

# Nationality vs. Residency Approach

Measuring the impact of MNEs production structure on corporate financial statements statistics

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BIS – IFC 11th biennial conference



ERICA Working Group  
**eccbso**  
European Committee of Central  
Balance Sheet Data Offices

# Nationality vs. Residency Approach

## Motivation

- The “Irish Case” has raised **awareness** on the “**dichotomy**” of the **residency principle** of national statistics and the **global economic activities** of multinational enterprise groups (MNEs).
- Numerous initiatives have been set up to **measure globalisation effects** and the footprint of MNEs in Official Statistics.
- The committee on monetary, financial and balance of payment statistics (CMFB) has emphasized that **traditional statistics** (country of location) can be **complemented by the Nationality approach** (country of control) as additional source of information.
- An international task force was created to conduct a **feasibility study to integrate microdata** on corporate financial statements and group structures from ESCB and ESS (European Statistical System), to generate statistics according to the nationality approach and compare it with traditional statistics (residency approach)

# Nationality vs. Residency Approach

## Concepts

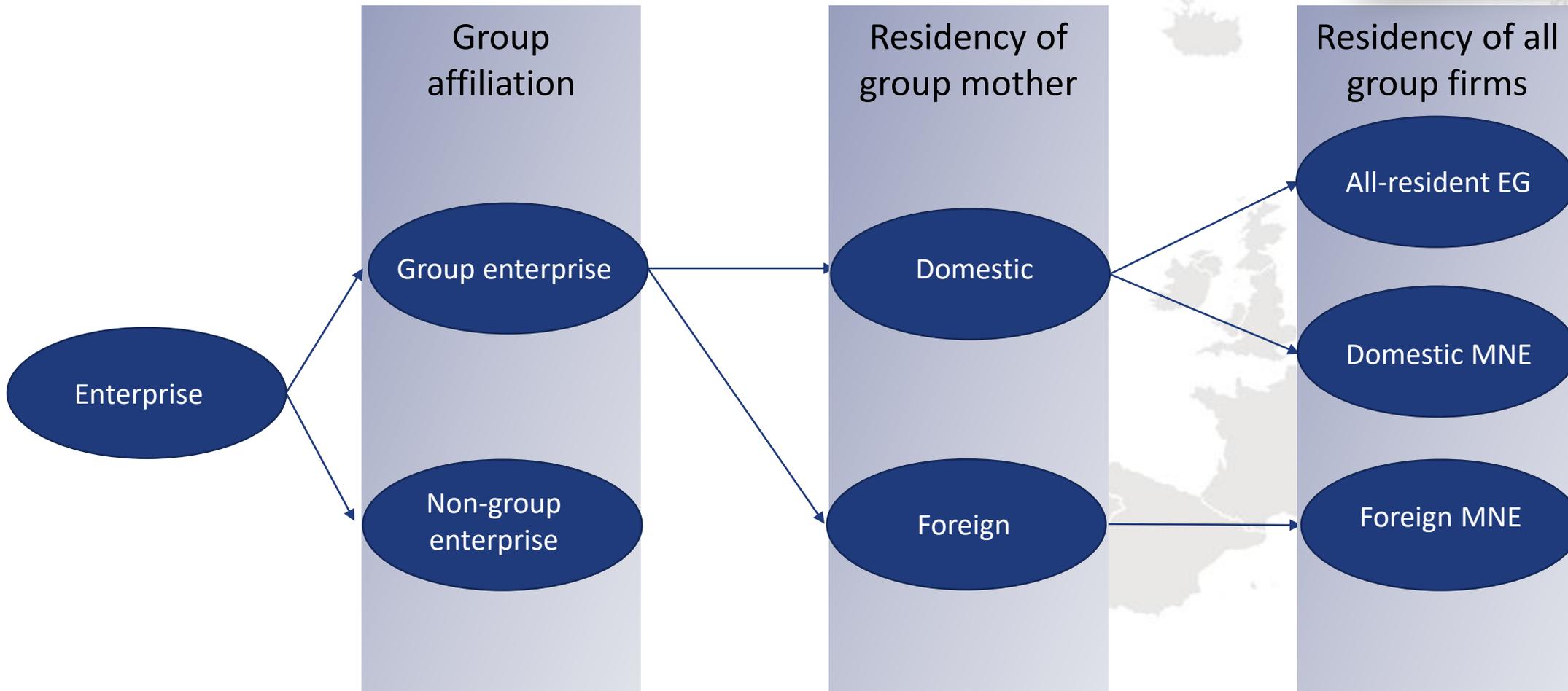
- **Residency approach:**
  - Comprises domestic entities with their individual financial statement
  - This approach does not consider whether an entity is under foreign control or part of a group.
- **Nationality approach:**
  - Comprises all entities controlled by resident entities at the highest level of consolidation
  - Differences compared to the residency approach may arise from consolidation effects and from foreign control.



