

8. The transition from GDP to GNI

8.0 Introduction

The transition from GDP to GNI is conducted by applying information from the Danish balance of payments statistics (BOP). This information is applied directly, that is without any correction to the BOP figures being performed.

Table 8.1 Transition from GDP to GNI, 2012

	DKK mill.
GDP	1 882 625
+ Compensation of employees from the ROW	6 845
- Compensation of employees to the ROW	17 250
- Taxes on production and imports to the ROW	2 995
+ Subsidies from the ROW	7 275
+ Property income from the ROW	138 050
+ Interest	65 370
+ Distributed income	81 440
+ Reinvested earnings	-9 769
+ Other investment income	1 009
- Property income to the ROW	89 134
- Interest	52 845
- Distributed income	39 724
- Reinvested earnings	-5 815
- Other investment income	2 379
= GNI for fourth own resource purposes	1 925 416

For BOP the competency is divided between Statistics Denmark and the Central Bank, *Danmarks Nationalbank*. The former conducts the compilation of the current account and the capital account and the latter the financial account and the international investment position. Danmarks Nationalbank also conducts the compilation of property income except for a minor item. Property income is the most important item in the GDP-GNI transition. The BOP compilation is compatible with IMF's Balance of Payments Manual, sixth version (BPM6). BOP is published by Statistics Denmark. The agreement between the two institutions on division of tasks in the statistical area has recently been updated.

Danmarks Nationalbank's system for collection of information on the international investment position and the financial account of the balance of payments is based on the following main sources:

- Reporting by enterprises.
- Statistics on balance sheets of banks and mortgage banks including flows and income
- Investment funds statistics
- General-government statistics
- Securities statistics including information from the ECB's centralised security data base (CSDB)

Information on instrument, counterpart country, sector (and a number of other dimensions) is an integrated part of the collection for all sources. Information on counterpart country is used to identify cross-border flows.

8.1 Compensation of employees

Compensation of employees to and from the rest of the world is to a large extent based on administrative tax information on income (from employment) from the Danish Tax Authority SKAT. These figures are presented gross including actual or calculated social contributions and contributions to pensions.

The tax information is supplemented by a number of smaller amounts. Examples are wages paid to foreign residents employed at Danish embassies in foreign countries, as reported by the Danish Ministry of Foreign

Affairs, as well as wages paid to Danish residents employed at foreign embassies and international organisations in Denmark, based on Statistics Denmark's special survey on the number of employees at embassies and international organisations in Denmark combined with roughly estimated wage rates. The tax information is also supplemented by wages paid to foreign construction workers employed by Danish enterprises on construction sites in foreign countries. The source for this information is the sample survey on international trade in services, which is a combination of monthly reports from approx. 400 firms and annual reports from approx. 1.300 firms conducted by Statistics Denmark since 2005.

8.2 Taxes on production and imports paid to the Institutions of the EU

Taxes on production and imports - Customs duties, Import and Export duties on agricultural produce, and Duty on production of sugar - paid to the Institutions of the EU are recorded directly in the government accounts in gross terms, before the payment of the 25 % of the customs revenues which the Member States receive as a payment for the administrative services. The source is The Danish Tax Authority SKAT and the numbers are recorded on an accrual basis.

Contributions to the EU's third and fourth own resources, which are based on VAT and GNI respectively, are recorded as current transfers to the EU in our government accounts.

8.3 Subsidies granted by the institutions of the EU

Subsidies from the EU institutions are recorded on a detailed level in central government accounts. The subsidies are related to the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), The European Fisheries Fund (EFF), The European Regional Development Fund (ERDF), The European Social Fund (ESF), and The Cohesion Fund. The expenditure and revenue on the central government accounts related to these EU grants, where the beneficiaries are classified outside of general government, are not revenue and expenditure of general government in the national accounts.

The information is very reliable and is recorded on an accrual basis. Additional information on the different types of EU grants, which is used for the classification, is received from "NaturErhvervstyrelsen, Center for tilskud", which is the Danish authority designated to receiving grants from the EU.

8.4 Cross-border property income

8.4.1 Interest

Payments of interest income can be referred to two types of instruments: Loans and deposits and debt instruments. In Denmark the information for these two categories is as follows.

Loans and deposits: Main sources are the reporting by banks and mortgage banks and direct reporting by enterprises. Grossing up is used to estimate total figures for Denmark vis-à-vis the rest of the world.

