With unchanged seasonally adjusted real GDP throughout 2018 compared to the fourth quarter of 2017, carry-over GDP growth would be 5.4 per cent. This is close to the *SPU 2018* forecast, implying an average quarter-on-quarter growth rate of just 0.1 per cent.

While traditionally understood to provide a more robust measure of real output than GDP, the level of **gross national product** (GNP) has also been distorted in recent years. Such persistent distortions have led to the development of a new measure of aggregate demand, namely modified gross national income (GNI*).[24] Gross value added has also been disaggregated by the CSO for both the predominantly domestic-economy sectors and for the sectors whose turnover is dominated by large, foreign-owned multinational enterprises. The direct impacts of foreign-owned multinational firms on the Irish economy – through taxation, employment, employee earnings and gross value added – are examined further in Box C.

Box C: Impact of a Large, Foreign-Owned Multinational Firm Exiting Ireland

Attracting large multinational enterprises to set up operations in Ireland has been a focus of economic policy for several decades. The scale and value-added of these firms' activities has generated substantial corporation tax receipts for the Exchequer, and also creates significant employment and generates investment in tangible goods in Ireland. This in turn contributes significantly towards income tax/PRSI receipts, and activity more widely.

The presence of these companies in Ireland could change as the result of company-specific decisions or changes in policy regimes and circumstances globally.[25] An assessment of the impact needs to go beyond only corporation tax receipts to reflect the full range of negative impacts that would simultaneously occur. This box provides a scenario analysis for direct macroeconomic, labour-market and budgetary effects of an exit from Ireland by a stylised large, foreign-owned multinational enterprise.

The Role of Foreign-Owned Multinational Firms in Ireland

In measuring economic activity, the Central Statistics Office (CSO) defines a sector as dominated by foreign-owned multinational enterprises when such firms' turnover exceeds 85 per cent of the sector's total. Such sectors comprised 40 per cent of gross value added (GVA) for the economy overall in 2016. This is a doubling of the share over the past decade, with these sectors representing 20 per cent of GVA in 2006. However, the net benefit of some foreign-owned multinational activity to the domestic Irish economy is overstated by GVA data, given the large outflow of profits from Ireland seen in net factor income from abroad. Since 2008, the foreign-dominated sectors' share of total GVA has been increasing, and had risen towards 30 per cent by 2014 even before the 2015 level-shift took place (Figure C.1A). The CSO has advised that the level-shift was concentrated among a small number of companies (Eurostat, 2016).

Detailed analysis on corporation taxes by McCarthy and McGuinness (2018) shows that €5.7 billion (79 per cent) of receipts for the 2016 tax year came from 6,219 foreign-owned

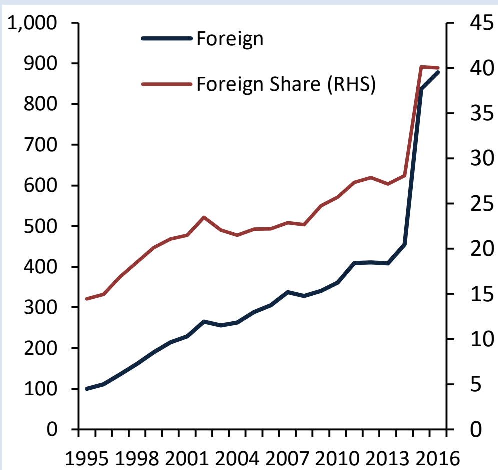
[24] Discussed in Box D of IFAC (2017c).

[25] An example from the last decade of a large firm moving operations out of Ireland is Dell, moving 1,900 jobs from Limerick in 2009 – formerly its largest manufacturing plant in the world.

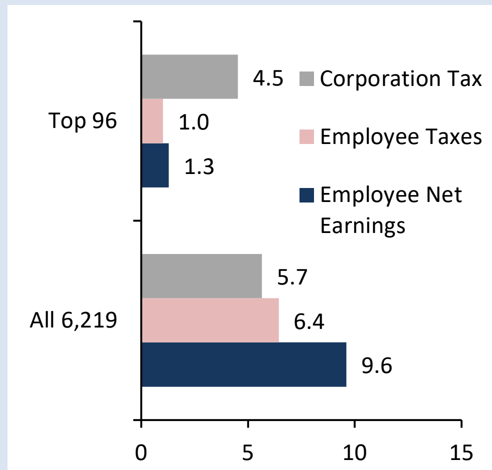
multinational enterprises. Some 435,000 employees worked for these firms, earning a combined after-tax annual salary of €9.6 billion and contributing a further €6.4 billion to the Exchequer in direct taxation for income tax, USC and Employer's PRSI. More granular data shows that the top 96 foreign-owned multinational firms each employed an average of 429 staff, with total gross salaries at €2.3 billion, of which €1 billion was paid in income taxes and employer's PRSI. Figure C.1 summarises the direct contributions of foreign-owned multinational enterprises on taxes (including employer's PRSI), employee earnings and real GVA in Ireland.

