



Improving user understanding of key aggregates: the current account.

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**A TRADITION OF
INDEPENDENT
THINKING**



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Introduction

Let's start at the very end.

The bottom line of the non-financial sector accounts is:

- Net lending/(borrowing)

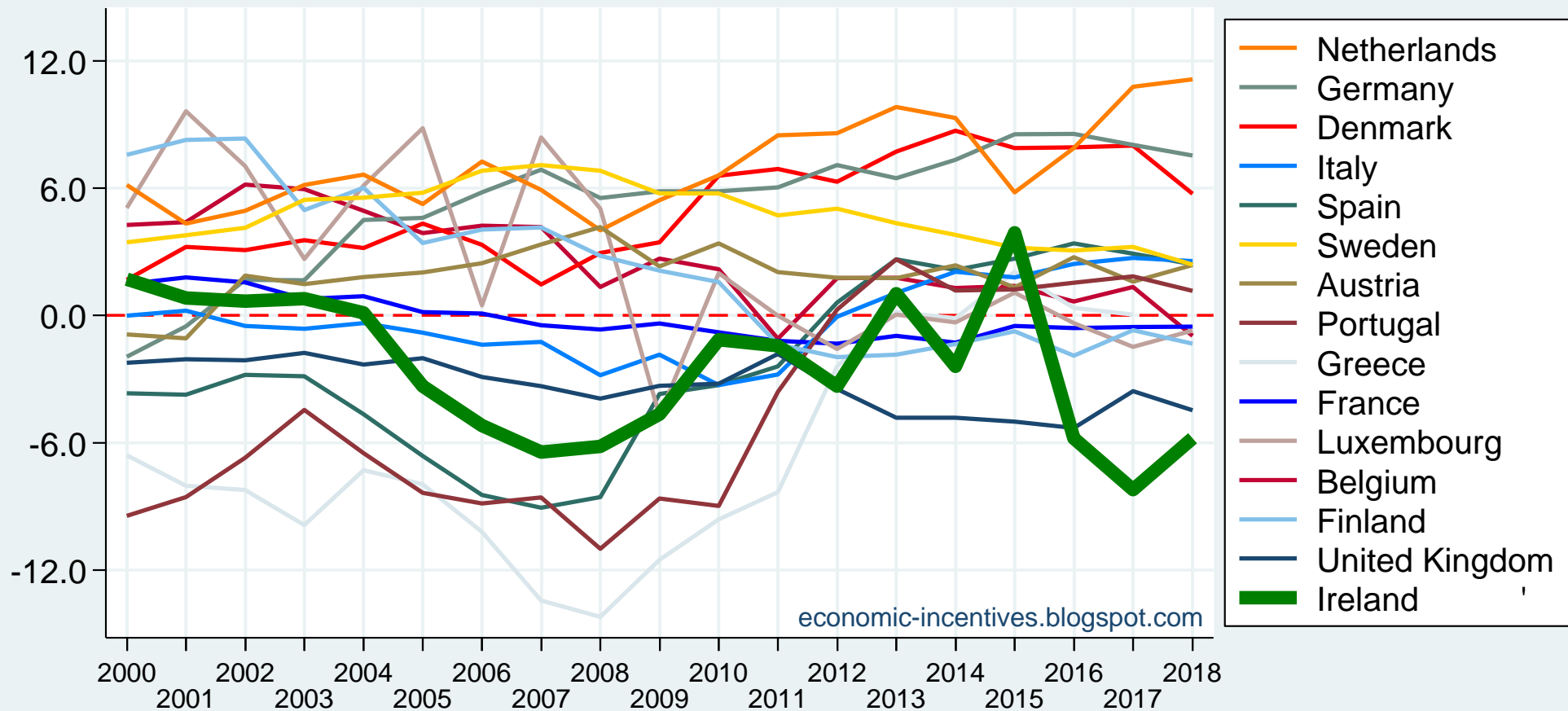
In the Balance of Payments this is equivalent to:

- Current Account (CA) + Capital Account (KA)

Ireland's tells a coherent story up to 2010; since then...

Net Lending/(Borrowing)

Total economy net lending/(borrowing) in the EU15, % GDP



Source: Eurostat, Sector Accounts [nasa_10_nf_tr];

