

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

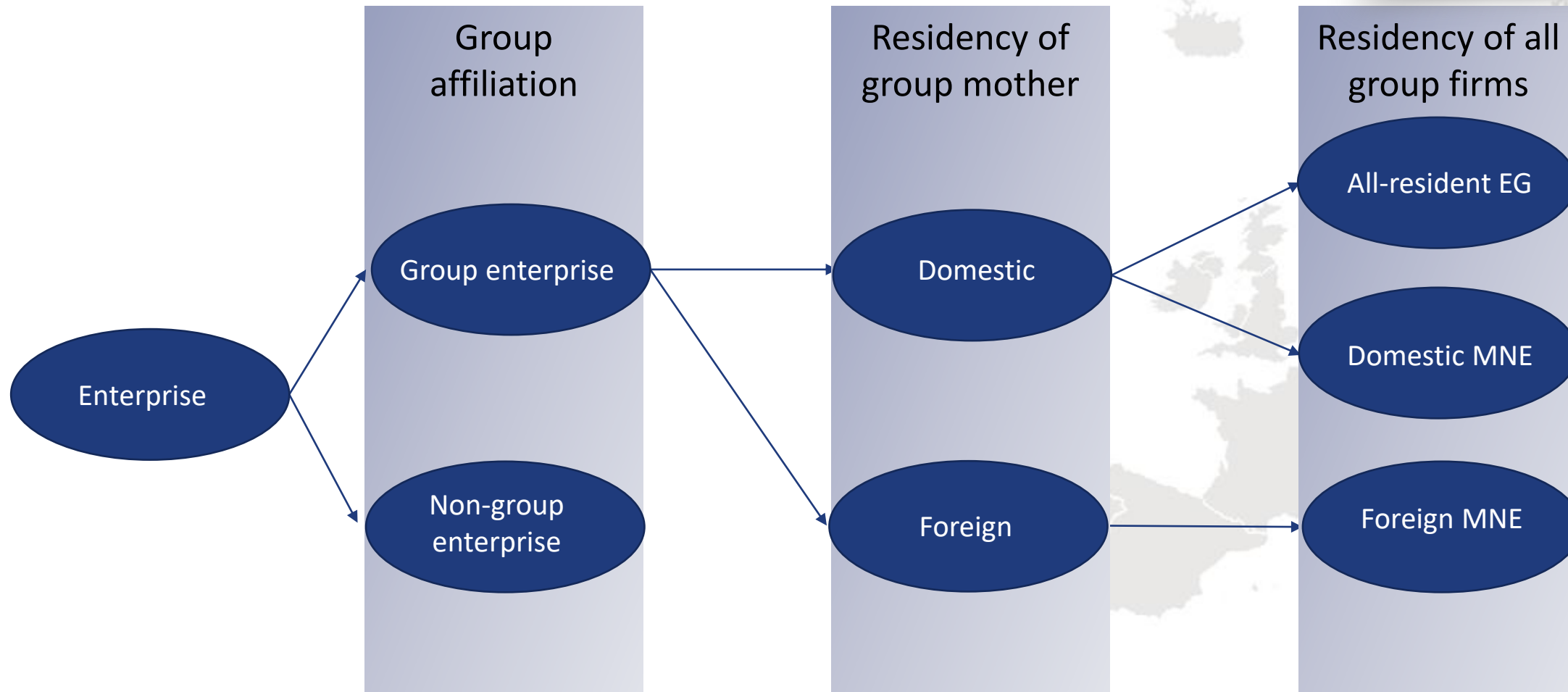
- **Residency approach:**
 - Comprises domestic entities with their individual financial statement
 - This approach does not consider whether an entity is under foreign control or part of a group.
- **Nationality approach:**
 - Comprises all entities controlled by resident entities at the highest level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



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Entities

Control ≠ Consolidation



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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

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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



