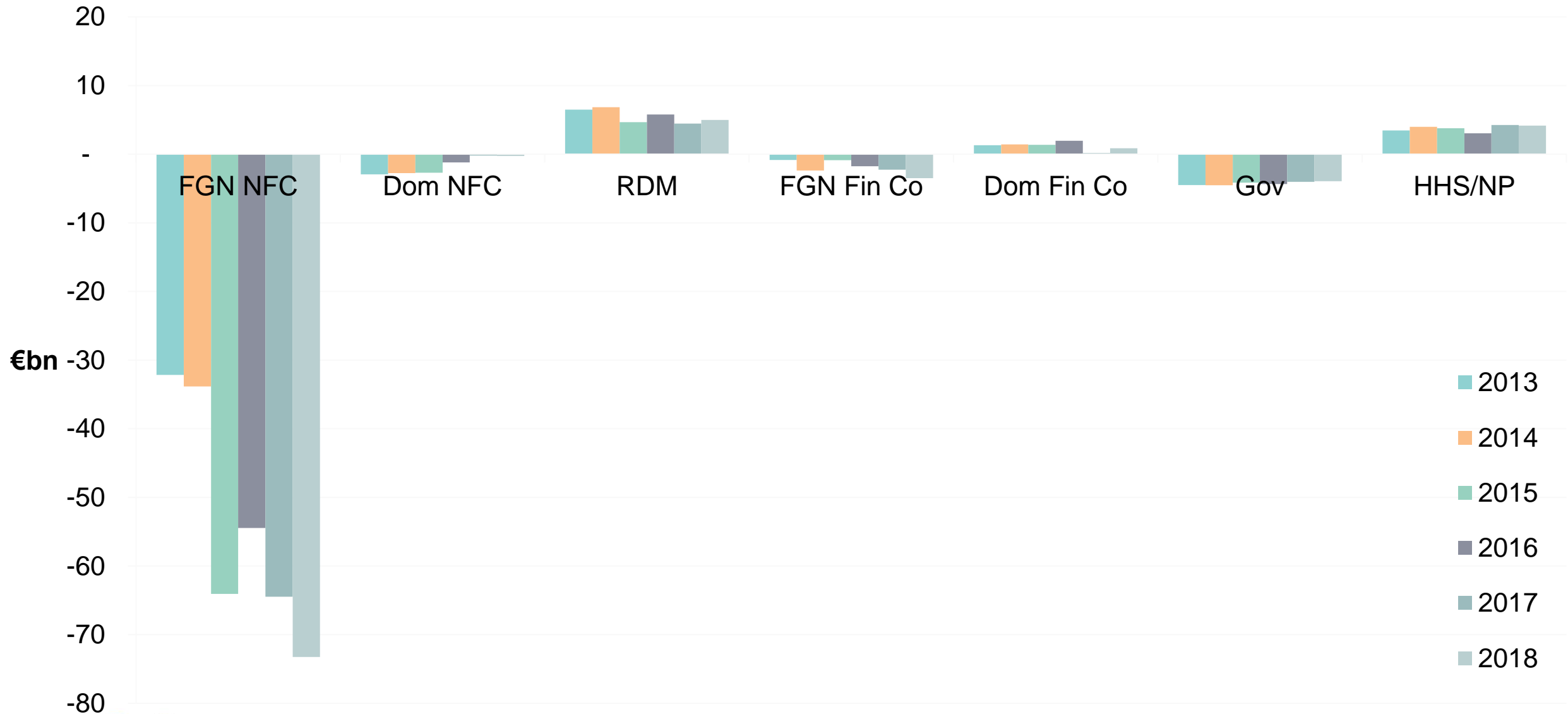
Statbank table ISA05

www.cso.ie

Ireland's Decomposition Gross Value Added



Net Investment income by sector