The Capital Account

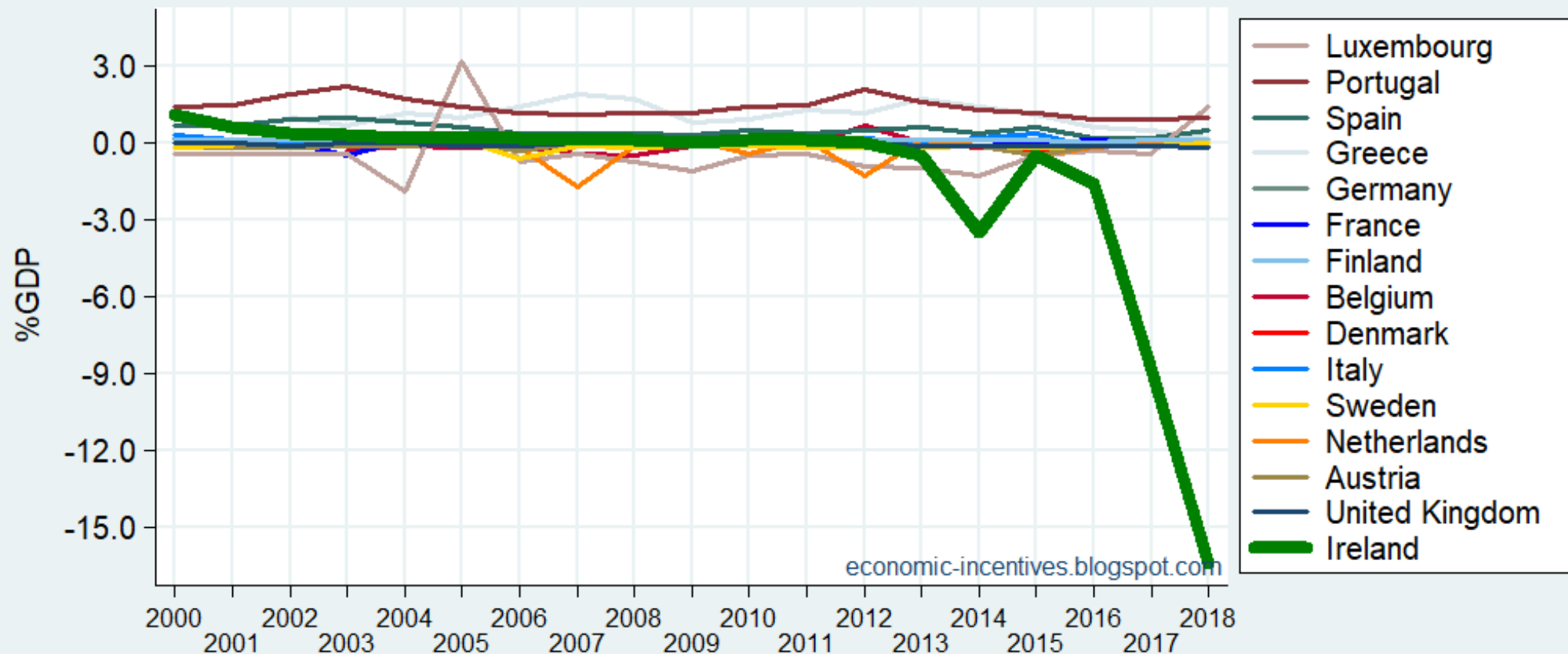
The capital account of the balance of payments is typically close to net zero (so tends to get little attention)

- capital transfers
- trade in non-produced, non-financial assets

But Ireland...

Balance of Payments: Capital Account

Net Inflows and Outflows in the Capital Accounts of the EU15, %GDP



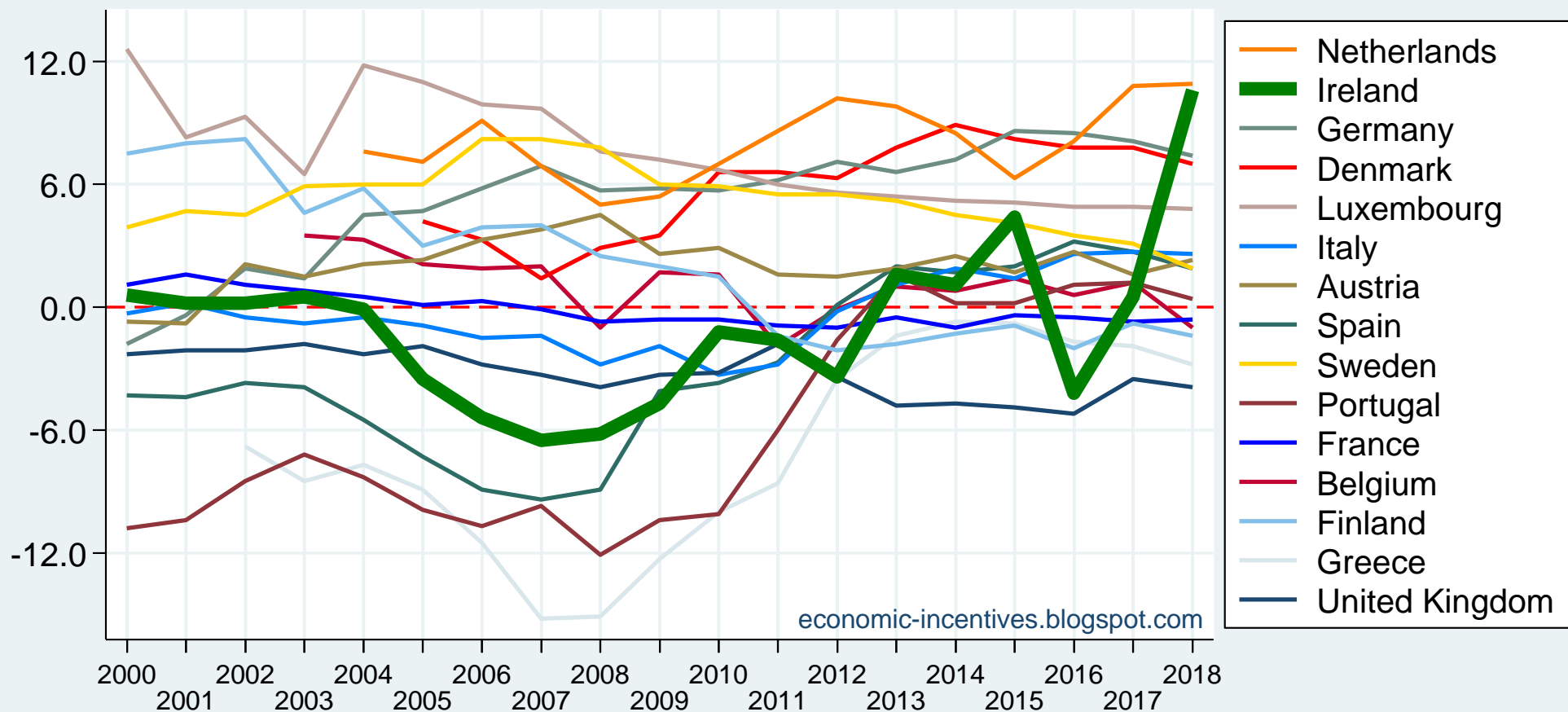
Source: Eurostat, Balance of payments by country - annual data (BPM6)

The Current Account

And in recent years, the behaviour of the headline balance in the current account is even worse...

