**From:** STAPEL-WEBER Silke (ESTAT)
**Sent:** Thursday, July 14, 2016 5:56 PM
**To:** 'Jennifer.Banim@cso.ie'
**Cc:** VERRINDER John (ESTAT)
**Subject:** note
**Importance:** High

Dear Jennifer,

may I kindly ask your comments on the attached draft communication note from ESTAT by tomorrow 9.00h Luxembourg time. I am sorry for the short delay, but we need to move.

The first part is for public consumption and journalists.

The "internal part", we like to share with ECFIN, ECB, IMF, EFC/SCS chair and TAXUD.

We also thought that your DG could send a similar note to his colleagues in the ESS. What do you think?

If you like, we can speak on the phone around 9.30h tomorrow morning.

Having reviewed also table 102 tomorrow, we intend to load your data in Eurobase by Monday 11.00h.

The issue will then get again public attention in the GFS press release next Wednesday, when the ratios change.

Kind regards,

Silke

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## Sound bite

**Eurostat is aware of the recent upwards revision to Irish GDP for 2015, published by the CSO on 12 July 2016.**

**Based on the preliminary information provided by the CSO, including data, the revision is plausible. Eurostat will therefore publish the new data in the coming days.**

**Eurostat will examine the methodology used in this revision in more detail by September, as part of the regular procedure which applies to all Member States.**

## On the record

This revision can been seen as an effect of increasing globalisation. It is primarily due to the relocation to Ireland of a limited number of big economic operators.

## Q & A for on the record follow-up [optional]

- **Will there be an impact at EU/euro area level?**
  Yes, but of much smaller scale. The Irish economy accounts for around 2% of the euro area total.

- **Is this a one-off effect, or a permanent one?**
  This is in effect a level shift. Irish GDP is now significantly higher than it was in 2014, and future changes in GDP will be from this higher level.

- **Could this happen again?**
  Yes. As a consequence of globalisation, this could happen again if huge multinationals move their business around Europe or the globe. Indeed in the case that the move took place between two Member States, then there would be an offsetting double effect – an increase in GDP in one and a matching decrease in the second.

- **Is this like the 2006 revision of Greek GDP, which was eventually reduced by Eurostat?**
  No. The 2006 revision of Greek GDP involved a large number of changes in areas where there were a lack of hard data and the need to make assumptions and estimations. This Irish revision involves a small number of very large operations, for which hard data is available.

- **Can you give more details of the companies involved?**
  No. Due to statistical confidentiality rules we can give no further details.

- **How can Eurostat verify the figures if they are confidential?**
  The CSO have confirmed that Eurostat will have access to the data it needs to carry out its examination. This access will of course be subject to strict confidentiality.

- **Will this have an impact on Irish debt and deficit figures?**
  This upwards revision to GDP will have an impact on any indicator which is presented as a ratio to GDP, such as general government debt and deficit ratios. In the absence of any other changes, such ratios will fall as a simple mathematical result of an increase in GDP. It is however too early to speculate on the exact changes to the value of any specific indicator, as these will depend not only on the change in GDP (the denominator), but also on possible changes in the numerator.

- **How soon will these new figures be incorporated in Eurostat databases?**
  As quickly as possible in the coming days, initially for quarterly data and then for annual data. Due to statistical confidentiality issues, Eurostat will follow the Irish authorities in not publishing a full set of breakdowns where these could reveal any individual companies concerned.

## More elements– FOR INTERNAL USE ONLY

The Irish CSO published revised estimates for GDP and GNI on 12th July. The data for all years were revised, but notably the growth rates of GDP and GNI for 2015 were revised upwards to 26.3% and 18.9% respectively, much higher than previous estimates released in March 2016.

The CSO explained that the majority of the change in 2015 was caused by the relocation of certain major international companies to Ireland (from outside the EU) during the year. The necessary information from these companies had only been received after the March estimates, and had been subject to a process of intense bilateral discussions with the companies concerned, given the need to safeguard legal obligations for statistical confidentiality. The CSO is satisfied that it has received all necessary (hard) data and explanations from the companies to compile national accounts and balance of payments statistics (which are also subject to revision).

Worldwide and European national accounts rules deal specifically with the criteria for the country of residency of a statistical unit, and follow the principle of economic ownership with regard to the recording of assets. The economic owner is defined as being able to claim the benefits associated with the use of an asset by virtue of accepting the associated risks. These benefits, and associated risks, can vary by type of asset and the UNECE Guide on measuring global production provides extensive practical guidance to follow, for both physical assets and intellectual property assets. The Eurostat Handbook on measuring Research and Development in ESA 2010 is also relevant.

The CSO has explained that the multinational companies concerned – which are largely classified in the manufacturing branch and clearly have Irish resident units - now base their assets in Ireland, and their extensive analysis has confirmed that the economic ownership of the asset rests in Ireland. This is part of an "on shoring" trend that has been observed (and recorded in the accounts) for several years, but was particularly large in 2015.

The transfer of the (extremely large) capital stock of assets to Ireland is recorded by the CSO as an "other economic flow" since it is viewed as a restructuring operation and not as a transaction (the Irish resident units have not "purchased" the assets). This means that data on domestic investment (gross fixed capital formation) and import flows are unaffected by the transfer of the stock. However the overall stock of assets (balance sheet) in the Irish economy is now higher by the amount of transferred assets, which also has a major impact on depreciation (consumption of fixed capital).

The result of this is that the services (and in some cases goods) provided from the companies' assets are recorded as output of the Irish economy and –

where appropriate – as exports from Ireland. Furthermore the new assets created by these companies are recorded as investment in Ireland. All of this adds to Irish GDP, and will continue to do so in the coming years (i.e. this is a level shift).

The upward revision in GNI is smaller than for GDP because there are additional outward income flows relating to the companies' activities. Nevertheless the rise in GNI is still very substantial because the additional income flows of the companies (interest and dividends) concerned are considerably smaller than the value added of their activities. The calculation of outward flows of "reinvested earnings" from these companies is also relatively small because the level of depreciation on the assets (which reduces reinvested earnings) is very high.

The Irish are in the process of transmitting national accounts data to Eurostat. Some positions will be flagged as "confidential" to avoid disclosing data on individual companies, and Eurostat will respect this flagging by not publishing the data or releasing them to any third party, in line with its obligations.

We have received the relevant quarterly data and are now checking it, before releasing for publication. The Irish CSO has undertaken to provide annual data in the coming days which will also go through a process of checking, before release for publication.

The initial explanations provided by the Irish authorities look plausible and it is clear that they are well aware of the relevant recording rules. Eurostat will follow up checking of the revised data through its "GNI verification" process. This will involve a mission to Ireland, likely in September 2016. The Irish authorities have already indicated that they will provide full access to all information, including that under statistical confidentiality, to Eurostat staff.

It is acknowledged that the upward revisions to GDP will have major consequences on any ratio which uses GDP as its denominator, for example deficit and debt ratios, and that the revisions to GNI will also have upward implications for the amount of Irish contributions to the Community budget.

It may also be noted that many commentators are trying to distinguish between movements in GDP or its components (e.g. household consumption) which are relevant for the "real economy" and those which are driven by the activities of multinational companies. It should be clear nevertheless that neither the Irish CSO nor Eurostat intend to publish any "alternative GDP" data. The activities of multinationals have always been part of Irish economic data and therefore analysis has always required a careful appreciation of where such multinationals impact on the data. The Irish CSO has developed and published additional analysis of impacts on domestic demand and imports, which are intended to help users in this analysis, and have committed to do more in future to help such analysis.

**Contact point(s)**

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