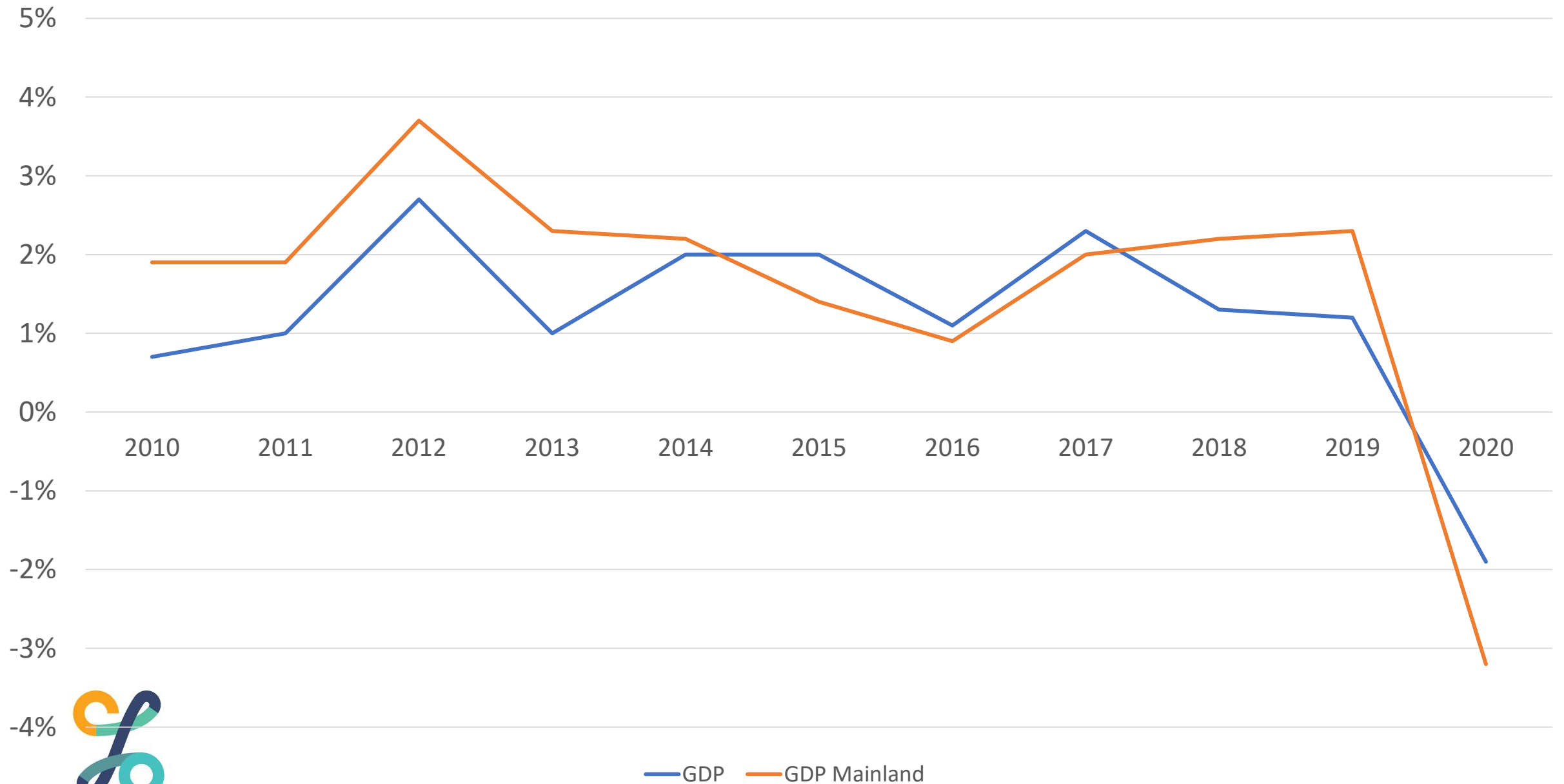
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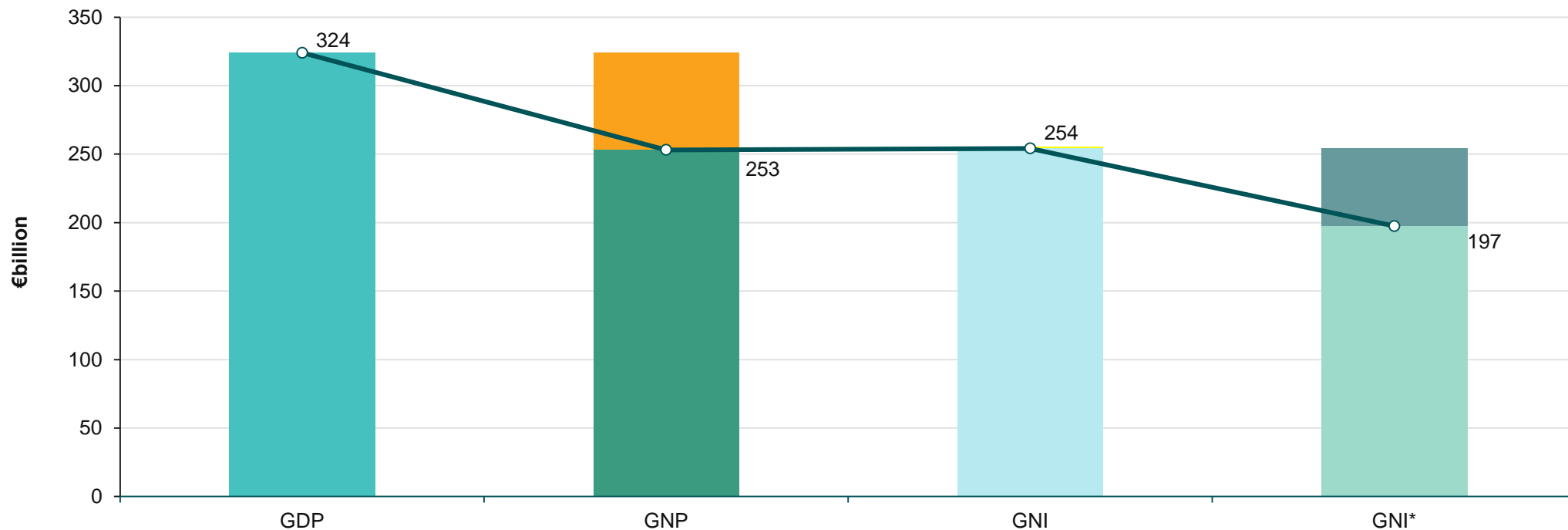
(III) Come up with
alternative
presentations or
extensions