Balance of Payments: Current Account

Net Inflows and Outflows in the Current Accounts of the EU15, % GDP



Source: Eurostat, Balance of Payments [bop_gdp6_q]

Modified Current Account

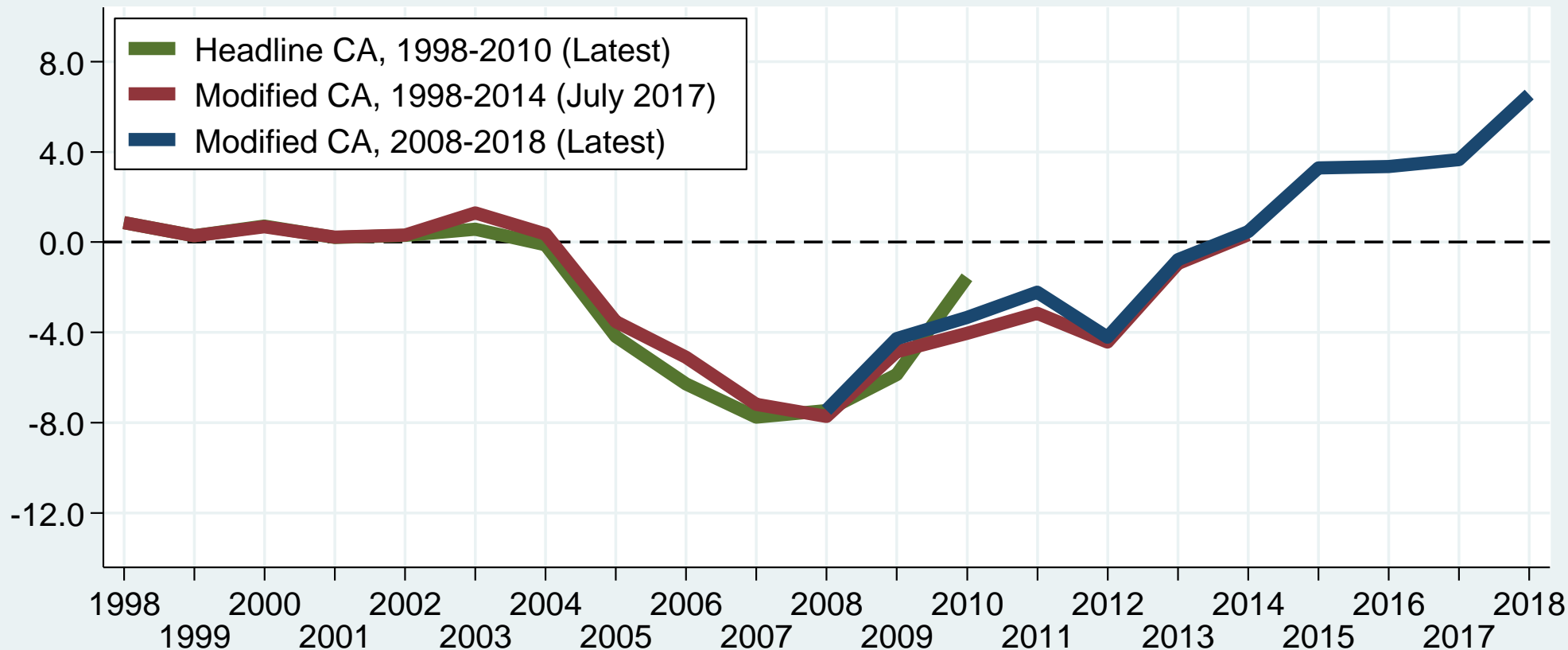
Following the ESRG we have CA* (version 3.0)

Allows the story to continue beyond 2010...

(though some splicing is needed to get a full series – the impact of the adjustments and methodological changes tends to be relative smaller in early years of the series)