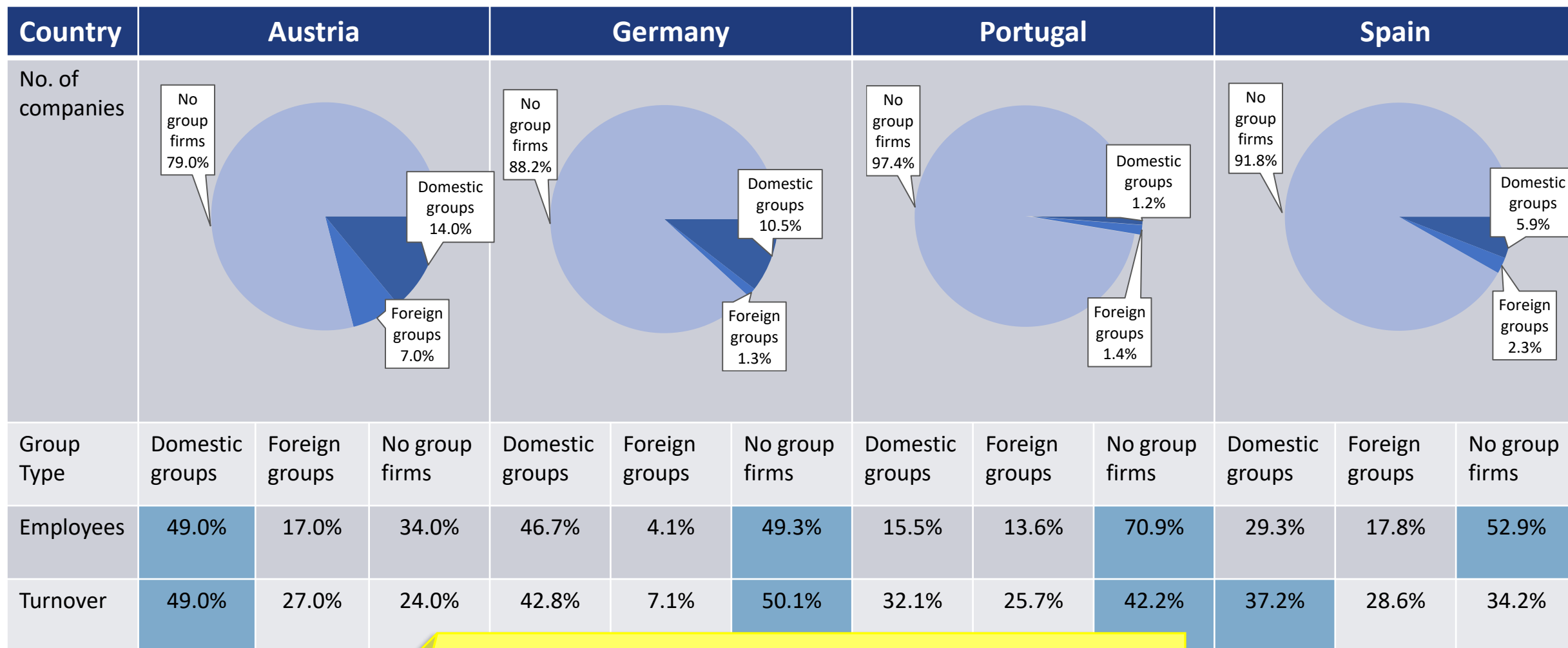
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Data