Bills, bonds and other debt instruments: Main sources are security statistics and direct reporting by banks and mortgage banks and direct reporting by enterprises. Data from the CSDB for each individual security (by ISIN code) is used to calculating interest income. In accordance with BPM6 accrued interest on discounted and premium bonds is calculated, e.g. where the issuance price are either lower or higher than the amount to be repaid when the liability matures. The calculation used is based on the debtor approach, cf. BPM6 paragraph 11.52, and is applied on both Danish residents' holdings of bonds issued by non-residents and non-residents' holdings of bonds issued by Danish residents.

There is no correction for tax withheld at source of interest income received from and paid to the rest of the world. There is no such tax in Denmark and it is not common in other countries either. Also the information is not available from the CSDB.

The FISIM correction is applied according to BPM6. Full consistency to the FISIM correction of foreign trade in financial services is secured in the BOP production system, cf. 3 and 5.

8.4.2 Distributed income of corporations

Dividends

Information on distributed income of Danish corporations is obtained from two sources. For listed companies the information is received from the VP Securities (Danish Central Depository Custodian) and for non-listed companies the information is collected by direct reporting.

Distributed income paid to Danish investors holding securities issued by non-residents is calculated by using reported information on their holdings (stocks) and information from the CSDB about the distributed income for each security.

No correction is made for withholding tax on income distributed to or received from the rest of the world. It is implicitly assumed that these taxes are always refunded to the relevant dividend recipients in either Denmark or the rest of the world.

Withdrawals from the income of quasi-corporations

After thorough investigations following transversal reservation *I The treatment of cross border property income*, it was concluded, that withdrawals from the income of quasi-corporations was not significant in the case of Denmark and that no estimate was needed.

8.4.3 Reinvested earnings (RIE) of foreign direct investment (FDI)

Reinvested earnings on FDI are based on the direct reporting by Danish companies owned by non-residents (liabilities) or by Danish companies with foreign subsidiaries (assets). The population is updated by using information from an external data provider (Bureau van Dijk) on all transactions involving Danish companies and non-resident companies.

In the direct reporting an ownership share on 20 percent is being used even though BPM6 states that this should be 10 percent. The 20 percent threshold is in line with the Danish rules for a company's annual financial report. Very few investments between Denmark and the rest of the world are positioned between 10 and 20 percent.

Reinvested earnings are calculated as the reported total profit/loss less reported distributed dividend. In accordance with BPM6 a correction is made for net extraordinary revenue or expenditure to exclude holding gains/losses.

8.4.4 Other investment income

8.4.4.1 Investment income attributable to insurance policy holders

Investment income attributable to life- and pension-insurance policy holders is reported by Danish insurance companies in a quarterly survey. The distinction between resident and non-resident policy holders are reported in an annual survey. The information about the resident/non-resident dimension from the annual survey is used to distribute the quarterly data. Credit positions are assumed to be zero.

Investment income attributable to non-life-insurance policy holders is compiled by Statistics Denmark. Basic data is reported by the Danish supervisory authorities. To establish the distinction between resident and non-resident policy holders the reported premiums on direct as well as indirect insurance in the context of foreign trade in services is used.

8.4.4.2 Investment income payable on pension entitlements

All Danish collective pension schemes encountered are insurance-based and are therefore covered by the above.

8.4.4.3 *Investment income attributable to collective investment fund shareholders*

In accordance with BPM6 reinvested earnings are calculated for investment fund shares. Data reported by Danish investment funds can be used to calculate total investment income excluding holding gains and losses. The Danish investment funds also report distributed income, and so reinvested earnings can be calculated as total income less distributed income. Information on the resident/non-resident dimension is an integrated part of the reporting.

Regarding Danish residents' holdings of investment fund shares issued by non-residents no information on the total income generated by these investment funds is available. An estimation of reinvested income attributed to Danish residents' holdings of investment fund shares issued by non-residents is made based on data for Danish investment funds. It is assumed that the implicit rates of return for Danish and non-resident investment funds with the same investment profile are the same, and then the total income attributed to Danish residents from non-resident investment funds is calculated and distributed income subtracted in order to determine reinvested earnings.

8.4.4.4 *Rent on land and sub-soil assets*

According to the criteria in ESA2010, no transactions are registered for the moment. We follow the development in the area.