Balance of Payments: Current Account

Headline and Modified Current Account Balance, 1998-2018, %GNI*



Source: CSO - Balance of Payments, National Accounts

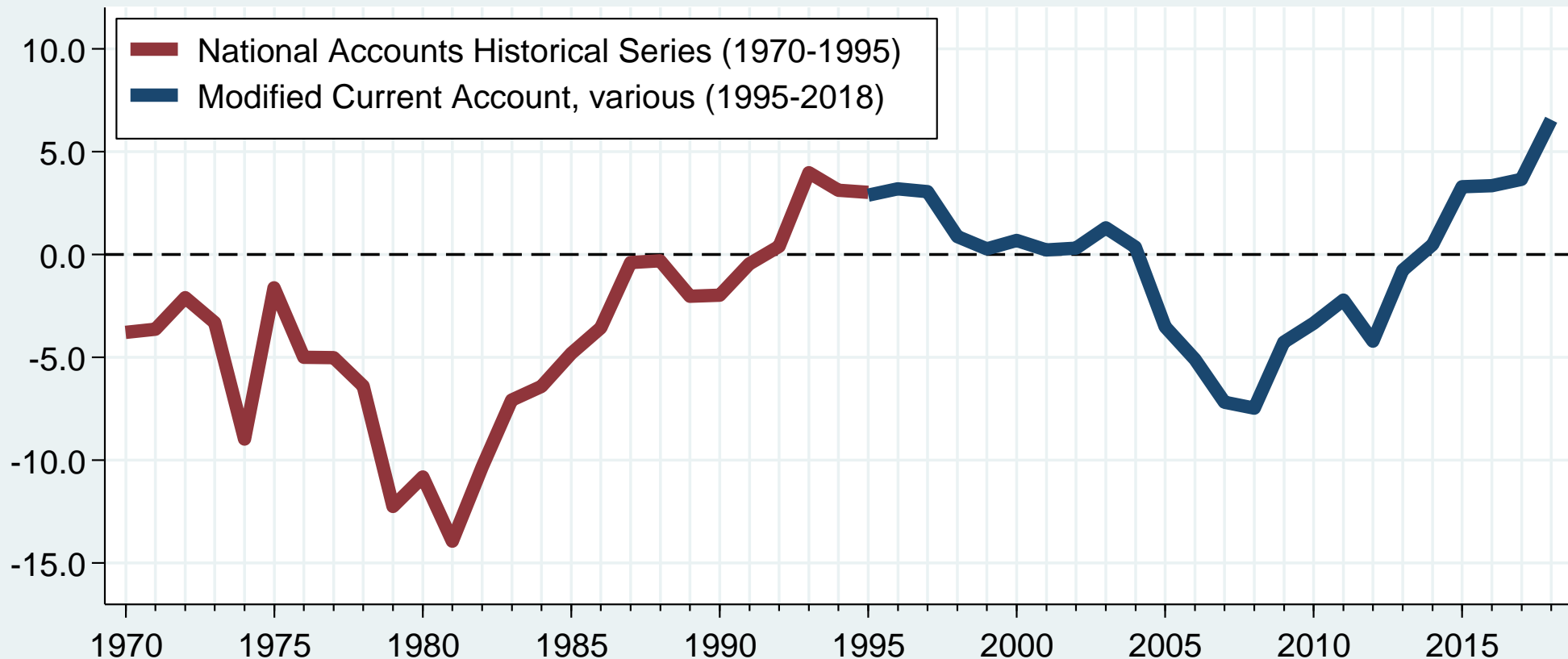
Canary in the Coalmine

The current account is an important indicator.

Historical data show significant deterioration in the current account balance prior to crises of 1980/81 and 2008/09.

Balance of Payments: Current Account

Headline and Modified Current Account Balance, 1970-1995 (%GNI), 1995-2018 (%GNI*)



Source: CSO - Balance of Payments, (Historic) National Accounts

The story in 2018

But how plausible is a figure showing a CA* surplus of €13 billion (6.5% of GNI*) for 2018?

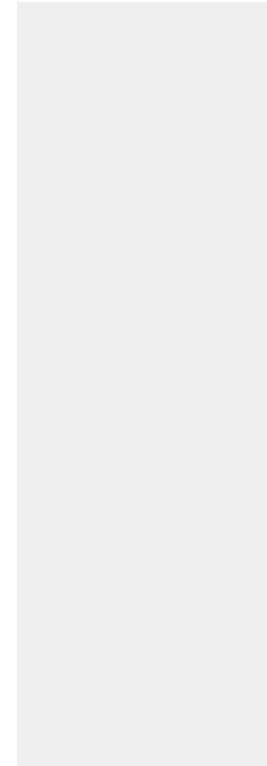
The new sector accounts give some insight into this.

Note that $CA = S - I$

Concern would be that (after the * adjustments) the NFC contribution to CA* in last few years goes:

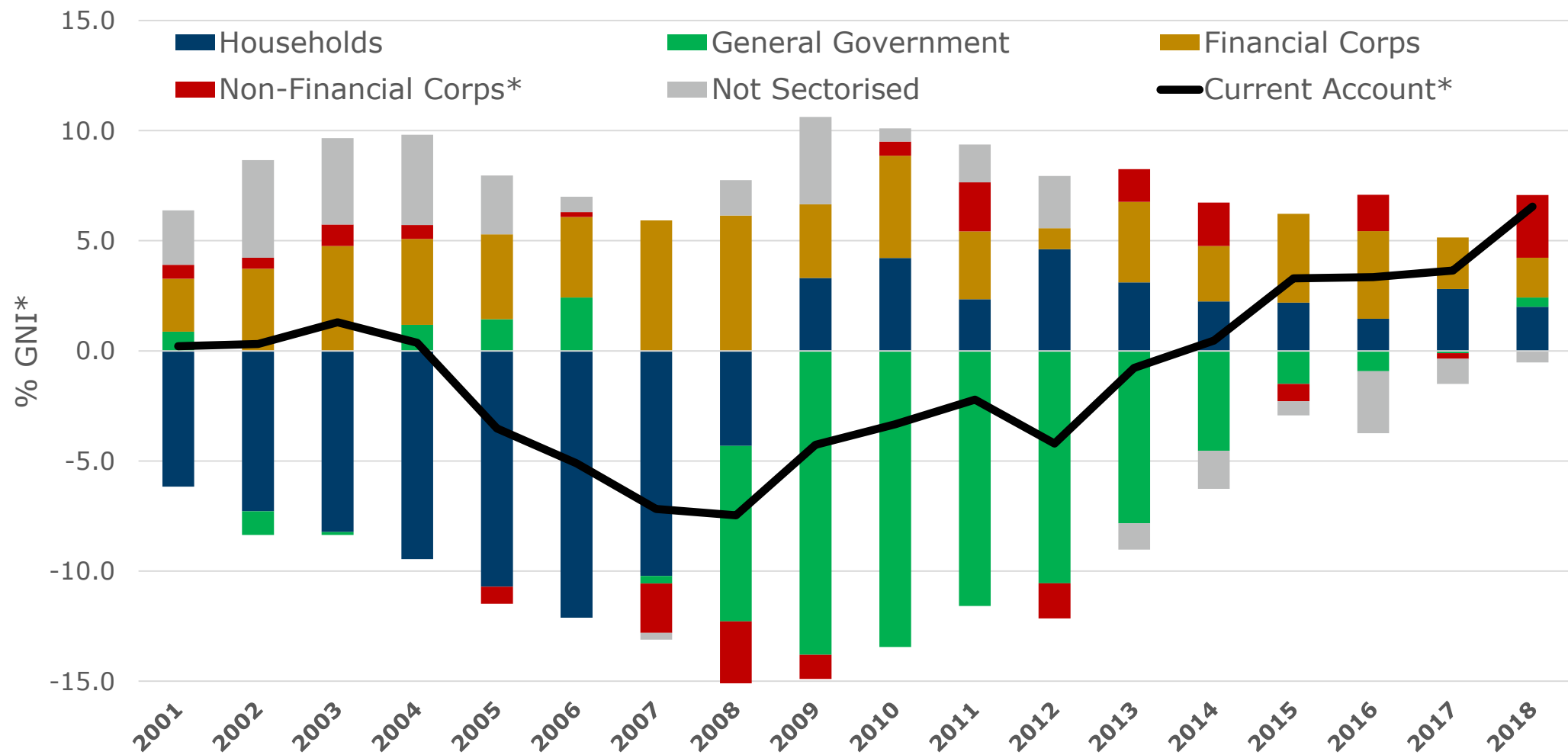
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Is this just noise?