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

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Results

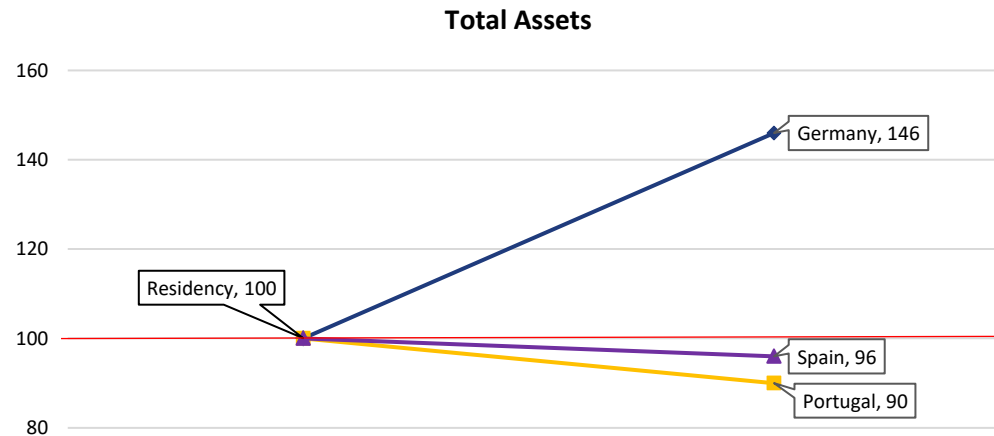
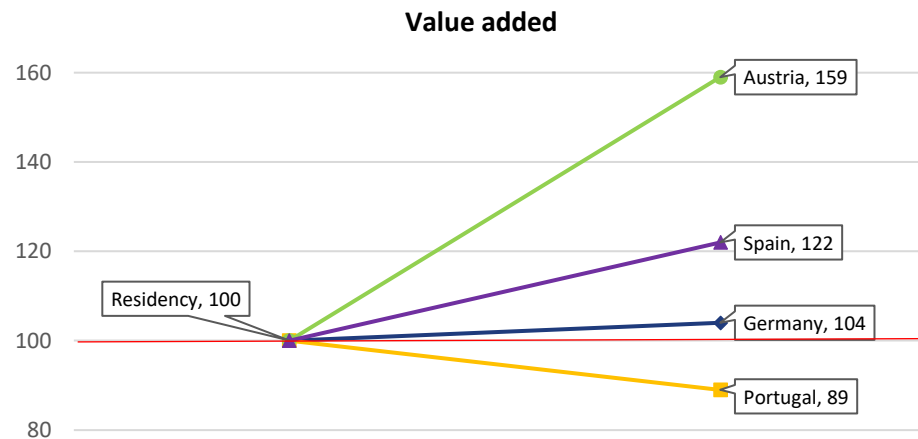
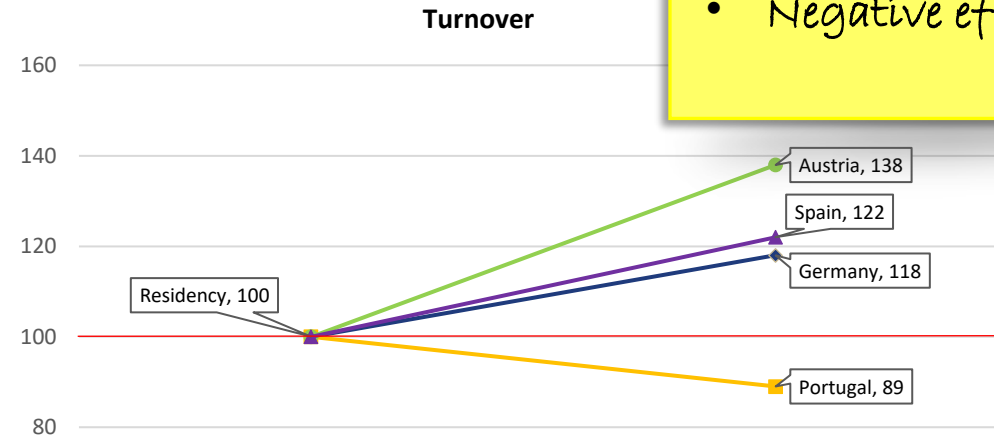
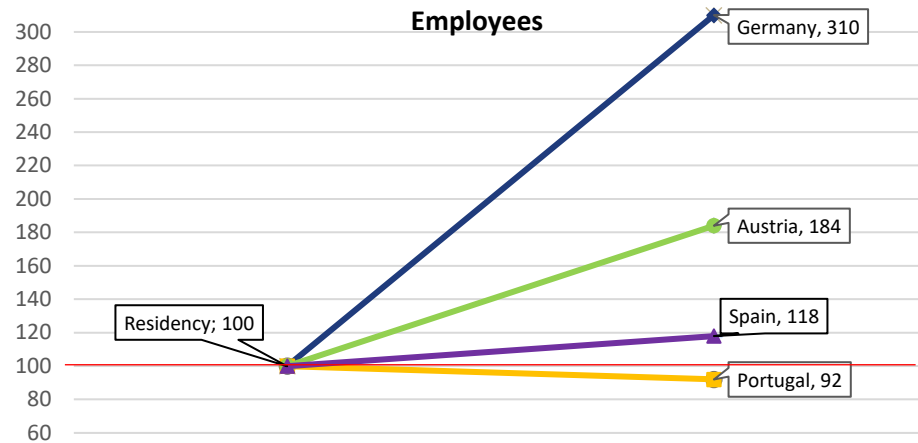