# Nationality vs. Residency Approach

## Entities

*Control ≠ Consolidation*



# Nationality vs. Residency Approach

## Concepts

Entity is		controlled		
		domestic	foreign	non - controlled
resident	domestic	All-resident EG/ Domestic MNE	Foreign MNE	
	foreign	Domestic MNE	Foreign MNE	

### Nationality approach:

Comprises all entities controlled by resident legal entities at the highest level of consolidation (no double counting)

### Residency approach:

Comprises domestic legal entities with their individual financial statement

### Differences:

May arise from consolidation effects and from foreign control

# Nationality vs. Residency Approach

## Method

- (1) **Identify** relevant **datasets**
- (2) **Merge** them
- (3) **Identify** enterprises that belong to a **group** and their **country of control**
- (4) **Correct for double counting** (consider an entity only once) and remove sub-consolidated accounts
- (5) **Calculate** nationality approach
- (6) **Compare** to residency approach



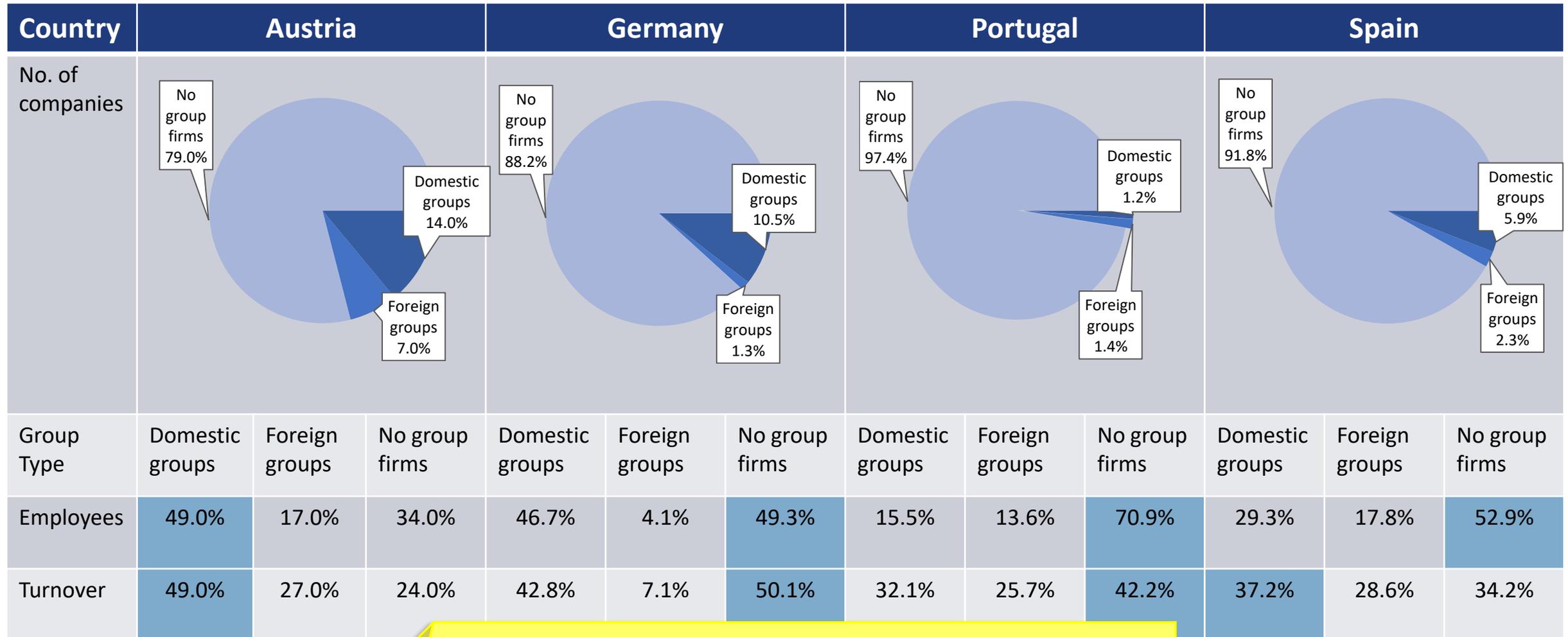
# Nationality vs. Residency Approach

## Data

Country	Group data			Financial data		Other sources	Coverage	
	FDI	National Business Register	EGR	Individual Financial Statements	Consolidated Financial Statements		Employees (2018) In %	Turnover (2018) In %
Austria			X	X	X	Internal dataset for group structure	19	27
Germany	X	X	X	X	X	Commercial data	34	68
Portugal	X	X	X	X	X	National groups database	100	100
Spain	X (EGR – FATS)		X	X	X	Internal dataset for group structure	76	63