Savings minus Investment

Gross Savings minus Gross Fixed Capital Formation by Sector, %GNI*



The new sector accounts give even more detail (beginning in 2013).

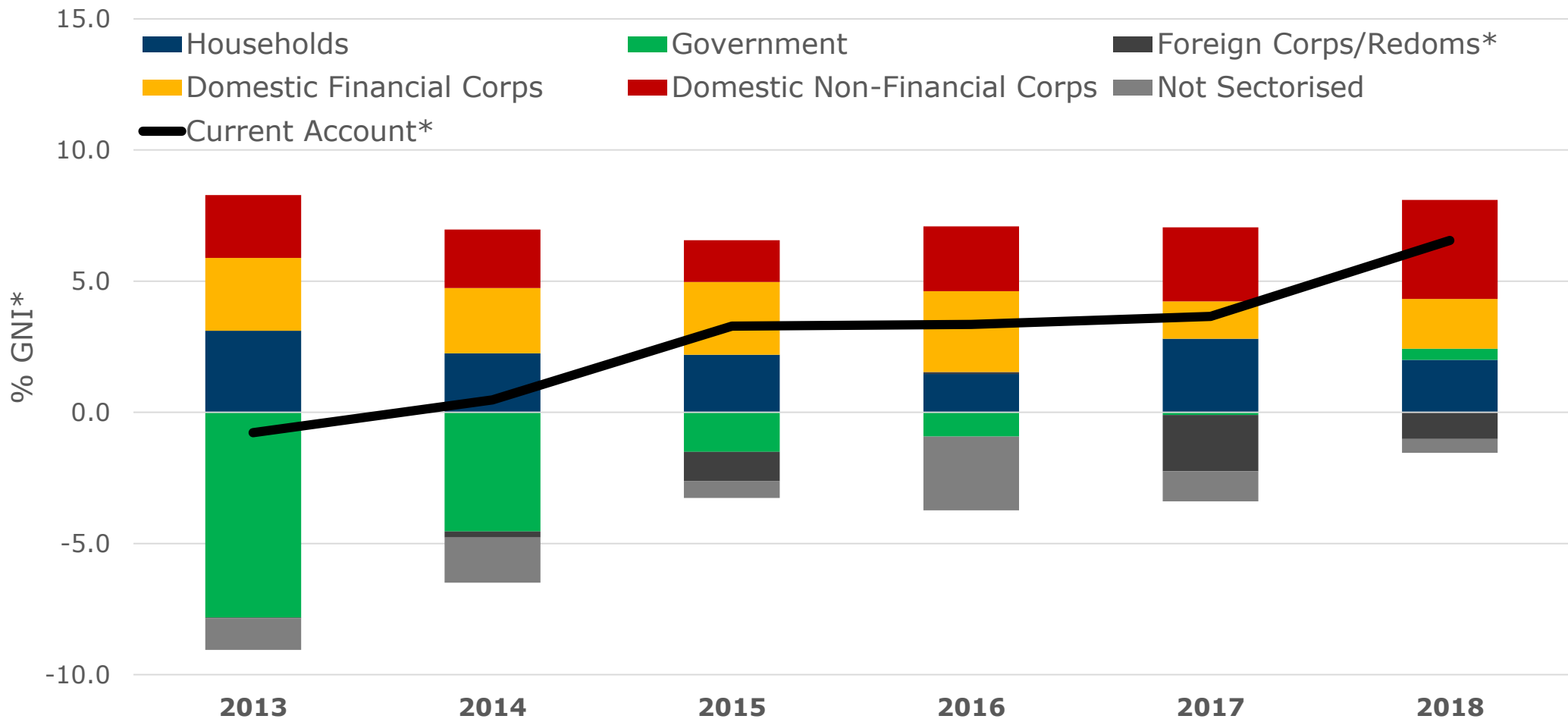
Foreign/Domestic Split for FCs and NFCs (as well as redomiciled PLCs).

We can now isolate the contribution of domestic NFCs to CA*.

Provides a much more consistent (and plausible) picture.

Savings minus Investment

Gross Savings less Gross Fixed Capital Formation, Domestic Sectors, % GNI*



What do we see?

Households, domestic FCs and domestic NFCs all have relatively stable (S – I) for past five years.

Residual/Not sectorised negative in most years.