- Group Firms: Few entities, although highly relevant
- Country peculiarities

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Results

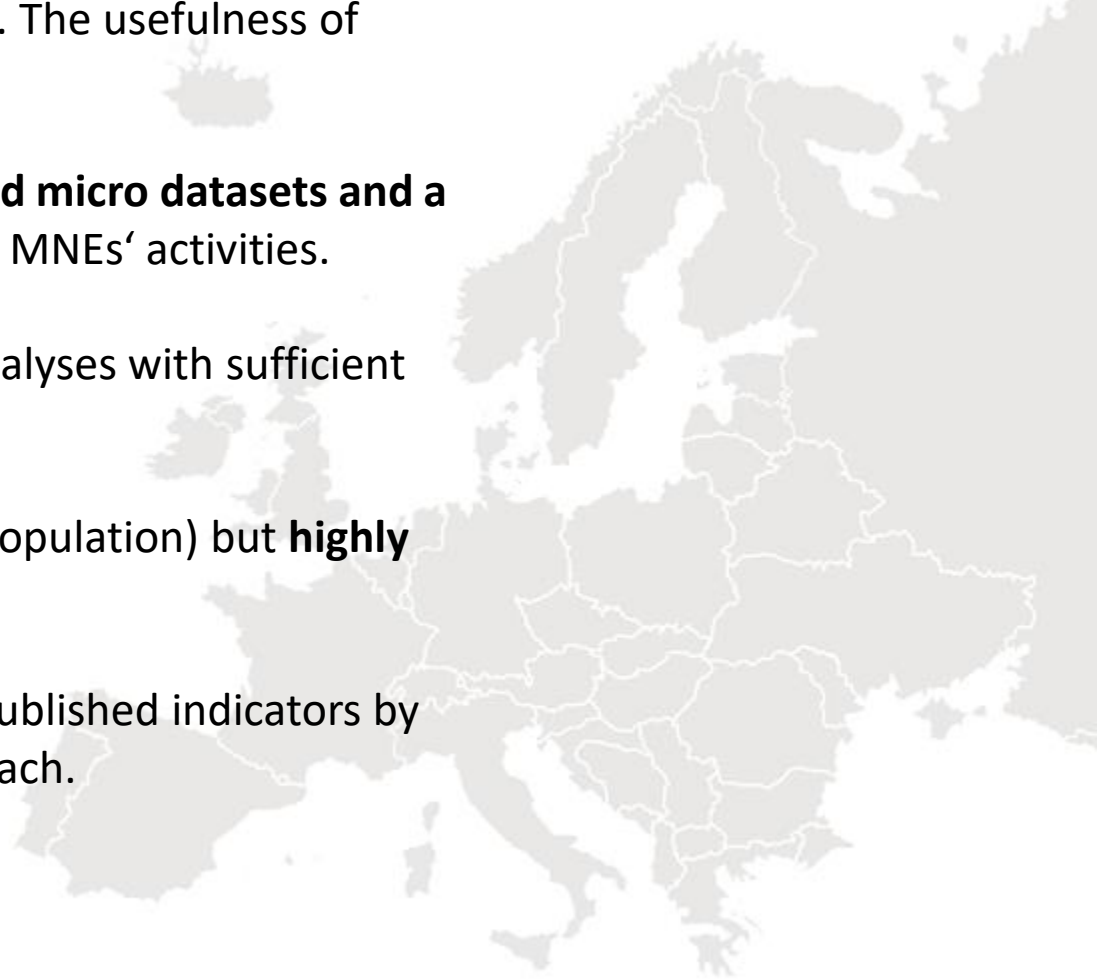
- Positive effect for Austria, Spain and Germany
- Negative effect for Portugal



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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.



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THANK YOU FOR YOUR ATTENTION

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Nationality vs. Residency Approach

Backup



Nationality vs. Residency Approach

Method

