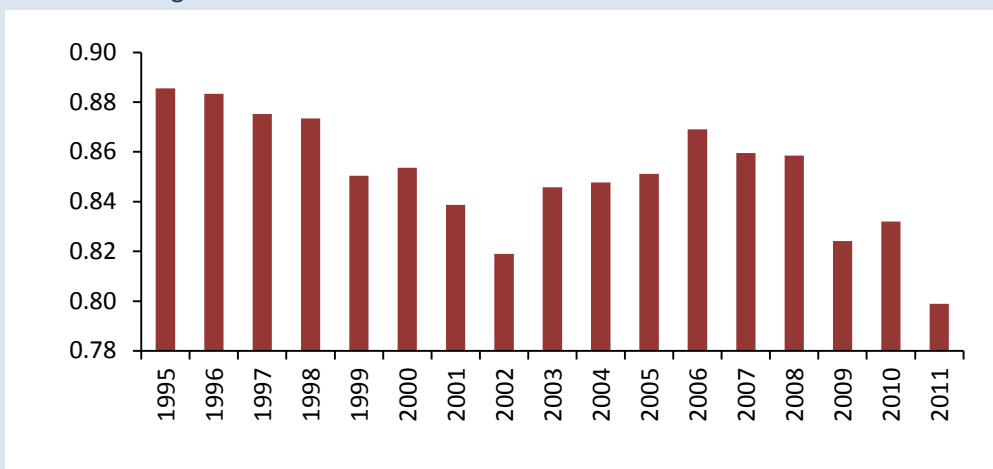


Ireland, unlike most other countries, the difference between GNP and GDP is very sizeable and also somewhat volatile. Chapter 4 discusses the implications of using GDP or GNP as the scale variable in assessing fiscal policy and indebtedness.

Box A: Measures of Output: GDP and GNP

Gross Domestic Product (GDP) measures the total output produced in an economy. Gross National Product (GNP) measures the output (domestic and foreign) accruing to residents. The difference between GNP and GDP equals net factor income from abroad (NFI). For most countries the difference between GNP and GDP is very small but in Ireland it is highly significant and volatile, with the growth rates of the two variables varying considerably in some years (Figures A1 and A2). In 2011, the level of nominal GNP was about 20 per cent (€32 billion) lower than nominal GDP. This has important implications both in terms of forecasting and in considering the appropriate scale variable to use in assessing fiscal policy and indebtedness (the latter issue is discussed in Chapter 4).

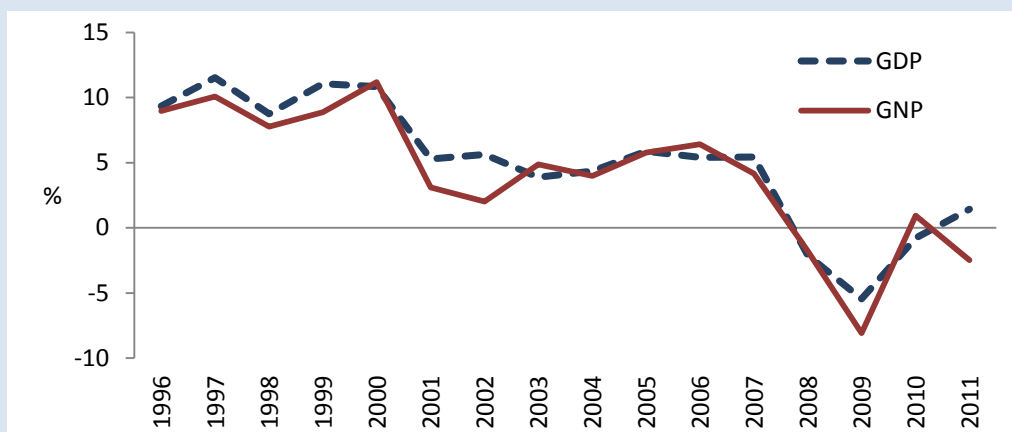
Figure A1: Ratio of Nominal GNP to Nominal GDP



Source: CSO, National Accounts Data. Note: Data at current market prices.

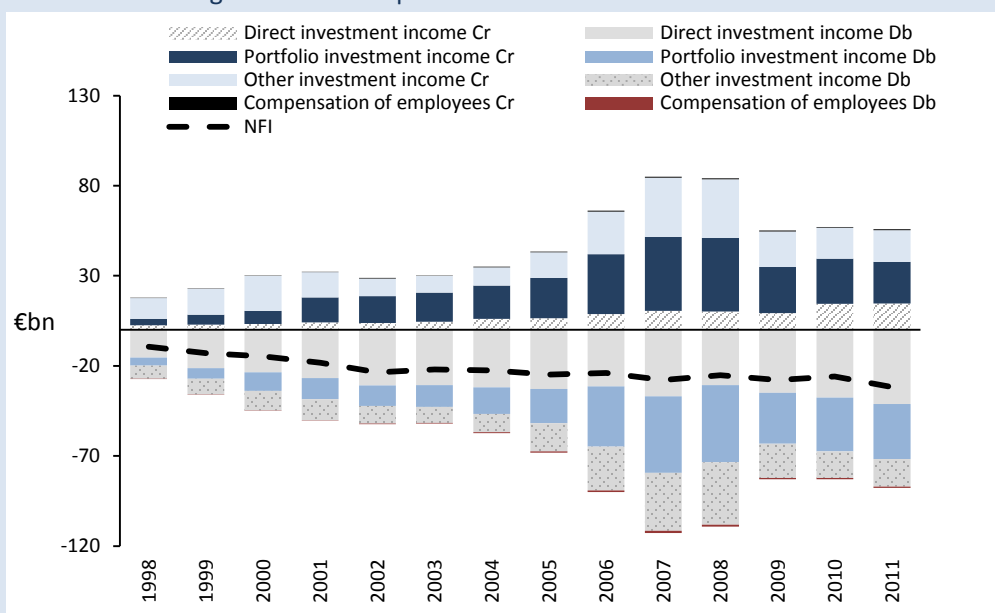
The breakdown of NFI by major category is shown in Figure A.3. A large part of NFI is the profits and dividends of foreign multinationals located in Ireland. Net interest payments, although minor to date, are beginning to grow in importance due to rising public debt service payments, which are reflected in Portfolio and Other investment income in Figure A3.

Figure A2: Real GDP and Real GNP Growth Rates



Source: CSO, National Accounts Data.

Figure A3: Components of Net Factor Income



Source: CSO, Balance of Payments Data.

Notes: Db = Debit, Cr = Credit.

The volatility of NFI in recent years partly reflects the application of particular tax management strategies at a given time. Estimation of the output and related transactions of the multinational sector often requires firm specific data, especially for large enterprises. Forecasts for NFI and GNP by the ESRI, the CBI and the Department of Finance are linked closely to projections for exports of the multinational sector, taking into account any special factors. Projections for the (increasingly important) net interest component reflect the estimated debt service payments contained in the *Budget* adjusted as applicable to take into account up to date interest rate developments.