- Households continue to deleverage (though over time may shift to assets rather than liabilities).
- For FCs, net value added plus net entrepreneurial income (interest margin after FISIM) minus compensation of employees is positive.
- Government has moved from negative to balance (watch that CT – discussed in earlier presentation)

And so what about domestic NFCs?

Domestic NFCs

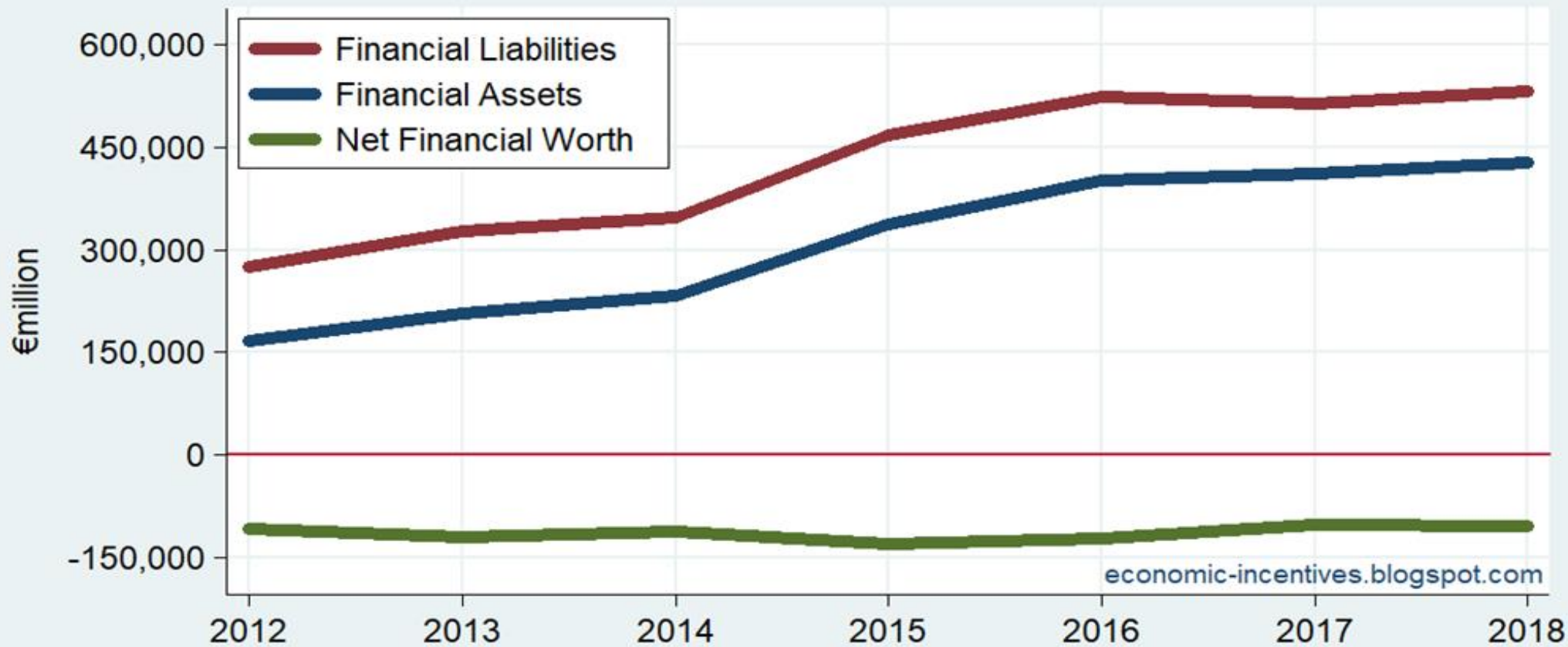
The net lending of the domestic NFC sector has been positive and increasing in recent years?

- 2013: +€3,607m
- 2014: +€3,558m
- 2015: +€3,052m
- 2016: +€4,875m
- 2017: +€5,591m
- 2018: +€7,894m

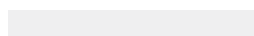
Could it be linked to the exploding balance sheet of the sector (raised in earlier presentation)?

Irish-Owned Non-Financial Corporate Sector: Financial Balance Sheet

Total Financial Assets, Financial Liabilities and Net Financial Worth, 2012-2018, €m

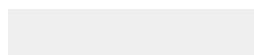


Source: CSO: Institutional Sectoral Accounts



Financial Balance Sheet, end-years 2012-2018, Irish-Owned Non-Financial Corporations (excluding redomiciled PLCs)

Year	2012	2013	2014	2015	2016	2017	2018
Financial Assets							
AF.1 Monetary Gold and Special Drawing Rights (SDRs)	0	0	0	0	0	0	0
AF.2 Currency and Deposits	*	*	*	*	*	*	*
AF.3 Debt Securities	*	*	*	*	*	*	*
AF.4 Loans	54,378	55,770	61,241	101,524	115,786	119,099	121,324
AF.5 Equity and Investment Fund Shares/Units	56,773	85,112	96,846	130,533	159,905	167,706	176,960
AF.6 Insurance, Pension and Standardised Guarantee Schemes	1,220	1,313	1,271	1,176	1,181	1,233	1,266
AF.7 Financial Derivatives and Employee Stock Options	*	*	*	*	*	*	*
AF.8 Other Accounts Receivable	38,660	42,266	48,274	77,179	96,283	95,649	99,250
AF.A Total Financial Assets	167,347	207,837	233,962	337,380	402,796	412,300	428,349
<i>* Total of suppressed categories (likely mainly AF.2)</i>	<i>16,315</i>	<i>23,375</i>	<i>26,331</i>	<i>26,967</i>	<i>29,640</i>	<i>28,613</i>	<i>29,548</i>



