



# information notice

## National Accounts and Balance of Payments FAQ 9 March 2017

### 1. What do the latest headline economic results tell us about the Irish economy?

The headline economic indicators for 2016 show:

- GDP increasing by 5.2% in 2016 compared with 2015
- GNP increasing by 9.0% in 2016

The following CSO indicators provide insight into the domestic economy in 2016:

- Personal consumption of goods and services, a measure of domestic economic activity, grew by 3.0% in the year
- Employment grew by 3.3% on an annual basis
- Unemployment decreased by 21.4% during 2016
- Retail sales increased by 4.3% in value terms in 2016
- New private cars licensed for the first time in 2016 increased by 17.2%

### 2. Was there any significant globalisation activity during 2016?

We have seen a continuation of the trend in recent years of relocation of intellectual property products into Ireland in 2016.

Capital formation increased strongly by 45.5% during 2016, driven by imports of intellectual property products. The impact of these additions to Ireland's capital stock is offset in the results by the corresponding imports of these products, with imports showing growth of 10.3% in 2016 in the national accounts results. The overall impact on GDP of these intellectual property products imported in 2016 is neutral.

Users will notice the significant spikes in imports of goods and services and in gross domestic fixed capital formation in the national accounts statistics and the impact on the BOP current account balance.

### 3. What CSO indicators are currently available to provide insight on activity in the domestic economy?

The CSO currently produces a wide range of economic, business and social indicators that focus on domestic activity including such key indicators as personal consumption, retail sales, employment and vehicle registrations. Summary information for the latest quarterly results for these indicators for Q4 2016:

	<b>2016</b>	<b>Y-on-Y change</b>
Total Personal Consumption Expenditure (Constant Prices, SA)	€94,474m	+3.0%
Retail Sales Index, Value, 2010=100	114.5	+4.3%
Numbers in Employment, 000 (SA) at end 2016	2,048.1	+ 3.3%
New Private Cars Licensed for the First Time	141,931	+17.2%

Details of these and other useful indicators of domestic activity in the Irish economy are available at <http://www.cso.ie/indicators/Maintable.aspx>

**4. Are there indicators that measure whole-of-economy activity in the national accounts framework, apart from GDP and GNP?**

Gross Domestic Product (GDP) and Gross National Product (GNP) measure Irish economic activity including depreciation, i.e. before any deduction for depreciation. Similar to GDP and GNP, Net Domestic Product (NDP) and Net National Product (NNP) are whole-of-economy measures, but they measure economic activity after taking account of depreciation, and so provide estimates of activity in the Irish economy with many of the recent effects of globalisation in the results removed. In particular, NNP measures economic activity with the effects of depreciation and the net effect of profits of multi-national entities removed and is a useful indicator of underlying economic activity in Ireland. The following table outlines the effect of the large depreciation charge in the revised 2015 results:

Year	GDP	of which Depreciation	Net Factor Flows	GNP	NNP
<b>2014</b>	193,160	30,891	-29,715	163,445	132,554
<b>2015</b>	255,815	61,558	-53,173	202,642	141,084
<b>Difference</b>	62,655	30,667	-23,458	39,197	8,530
<b>Change</b>	32.4%			24.0%	6.4%

The CSO currently publishes annual results for NNP in the National Income and Expenditure release and are developing additional analysis of annual NNP and are also developing initial estimates of quarterly NNP.

**5. What was the main impact on GDP of moving to the ESA 2010 standards?**

The impact of ESA 2010 implementation on Ireland's GDP level is almost fully accounted for by the treatment of research and development (R&D) expenditure. Under ESA 2010, expenditure on R&D, including expenditure of intellectual property products, is recognised as capital investment and is added to the capital stock of Ireland. When the ESA 2010 standards were implemented in 2014, the effect of the changed treatment of R&D expenditure on the results was to increase GDP by approximately 4% in each of the years 2010 to 2013, while other ESA 2010 changes added less than 1% to GDP in those years.

**6. What is the impact when intellectual property products relocate to Ireland?**

In recent years, there has been a pattern of intellectual property products relocating to Ireland, either through purchases of intellectual property by Irish entities or through the relocation into Ireland of entire balance sheets containing intellectual property products. In both cases, the overall impact of these relocations on GDP is neutral.

