



Economic Territory, Units, Institutional Sectors, and Residence (L2)

Course on External Sector Statistics

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Introduction

- Introduction
- Economic Territory
- Institutional Units
- Institutional Sectors
- Residence
- Associated Issues

Reference: **Chapter 4 of BPM6**



Introduction

- Basic concepts for all macroeconomic statistics
- International accounts defined as transactions and positions between residents and nonresidents.
- Identical concepts of residence are used in the *BPM6*, *MFSM*, *GFSM*, and the *SNA*.



Introduction

Three questions:

- **What is the economic territory?**
 - ❖ The focus of economic statistics.
- **What is the institutional unit?**
 - ❖ Entity that has transactions and positions.
- **Which territory is the unit most closely connected with?**
 - ❖ Residence.



Economic Territory

- The ***economic territory*** of a country is the relevant geographical area to which the concept of residence is applied.



Economic Territory

- Consists of the geographic territory administered by a government;
- Usually a country, but not necessarily.
 - Economic and currency unions.
 - Special zones, total excluding special zones
 - ❖ May have different laws and policies with “free trade zones” or other special zones.
 - ❖ National total still needed for global totals and for bilateral comparisons.



Economic Territory

- A special type of economic territory is that of international organizations.
 - Not subject to laws of host country.
 - ❖ Not useful to consider as part of host economy.
 - IMF and UN not US residents.
 - ❖ However, they have transactions with host economy.
 - Both global and regional organizations.
 - Governmental-type functions, not businesses.



Institutional Units

- Institutional units are the entities that own assets, incur liabilities, make contracts.
- Because they are decision-making units, they should have, or be capable of having, their own accounts.



Institutional Units

Types of institutional units:

I. Households

- including the individuals who make up a household
- may include household businesses

II. Corporations

- financial corporations
- nonfinancial corporations
 - ❖ unincorporated businesses that are separate from their owners (quasicorporations) including branches
 - ❖ government-owned enterprises included in corporations sector, but may wish to show separately

III. Nonprofit institutions serving households (NPISHs)

IV. General government

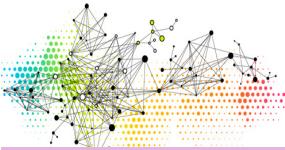
V. International organizations

- not a resident of any national economy



Institutional Units

- Enterprise
 - ❖ An institutional unit that engages in production.
 - ❖ May be a corporation (including a quasi-corporation), a non profit institution, or an unincorporated enterprise.
- Splitting and combining legal entities
 - ❖ A single legal entity may be split into separate units that operate in two or more economies.
 - ❖ May sometimes combine legal entities under common ownership.
 - But never across international boundaries or institutional sectors.



Institutional Units

■ Quasicorporations

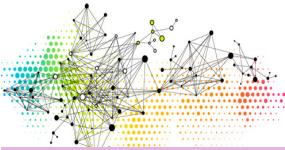
- Not incorporated, but behave as if incorporated:
 - ❖ Branches
 - ❖ Notional units for natural resources
 - ❖ Some joint ventures
 - ❖ Quasicorporations for set-up costs incurred prior to incorporation of direct investment enterprise (permits, legal, etc.)
 - ❖ Trusts
 - ❖ Partnerships



Institutional Units

■ Branch

- Where a single entity operates in more than one economy:
- Divide operations – branch is a separate institutional unit.
- Criteria:
 - ❖ Substantial production (generally physical presence, but not always, such as in finance)
 - ❖ Separate accounts;
 - ❖ Subject to income tax laws; and
 - ❖ Receives funds on its own account (not as an agent).



Institutional Units

- Other cases of entities operating in more than one economy: multiterritory enterprise
 - Occasionally, a seamless, indivisible operation, e.g., hydroelectric schemes on borders, also entity in joint sovereignty zone:
 - ❖ Split based on headquarters and branches, if possible;
 - ❖ Otherwise, prorate.



Institutional Units

- Ownership of natural resources located within a country's economic territory
 - Notional unit as owner (direct investment).
 - Land includes associated structures.
 - Purpose is to maintain natural resources as always being an asset on national balance sheet
 - ❖ But has corresponding liability (direct investment).
 - Long-term rights to use these resources treated in same way because equivalent.



Institutional Units

- Other types of units besides institutional units:
 - Establishments
 - ❖ An enterprise operating in several locations or industries may be broken up into establishments.
 - Local enterprise groups
 - ❖ Useful for direct investment statistics.
 - Global enterprise groups
 - ❖ Underlies direct investment concept.