# Nationality vs. Residency Approach

## Results

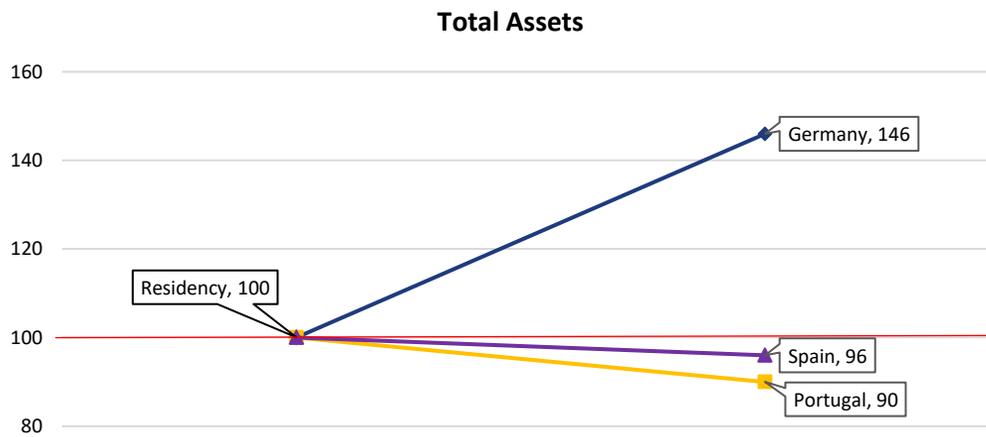
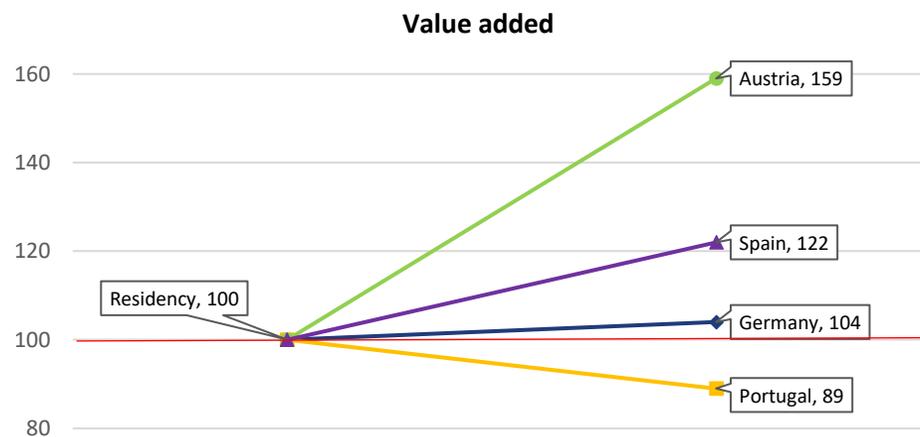
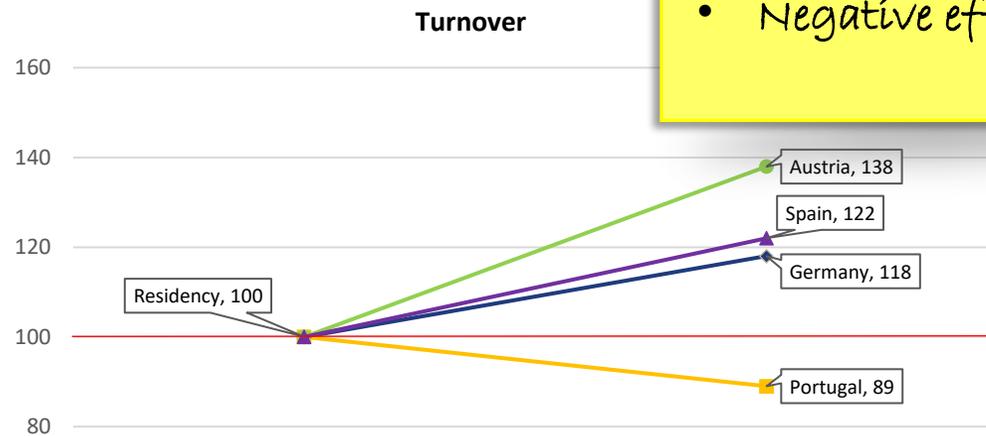
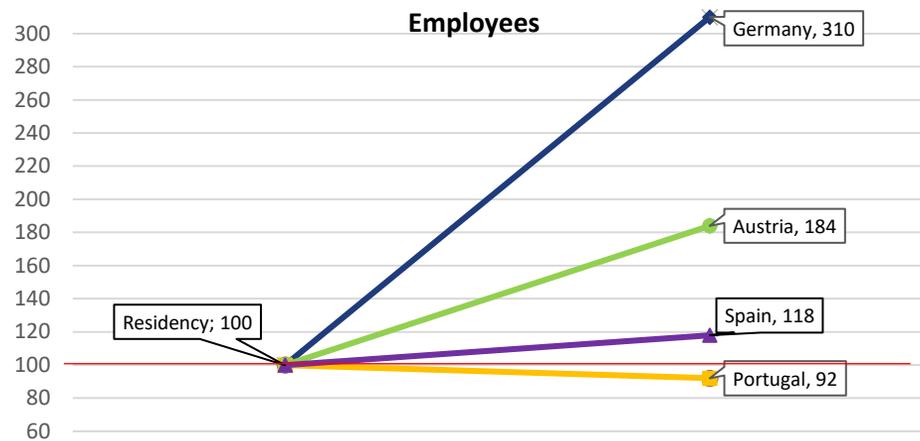


- Group Firms: Few entities, although highly relevant
- Country peculiarities

# Nationality vs. Residency Approach

## Results

- Positive effect for Austria, Spain and Germany
- Negative effect for Portugal



# Nationality vs. Residency Approach

## Conclusion

- The Nationality and Residency Approach have their legitimation. The usefulness of application depends on the purpose.
- Prerequisites for the calculation are **interconnected standardized micro datasets and a harmonized methodology** to obtain a comprehensive picture of MNEs' activities.
- A full data integration requires **substantial efforts** to conduct analyses with sufficient quality.
- **Globalised MNEs** are small in number (as compared to overall population) but **highly relevant for statistical aggregates**.
- **Users** of statistical products could **benefit** from expanding the published indicators by **alternative indicators** calculated based on the nationality approach.

# Nationality vs. Residency Approach

## Nationality vs. Residency Approach

**THANK YOU FOR YOUR ATTENTION**

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# Nationality vs. Residency Approach

## Backup



# Nationality vs. Residency Approach

## Method