In the case of a purchase, the intellectual property product is added to Ireland's capital stock, offsetting the import of the product recorded as part of imports of goods and services in the national accounts statistics. Where the relocation of an entire balance sheet occurs, the assets are added to Ireland's capital stock as part of other (i.e. non-transaction) changes in the stock, again with no impact on GDP.

The revisions to the national accounts and balance of payments statistics published in July 2016 were driven largely by increases in contract manufacturing activity attributable to Ireland due to the relocation of entities with significant contract manufacturing activity and with balance sheets dominated by intellectual property products.

**7. What is contract manufacturing?**

Contract manufacturing occurs when a company in Ireland engages a company abroad to manufacture products on its behalf (and vice versa). The products can be new products or products formerly produced by the Irish company. The inputs used in the production process remain in the ownership of the Irish company. The foreign contract manufacturer supplies a manufacturing service to the Irish company and never takes ownership of the product.

Once the production cycle is completed, it is then sold to a customer abroad and a change of economic ownership takes place between Ireland and the country of the buyer. At this stage, the export of this good is recorded in the Irish national accounts and balance of payments statistics. The value added that is attributed to Ireland from this production and ultimate sale of a product is the sale price of the good produced less the following costs associated with production:

- Import of manufacturing services
- Supply of material inputs used in production
- Import of royalties for use of the patents
- Imports of other services including transport

Activities related to globalisation such as contract manufacturing are carried out by all types of firms and happen in both directions – Irish-owned firms are involved in contract manufacturing and Irish firms are also providers of contract manufacturing services to foreign customers.

#### **8. What data sources are used by the CSO to compile national accounts and balance of payments statistics?**

The national accounts and balance of payments statistics for Ireland are based on data provided by companies to the CSO. The CSO's Large Cases Unit (LCU) engages directly with the largest direct investment companies to collect statistical data across all of the activities of these companies. Data from CSO's balance of payments surveys of the non-financial and financial sectors and data from CSO's short-term and structural business statistics surveys are also key components of national accounts and balance of payments statistics.

Additionally, the LCU has access to other data sources, including Trade in Goods and Corporation Tax data. The broad range of information available to the LCU ensures consistent recording of activity across CSO outputs and the LCU engagement with the largest multi-national companies ensures that the complex structures of multi-nationals are correctly reflected in the statistics.

#### **9. What's the basis for compiling national accounts and balance of payments statistics for Ireland?**

The national accounts and balance of payment statistics for Ireland are compiled in accordance with the international standards for these statistics. Standards for national accounts statistics for EU Member States are set out in the 2010 edition of the European System of Accounts (ESA 2010) and these standards are incorporated in the EU legislation governing the production of the statistics. The ESA 2010 standards are themselves based on the UN SNA 2008 global standards for national accounts statistics.

The CSO publish balance of payments statistics in compliance with version 6 of the IMF Balance of Payments standards (BPM6) and as for national accounts statistics, compilation of balance of payments statistics to meet BPM6 standards is required under EU legislation.

Compiling national accounts and balance of payments statistics in accordance with the international standards ensures comparability of the statistics over time and across countries. As required under EU legislation, the CSO will continue to produce national accounts and balance of payments statistics in compliance with the international standards. The sources and methods for national accounts and balance of payments statistics compiled by the CSO are verified by Eurostat under the GNI Regulation that covers EU Member States own-resource contribution to the EU budget.

The national accounts and balance of payments statistics published by the CSO in accordance with the international standards provide a valuable reflection of the complexity of the highly globalised Irish economy relative to other economies and the results highlight the level of concentration of multi-national activity in Ireland.

#### **10. What are the CSO doing to meet user needs for improved measurements of domestic economic activity?**

The small, open and highly globalised nature of the Irish economy makes it increasingly difficult to represent the complexities of economic activity in Ireland in single headline indicators such as GDP or GNP. Along with

the Quarterly National Accounts and Balance and Payments releases and the annual National Income and Expenditure release, the CSO continues to develop additional outputs on globalisation activities such as the information published on [activities of foreign-owned multinational enterprises and other sectors](#).

As part of its commitment to meeting user needs, the CSO has also convened an expert group to develop recommendations on how best to meet the statistical needs of national users and provide guidance on the development of indicators and analyses that better provide insight to Irish domestic economy activity.