Financial Balance Sheet, end-years 2012-2018, Irish-Owned Non-Financial Corporations (excluding redomiciled PLCs)

Year	2012	2013	2014	2015	2016	2017	2018
Liabilities							
AF.1 Monetary Gold and Special Drawing Rights (SDRs)	0	0	0	0	0	0	0
AF.2 Currency and Deposits	0	0	0	0	0	0	0
AF.3 Debt Securities	*	*	*	*	*	*	*
AF.4 Loans	141,855	148,639	143,470	165,769	186,878	180,511	165,379
AF.5 Equity and Investment Fund Shares/Units	96,913	140,807	156,735	235,771	249,705	247,444	269,391
AF.6 Insurance, Pension and Standardised Guarantee Schemes	0	0	0	0	0	0	0
AF.7 Financial Derivatives and Employee Stock Options	*	*	*	*	*	*	*
AF.8 Other Accounts Receivable	*	*	*	*	*	*	*
AF.L Total Liabilities	275,430	327,754	346,733	468,925	524,647	514,091	532,229
<i>* Total of suppressed categories (likely mainly AF.8)</i>	<i>36,663</i>	<i>38,309</i>	<i>46,527</i>	<i>67,385</i>	<i>88,064</i>	<i>86,136</i>	<i>97,459</i>
BF.90 Financial Net Worth	-108,083	-119,917	-112,770	-131,545	-121,851	-101,791	-103,880

Source: Central Statistics Office

Domestics NFCs

The stability of net financial worth suggests that some form 'circular' transactions may have been entered into.

Most of the balance sheet increase on both the asset and liability side is explained by loan and equity instruments (possibly hybrids).

There is no significant changes evident in interest flows but ...

Domestic NFCs

... look at resources of retained earnings on foreign direct investment in the allocation of income account for the domestic NFC sector. Rose 300% from 2013 to 2018:

- 2013: €854m
- 2014: €685m
- 2015: €1,626m
- 2016: €2,063m
- 2017: €2,919m
- 2018: €3,389m

Domestic Non-Financial Corporate Sector, Current Account, 2013-2018

Year	2013	2014	2015	2016	2017	2018	2017-18	2013-18
	€m	€m	€m	€m	€m	€m	%	%
VALUE OF OUTPUT PRODUCED	96,779	109,839	105,381	122,774	110,568	123,154	11.4%	27.3%
less intermediate consumption	(53,596)	(62,554)	(54,824)	(67,511)	(49,523)	(56,500)	14.1%	5.4%
GROSS DOMESTIC PRODUCT	43,183	47,285	50,557	55,263	61,046	66,654	9.2%	54.4%
less compensation of employees paid	(27,990)	(29,913)	(32,032)	(35,229)	(37,931)	(40,358)	6.4%	44.2%
less other taxes on production paid	(1,274)	(1,336)	(1,391)	(1,356)	(1,421)	(1,414)	-0.5%	11.0%
plus subsidies on production received	629	605	782	747	776	717	-7.6%	14.0%
GROSS OPERATING SURPLUS	14,548	16,640	17,915	19,425	22,469	25,599	13.9%	76.0%
less interest paid after FISIM	(2,706)	(1,685)	(1,314)	(1,065)	(786)	(1,128)	43.5%	-58.3%
plus interest received	569	424	543	411	256	477	86.3%	-16.2%
less distributed income of corporations paid	(1,541)	(2,183)	(3,423)	(2,464)	(2,514)	(2,689)	7.0%	74.5%
plus distributed income of corporations received	113	195	284	171	182	156	-14.3%	38.1%
less reinvested earnings on FDI owed	(228)	(233)	(406)	(268)	(244)	(422)	73.0%	85.1%
plus reinvested earnings on FDI earned	854	685	1,626	2,063	2,919	3,389	16.1%	296.8%
plus other investment income received	120	128	89	65	86	85	-1.2%	-29.2%
less rents for land and natural resources paid	(103)	(105)	(106)	(107)	(105)	(113)	7.6%	9.7%
GROSS NATIONAL INCOME	11,624	13,867	15,208	18,230	22,263	25,353	13.9%	118.1%
less taxes on income and wealth paid	(742)	(943)	(1,265)	(1,173)	(1,307)	(1,657)	26.8%	123.3%
less net non-life insurance premiums paid	(311)	(353)	(219)	(237)	(235)	(232)	-1.3%	-25.4%
plus non-life insurance claims received	185	192	134	161	160	159	-0.6%	-14.1%
less miscellaneous current transfers paid	(85)	(139)	(370)	(437)	(66)	(130)	97.0%	52.9%
GROSS DISPOSABLE INCOME	10,671	12,623	13,488	16,544	20,815	23,493	12.9%	120.2%
less final consumption expenditure								
GROSS SAVINGS	10,671	12,623	13,488	16,544	20,815	23,493	12.9%	120.2%

Source: Central Statistics Office

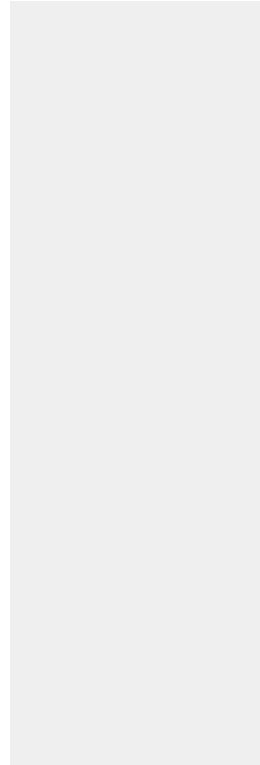
A home-made distortion

This would have been hidden previously (and likely attributed to the activities of foreign-owned NFCs).