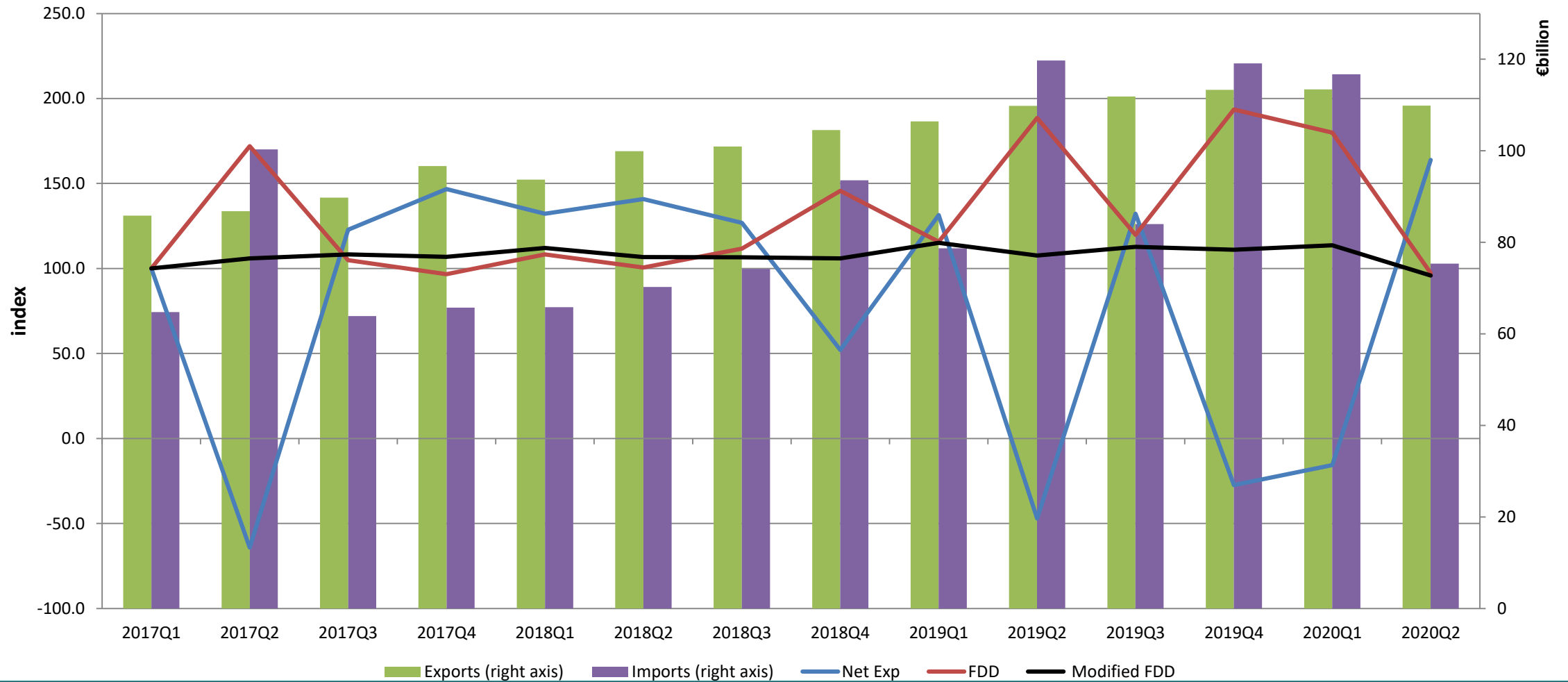
Norway: Trends in GDP Mainland v's GDP



Ireland :Modified GNI (GNI*) – 2018



Ireland : Trends in Net Exports, Total Domestic Demand and Modified Domestic Demand 2017 Q1 = 100





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(IV) Change standards



Introduce Nationality Concept – instead of Residency

- Economic owner is where MNE is Headquartered not where legal owner resides – IPP and other assets
- Departure from Business Accounting - key source for economic statistics
- Tax and Value Added No longer aligned
- Economic statistics no longer anchored to any other source - validation, LCUs, micro-macro etc.





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Conclusions and Feedback



Summary - What can be done?

- **Improved accounting**
 - **Better accounting for global value chains**
 - Balance of Payments Committee joint IMF-OECD Working Group on Balance of Payments Statistics on GVCs, UNECE Guide to Measuring Global Production, UN Handbook on Accounting for Global Value Chains, OECD-WTO Trade in Value Added etc.
 - **Improve international consistency of recording of MNE activities**
 - Data sharing agreements and global business registers (e.g. Eurogroups register).
 - **Improve consistency at the national level**
 - Establishing “large case” units to holistically review activities.
- **Provide more detailed or supplemental statistics**
 - Allowing the flexibility needed for countries of varying statistical capacity.
 - Separate identification and data collection on SPEs for external sector statistics to be launched by IMF in 2021.
- **Extensions to the core accounts based on different principles**
