

The Non-resident Question and The National Statistics

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The expansion of multinationals enterprises and the developments of the Economic and Monetary Union definitely have contributed to the intertwining of the national markets in Europe. This will surely be reinforced with the generalisation of the Euro in the coming year. This phenomenon is even more apparent in a small open economy like Belgium.

For elaborating national statistics, the notion of non-resident is essential. This notion is clearly defined in some statistical areas such as the balance of payments whereas in other fields it is more implicit and may lead to some discrepancies. The purpose of this paper is to give a brief overview of the definitions and to draw the attention on the difficulties arising in the treatment of non-resident enterprises.

Definition

In the balance of payments statistics that precisely record the transactions (change of ownership) between residents and non-residents, the definition come from the Manual of Balance of payments published by the International Monetary Fund.

An institutional unit is considered as resident of a country if its centre of economic interest is located in the economical territory of the country. The question of the enclaves is an other issue and the economical territory is supposed to be the geographical territory. The concept of economic interest is the core of the definition.

An enterprise has an economic interest in a country when it exercises in this country activities of producing goods or services. There must be a place of production in exploitation or intended to be exploited during a prolonged period. According to this definition, a resident enterprise can be incorporated in the country or abroad or can be controlled by residents or non-residents. In case of production of goods, the place of production is easy to identify but it is not the same with some services and in particular with trading.

Non-residents in the statistics

The payments statistics are usually based on the reporting of the financial intermediaries. The latter have to distinguish between residents and non-residents using information coming from their customers or the administrative data. Foreign companies established abroad is clearly non-resident the difficulties arise with the foreign companies making business in the covered country.

Two types of foreign companies working in a country have to be distinguished :

- those working through an *establishment* or local unit hiring workforces in the country
- those just using in the country an *accountant's office* or representative acting for them

For the balance of payments statistics and for the national accounts the establishments are considered as residents and they directly contribute to the economy of the country where they are located. On the other hand, the companies using accountant's offices are non-residents; the heavy business made on behalf of foreign companies have little impact on the local country except for some fees and services and the profit made is soon brought back. In the financial accounts, the assets and liabilities managed by an establishment are also recorded in the local country.

For the fiscal administration, the two main taxes on enterprises are the income taxes and VAT. In most European countries, the foreign establishments are liable to income tax. The taxation is calculated on their operations in the country, unlike the national companies that are taxed on their

whole operations. The enterprises passing through an accountant's office are not subject to income tax. For the VAT, the tax is due on defined transactions in the country no matter who is doing it. This means that both the foreign establishments and the accountant's offices are liable to VAT.

In external trade, the statistical regulation provide for the recording of flows of goods across the national borders. Those flows are recorded even though there is no change of ownership (stock) and regardless of the residence of the operators. This means for example, that the shipment by a American non-resident via an accountant's office of merchandises from Brussels to an other non-resident in London will be included in the external trade of Belgium.

The part of this non-resident using accountant's office has grown very fast in Belgium. So, their turnover declared for the VAT has been multiplied by 2.5 in the last 5 years, reaching almost 10% of the total. In external trade, the growth was the same and their part in 2000 is 24% of the total of exports and 20% for imports

Corrections for the national concept

The integration of external trade statistics in the current account of the balance of payments and in the national accounts requires some corrections to be made on the trade for non-residents. Only those using an accountant's office must be corrected because exports and imports made by the establishments of foreign companies belong effectively to the local economy. Information from the VAT administration permits to classify the accountant's offices in two categories:

- the "*pure*" that is to say, the non-resident not having any trade in goods with the residents (nor buy nor sale)

- the "*mixed*" non-resident that trades goods with residents and non-residents.

The transactions of the *pures* were removed from the external trade statistics for integration in the national current account because there is no transactions between resident and non resident. For the *mixed*, it is not so simple and hypotheses have to be made on their behaviour. The imports by those non-residents are supposed to be directly sold to a resident with a profit marge and similarly, their exports are supposed to have been directly purchased from a resident at a price less their profit margin on export. So, the current balance is adjusted for the profit earned by non-resident that disturbs the national statistics.

The same argument also applies for the operation made abroad by national enterprises. That means that the imports or exports realised abroad through a foreign accountant's office have to be added to the external trade statistics to be booked in the balance of payments. Of course, the trade between the company and his accountant's office have to be neutralised because there is no change of ownership.

The use of accounts of resident enterprises must take account of the fact that they may have establishments abroad (the activity due to a foreign accountant's office is included in the accounts but had not to be corrected because it belongs to the national concept). For national statistics, the turnover, wages, investments,...realised in the foreign establishments have to be removed from the resident's data. As the geographical breakdown of the accounts is rarely available, extrapolations are made on the basis of the employment's data usually better known. For the financial accounts, the assets and liabilities of foreign establishments must also be eliminated but in this case extrapolation is riskier and thus often neglected.

REFERENCE

- Manual of Balance of Payments, 5th edition, 1993 - IMF.
- System of National Accounts, 1993 - IMF, Eurostat, OCDE, UN and World Bank.

RESUME

The definition of non-resident is essential for elaborating the national statistics. The development of multinationals making business in other countries through establishments or accountants' offices disturbs the data usually collected. Some corrections are examined in order to achieve coherent national statistics.