Institutional Sectors

Central bank*¹
Deposit-taking corporations except the central bank*²
General government
Other sectors
Other financial corporations
Money market funds (MMFs)* ²
Non-MMF Investment funds* ²
Other financial intermediaries except insurance corporations and pension funds (ICPFs)* ²
Financial auxiliaries* ²
Captive financial institutions and money lenders* ²
Insurance corporations* ²
Pension funds* ²
Nonfinancial corporations, households, and NPISHs
Nonfinancial corporations* ²
Households
NPISHs (nonprofit institutions serving households; may be combined with households)
<i>Additional sectors for counterpart data:</i>
<i>International organizations</i>
<i>International financial organizations</i>
<i>Central bank of currency union</i>
<i>Other international organizations</i>



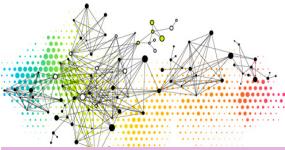
Institutional Sectors

- Central bank and other deposit-taking corporations allow links to monetary statistics
 - Monetary authorities sector (as in *BPM5*) compiled when relevant (i.e., when some or all reserves held outside the central bank; otherwise unnecessary because the same as the central bank)
- General government allows links with government finance statistics.



Institutional Sectors

- Other sectors
 - Other financial corporations:
 - ❖ Insurance, pension funds, other financial intermediaries, captives, financial auxiliaries.
 - Nonfinancial corporations, households, and NPISHs.
 - Other splits to be consistent with *SNA* (e.g., balance sheet approach).



Institutional Sectors

- International organizations
 - a special type of unit, resident in its own economic territory, not part of any national economy
 - global or regional
 - financial (IMF, World Bank Group, regional development banks, ECB) and nonfinancial (UN, EU)
 - discussion of central bank of a currency union in *Appendix 3*.



Residence – General

Concept of residence

- Economic connections of a unit to an economic territory.
 - Not based on nationality or legal criteria.
 - Not based on currency used.
- Expressed as an economic unit's *center of predominant economic interest*.



Residence - General

Center of predominant economic interest

- Dwelling, place of production, or other premises, within the economic territory of the country on, or from, which the unit engages, or intends to engage, in economic activities and transactions on a significant scale, for an indefinite or long period.



Residence - Households

Households and individuals

- A household has a center of economic interest when members of that household maintain, within a country, a dwelling or succession of dwellings that the members treat and use as their principal residence.



Residence - Households

Households and individuals

- The guideline for determining residence is
 - presence or the intention to be present;
 - for a period of one year or more.
- In practice, tends to be identified in groups, rather than individuals.

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Residence - Households

Special cases:

- Diplomatic representatives
 - ❖ But: non-diplomats, locally engaged staff; international organization staff.
- Members of the armed forces
- Students
- Medical patients
- Ship's crew



Residence - Households

Special cases:

- Border workers
- Commuters (e.g., “NYLONs” commute between New York and London)
 - predominant
- Guest workers, expatriate experts



Residence - Enterprises

- Normally enterprises will have a location in a single economy because of:
 - Companies law;
 - Taxation law.



Residence - Enterprises

Enterprises

- An enterprise has a center of economic interest and is a resident unit of a territory when the enterprise is engaged in a *significant amount of production* and plans to do so *over an indefinite or long period* of time.



Residence - Enterprises

Particular types of enterprises

- Operators of mobile equipment
 - For example, airline, railway, trucking, shipping.
 - Based on residence of the operating enterprise, rather than location of the equipment.
 - Shipping not based on registration.



Residence - Enterprises

- Shelf companies, shell companies, special purpose vehicles (SPVs), special purpose entities (SPEs):
 - No or little physical presence.
 - Residence according to country of incorporation/registration.
 - ❖ Not according to location of assets, owners, or administering office.
 - Always related to another corporation, possibly resident in another economy
 - Fees but may have very large investment income managed on behalf of parent enterprise



Residence - Enterprises

- Special zones or legislative exemptions for particular enterprises:
 - Manufacturing (e.g., free trade zones);
 - Financial or other services (e.g., “offshore financial centers”).

Areas not under effective control of the government?



Residence - Enterprises

- Large, long-term construction or installation projects
 - Site office.
- Agents
 - Transactions on behalf of principal included in economy of principal.
 - Agent's own services in agent's economy.