 - For instance, by providing a consolidated view on MNEs wherever this is feasible and material.
 - would avoid the risk of stretching too much the core accounting framework.

Multinational Enterprises: Summary

- **No change** to the core SNA and BPM frameworks

But... potential **Alternative Presentation – nationality v/s domestic residency in external sector statistics** (discussed as part BPM update by BOPCOM)

GZTT supports (1) emphasizing existing indicators and (2) more granular/supplemental data

- **SNA is NOT just GDP!** Leveraging all indicators within SNA, that are **less sensitive to the impacts of globalization** such as GNI, GNDI, NNI, NDI.
- **More granularity and supplements within the SNA framework**
 - Breakdown institutional sectors into domestic and foreign-controlled corporations subsectors- G20 DGI Recommendation 8
<https://www.imf.org/external/np/sta/templates/sectacct/>
 - Additional breakdown of gross-value added and extended supply and use tables

Questions?

Do members agree that more focused communication efforts will be needed to emphasize the use of superior existing indicators?

Do members agree with the proposal to define MNEs by emphasizing the control aspect shown in the FDIR as in BPM6 and BD4?

Please rank (1-3) which additional breakouts should be given the highest priority:

- a. Institutional sector accounts (following the breakdown into foreign-controlled and domestically controlled corporations as designed in recommendation 8 of G20 DGI 2): _____
- b. Gross value added by industry broken down into foreign-controlled and domestically controlled units: _____
- c. Extended supply and use tables: _____





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