Why is it happening? Not clear. But now we get to see it.

Is it having a negative effect? Are funds that might otherwise be available for domestic investment being kept offshore? Are tax payments impacted?

GFCF has doubled from €7.7 billion in 2013 to €15.4 billion in 2018.



Domestic Non-Financial Corporate Sector, Capital Account, 2013-2018

Year	2013	2014	2015	2016	2017	2018		2017-18	2013-18
	€m	€m	€m	€m	€m	€m		%	%
GROSS SAVING	10,671	12,623	13,488	16,544	20,815	23,493		12.9%	120.2%
plus investment grants received	530	509	731	906	809	892		10.3%	68.3%
other capital transfers, net	196	270	254	371	407	451		10.8%	130.1%
less consumption of fixed capital	(4,177)	(4,324)	(4,870)	(5,176)	(5,958)	(6,496)		9.0%	55.5%
CHANGE IN NET WORTH DUE TO SAVINGS AND CAPITAL TRANSFERS	6,829	8,538	9,096	11,904	15,259	17,437		14.3%	155.3%
GROSS FIXED CAPITAL FORMATION	(7,749)	(7,526)	(8,972)	(11,597)	(13,423)	(15,401)		14.7%	98.7%
(increase)/decrease in inventories	353	(1,772)	(1,936)	(602)	(2,201)	(633)		-	-
plus consumption of fixed capital	4,177	4,324	4,870	5,176	5,958	6,496		9.0%	55.5%
NET CAPITAL FORMATION	(3,925)	(1,430)	(2,166)	(5,819)	(5,264)	(8,272)		57.1%	110.8%
plus change in net worth	6,829	8,538	9,096	11,904	15,259	17,437		14.3%	155.3%
NET (BORROWING) or LENDING	3,607	3,558	3,052	4,875	5,591	7,894		41.2%	118.9%

Source: Central Statistics Office

Conclusion

New breakdown in the sector accounts is very useful.

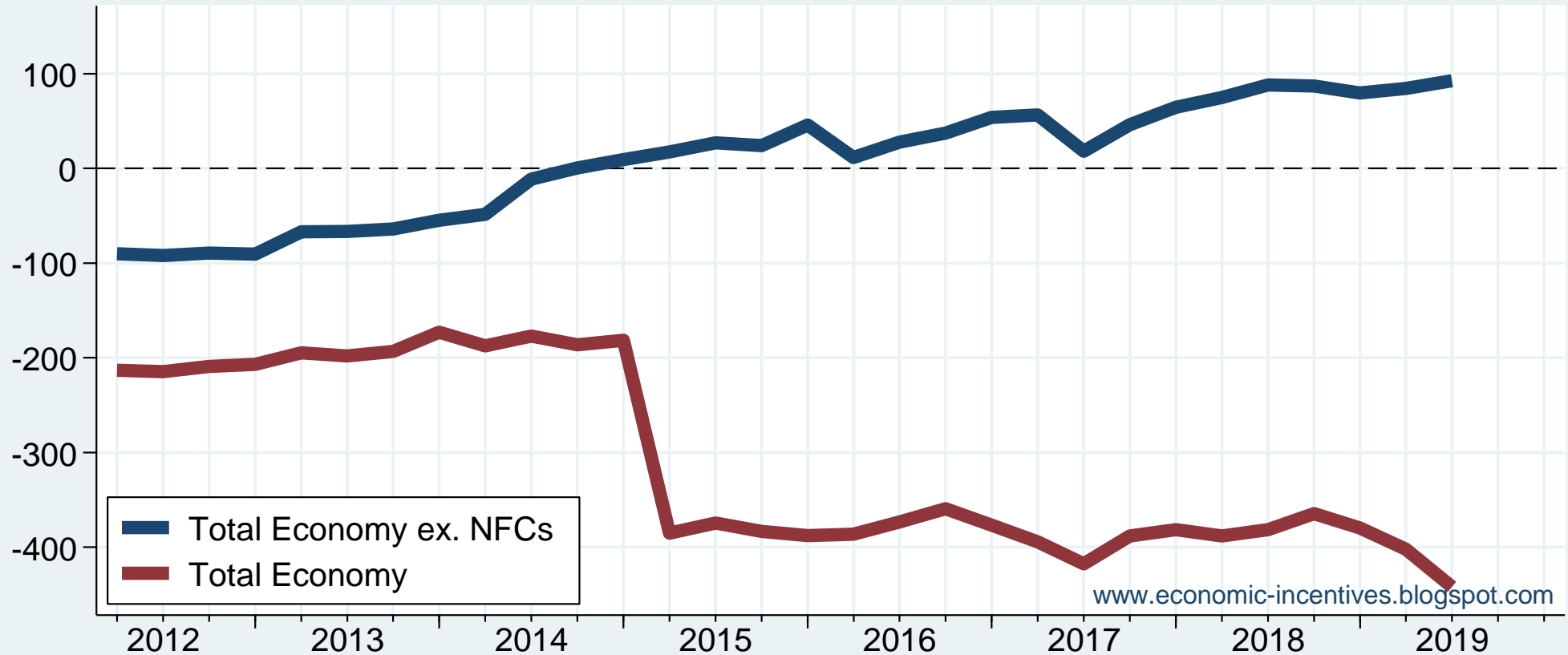
As well as the current account, sectoral (and industry) contributions can also be done for output, income and growth.

Possible extensions:

- KA^* ? (marginal value)
- $NIIP^*$? (possible benefit)

Net International Investment Position: Non-IFSC

Balance of Payments: Total NIIP & NIIP ex. NFCs (mainly MNCs), €billion



www.economic-incentives.blogspot.com

Source: CSO, Ireland: Balance of Payments