The members of the group are:

- Philip Lane (Chair) - Central Bank of Ireland
- Alan Barrett - Economic and Social Research Institute
- Seamus Coffey - University College Cork
- Thomas Conefrey - Irish Fiscal Advisory Committee
- John Fitzgerald - Trinity College Dublin, Irish Times
- John McCarthy - Department of Finance
- Dan O'Brien - Institute of International and European Affairs in Dublin, Irish Independent
- Fergal O'Brien – IBEC
- Frances Ruane – Trinity College Dublin, European Statistical Advisory Committee
- Marie Sherlock - SIPTU
- Rossa White – National Treasury Management Agency
- Jennifer Banim and Michael Connolly – Central Statistics Office
- Eurostat and IMF - International observers

The Group met between September and November 2016 and reported to the Director General of the CSO on 23 December 2016. The report of the group has been published and is available on [www.cso.ie](http://www.cso.ie) along with the CSO's response to the report. The CSO will be working to deliver initial estimates of some of the key indicators and analyses recommended during 2017 with review by the group of the initial deliverables as they become available.

#### **11. Confidentiality - why is some of the detail not available in the results?**

One of the core principles for a national statistical institute is protection of the confidentiality of all information supplied by data providers. The CSO's ability to compile Official Statistics is based on the extent to which individuals and companies trust the CSO with sensitive information and the CSO's guarantee of confidentiality for all data providers is built on the fundamental requirement for non-disclosure of confidential data set out in national and EU statistical legislation.

To comply with the requirement for confidentiality, the CSO cannot divulge any information that would lead to the disclosure of information on an individual or company when publishing aggregates and may have to suppress certain detail in the results to comply with this requirement.

The scale of the revisions to the national accounts and balance of payments statistics published on July 12th 2016 led to the suppression of some detail in the results to prevent disclosure of confidential data. The suppression of detail in subsequent national accounts, balance of payments and CSO business statistics releases affected by the recent revisions will be managed to best balance the requirement for confidentiality against the need to provide detail for users of the statistics while complying with the legal requirements on confidentiality.

## 12. Who has access to the information before it's published?

The CSO is committed to the [European Statistics Code of Practice](#). Principle 6 of the Code refers to Objectivity and Impartiality and includes the following indicator:

*6.7 All users have equal access to statistical releases at the same time. Any privileged pre-release access to any outside user is limited, controlled and publicised. In the event that leaks occur, pre-release arrangements are revised so as to ensure impartiality.*

The CSO policy on Pre-Release Access gives effect to the principle of Objectivity and Impartiality as set out in the European Statistics Code of Practice. The policy specifies the CSO's standard practice that statistics are released to all users at the same time. However the CSO recognises that in very limited circumstances a business need for pre-release access may be substantiated. Any form of pre-release access is a privilege.

Three forms of limited pre-release access are permitted on the day of a release under the CSO policy:

1. Advance Notification of Results to Named Officials (at 10:00 am)
2. Official or Ministerial Briefings (which can take place at 08:30 am)
3. Press Briefings (at 10:30 am)

Full details of the policy are available at

<http://www.cso.ie/en/aboutus/dissemination/csopolicyonpre-releaseaccess/>

Pre-release access for national accounts and balance of payments statistics is permitted as part of the press briefing on the day of these releases and in the case of national accounts statistics, briefing of officials from the Department of Finance and the Central Bank of Ireland takes place at approximately 8:30 am on the day of the release.

## 13. GDP under ESA 95 and ESA 2010 standards - does contract manufacturing cause a difference?

In short, no.

Adjustments are made to the primary trade data (sourced from the International Trade monthly series of imports and exports of goods) to move from a "crossing the national border concept" in the international trade statistics to a "change of economic ownership concept" as required for national accounts statistics. Adjustments for contract manufacturing are the most significant of the adjustments needed to move to the change of economic ownership basis, with the value added of production carried out abroad attributed to Ireland in the national accounts statistics.

The adjustments for contract manufacturing and for other economic changes of ownership precede the adoption of the ESA 2010 standards for national accounts statistics. As in the ESA 2010 standards, the ESA 95 standards specified a change of economic ownership approach and the impact of contract manufacturing was included in national accounts results compiled under the ESA 95 standards before the move to the ESA 2010 standards in 2014.

The value added from contract manufacturing incorporated into the GDP results published on July 12th was driven by new information from data respondents and would be included in Ireland's national accounts statistics under either ESA 2010 or ESA 95 standards.

**ENDS**