Figure C.1: Concentration Risk in Foreign-Owned Multinational Enterprises

A. Foreign Firm Real Gross Value Added
1995 = 100 (LHS), Per cent of total (RHS)



B. 2016 Taxes and Employee Earnings
€ billion



Sources: CSO; Revenue Commissioners; and internal IFAC calculations.

For the top 96 foreign-owned firms ranked by corporation tax payments for the 2016 tax year (paying at least €8 million each), the average payment was €47 million. Clearly, some of the top-paying firms among these 96 are included in the top-ten payers, whose total net corporation tax payments were €2.8 billion (37 per cent of total) for the 2016 tax year – an average contribution of €276 million.

Direct Impacts of an Exit by a Large, Foreign-Owned Multinational Firm

The impact on macroeconomic, employment and budgetary figures in Ireland due to a large, foreign-owned multinational firm exiting the economy can be illustrated using a stylised example. The scenario uses a scaled-up firm based on the relative tax liabilities of a top-ten case compared to a firm in the top 96 foreign-owned corporation taxpayers, given the absence of specific data for the very large firms. This approach relies critically on the strong assumption of common cost structures and productivity for a large firm compared to a foreign-owned firm among the top 96 ranked by corporation tax payments, which clearly may not be the case. Table C.1 derives the share of the economy-wide total for the stylised firm's data.

The stylised direct impact of a large firm leaving Ireland would be to reduce government revenues by over €330 million, close to half a per cent of total revenue in 2016. This would mostly arise due to lost corporation tax. The exit would at the same time directly reduce GVA by 1.9 per cent, whereas the reductions to employment, employee earnings and taxes would all be considerably lower with all under 0.5 per cent. However, these impacts consider only direct and stylised consequences. The overall effects would be larger when considering other consequences such as higher unemployment payments, lower value-added taxes from consumption, potential re-skilling of specialised labour supply, and other indirect impacts.

Table C.1 Direct Effects on Taxes, Earnings and Economic Activity in Ireland

€ million unless otherwise stated

	Typical Large Firm[a]	Total	Large Firm Share (per cent of Total)
Taxes and Earnings			
Corporation Tax	276	7,353	3.7
Employee Taxes/PRSI	62	15,997	0.4
Employee Net Earnings	79	30,419	0.3
Economic Activity			
Gross Value Added	4,975	255,294	1.9
Employment (thousands)	2	2,133	0.1

Sources: CSO; Revenue Commissioners; and internal IFAC calculations.
Notes: [a]The direct impacts of a typical large foreign-owned multinational firm on GVA, employment and employee taxes/PRSI and net earnings are estimated using the relative size of corporation tax payments for a top-ten firm compared to a top 96 foreign-owned firm ranked by corporate tax payments made in 2016.

In summary, the impact of a typical large, foreign-owned multinational firm exiting the Irish economy would be largest in percentage terms for corporation tax, followed by GVA, employee taxes, net earnings and employment. While relatively few jobs would be lost as a direct result of an exit, likely spillover effects would mean further lost jobs in supporting employment. There is also potential for additional exits by other large firms if the reasons for one firm to exit Ireland are more broadly applicable, rather than specific to the firm in question.

2.3.3 Short-Term Forecasts of Other Agencies

The surge in growth rates during the latter half of 2017 resulted in GDP outperforming forecasts for the year. This has led to large upward revisions to growth rates in 2018 and 2019 by other forecasting agencies. The largest forecast revision for 2018 across agencies is shown for the Department (*SPU 2018* compared to *Budget 2018*). Revisions to forecasts for 2018 and 2019 (where available) are depicted for five forecasting agencies in Figure 2.3. This compares expected GDP growth rates in October-December 2017 with updated forecasts from March-May 2018 for the same agency.