

Box 1.1: Irish GDP developments and multinational enterprises' activities

The upward revision of the EU GDP growth rate in the first quarter of 2022 - to 0.7% q-o-q from 0.3% based on Eurostat's preliminary flash estimate - was almost entirely driven by real GDP of Ireland, which increased by a sizeable 10.8%. Irish growth in 2022-Q1 was driven by net exports (+72.6% q-o-q), which more than offset a contraction in investment (-39.4% q-o-q). The opposite pattern drove the 6.2% q-o-q GDP contraction in 2021-Q4.

Large volatility in Irish GDP (and some of its demand components) is not new, but it has increased substantially over the past decade as the weight of foreign-owned multinational enterprises (MNEs) progressively rose. ⁽¹⁾ Ireland is not the only EU Member State hosting foreign-owned MNEs, yet their weight is so large in Ireland that it affects "standard" national accounts aggregates for both the Irish economy and the EU economy at large.

What drives volatility is not the large presence of MNEs per se, but rather some of the transactions they conduct, such as large-scale relocation of sales proceeds and assets across countries. These follow primarily from transfers of intellectual property assets between Irish and non-Irish subsidiaries of MNEs and contract manufacturing agreements (see below). ⁽²⁾ On top of this, Ireland is a major hub for MNEs operating in the aircraft leasing industry – with as much as 50% of the world's leased commercial aircraft managed from Ireland. ⁽³⁾

From a national accounts perspective, a number of these activities are broadly neutral in terms of their impact on aggregate GDP, though they affect its demand components. Other activities affect both GDP and its components.

For example, in the case of transfers of intellectual property assets across subsidiaries of a same MNE, normally the acquisition of the asset is recorded on the date of the transfer, implying a simultaneous increase in imports and gross fixed capital formation. As the magnitude of the two is broadly similar and time of recording always coincides, they cancel each other out with no effect on GDP in the quarter in which they are recorded. ⁽⁴⁾ The same applies in the case of acquisition of aircrafts by an Irish leasing company, with the acquisition being booked as imports of goods. ⁽⁵⁾

Contract manufacturing is a form of outsourcing, whereby an Irish hiring company enters an agreement with a foreign-based company to manufacture most or all parts of its products. In national accounts, the acquisition of material inputs and payment of royalties towards the patents required to make the final goods are registered as imports, even if production inputs never enter the territory. If (as is often the case) the final goods are sold to customers outside Ireland, these are booked as export of goods, even though the goods might never enter the Irish territory. ⁽⁶⁾ Time lags between acquisition of inputs and sales can lead to important fluctuations in GDP, with imports possibly being registered in one quarter and exports in subsequent quarters.

More recently, Ireland has also seen a surge in domestic value added in pharmaceuticals, thanks to the development of cutting-edge immunology drugs produced in Ireland. Moreover, sizeable investment in computer hardware production, e.g. the semiconductors plant at Leixlip, and significant expansion of

⁽¹⁾ [According to the Irish Central Statistical Office](#), foreign owned MNEs represented more than 85% of value added in the industries of Chemicals and chemical products, Software and communications sectors, Reproduction of recorded media, Basic pharmaceutical products and pharmaceutical preparations, Computer, electronic and optical products, Electrical equipment, Medical and dental instruments and supplies.

⁽²⁾ [The impact of multinationals' transfers on Irish GDP | Banque de France \(banque-france.fr\)](#)

⁽³⁾ According to the [Central Bank of Ireland](#), the impact of the aircraft leasing sector on GDP can be approximated by the share of Operational Leasing revenues from BOP statistics in GDP. This ratio was about 4% in 2021.

⁽⁴⁾ The intellectual property investment has however a net positive effect on future GDP developments, since (all things equal) it generally leads to lower imports/higher exports of royalty payments. A similar reasoning applies to the acquisition of aircrafts (see below).

⁽⁵⁾ [Moving to a Transfer of Economic Ownership Basis for Trade in Aircraft - CSO - Central Statistics Office](#)

⁽⁶⁾ [Contract Manufacturing - CSO - Central Statistics Office](#)

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Box (continued)

several computer services companies located in Ireland boosted value added in the ICT sector. ⁽⁷⁾ Even if these sectors are dominated by MNEs, the related surge in investment, exports and imports largely reflects activity taking place in Ireland and – contrary to the transactions discussed above – cannot be seen as a “statistical distortion”. The value of individual transactions and potential time lags in recording, nevertheless, are such that they also contribute to large fluctuations in GDP and components. (For a discussion of how these operations affected Irish GDP and demand components in 2021-Q4 and 2022-Q1 see the country section on Ireland).

The Irish Central Statistics Office (CSO) regularly publishes a number of alternative metrics, such as Modified Domestic Demand and Modified Gross National Income (or GNI*), that net GDP out of the MNEs-related activities. Modified Domestic Demand includes government consumption, household consumption and investment, excluding investment in imported intellectual property and aircraft for leasing. The aggregate is available on a quarterly basis. These statistical adjustments to Irish national accounts for domestic purposes, while useful to understand the dynamics of the (non-MNE) Irish economy, cannot be included in the EU or euro area GDP aggregates, as they are not based on internationally comparable definitions.

⁽⁷⁾ [Contract Manufacturing - CSO - Central Statistics Office](#)

machinery and equipment investment growing strongly for the second quarter in a row (by 2.9% after 2.6%).

By contrast, real household consumption contracted for a second quarter in a row.

Real private consumption in the EU decreased by 0.5% in the first quarter, following a drop of 0.3% in the last quarter of 2021. Faced with high inflation, consumers reduced the volume of their consumption, but still disbursed more than in the previous quarter. The wedge between nominal and real consumption was particularly large for non-durable consumer goods, which contracted by around 1% in real terms, while increasing in nominal terms by 4%. Retail trade data confirms that in response to rising fuel and food prices, households cut their consumption also on other categories of goods, including clothes. Real consumption of durable goods decreased too, likely also under the impact of long delivery times and high uncertainty. This is especially true for car parts and repairs as well as for information and communication equipment, where the volume of retail sales contracted by between 1% and 2% q-o-q in the first quarter. Households on lower incomes are impacted the most by the high energy bills and food prices, as a larger share of their spending is on these basic items (see Box 1.2). Persisting pandemic-related restrictions also explain part of the weak consumption, as that of services increased only modestly.

The household saving rate edged up again in the first quarter, while household investment increased further.

According to preliminary 2022-Q1 sector accounts, the household saving rate increased to 15% (from 14.1% in the previous quarter). Households allocated a lower share of the increase in nominal disposable income to consumption. This halted the continuous decline in the household saving rate observed since the second quarter of 2021. At the same time, the investment rates for households increased further, reaching the highest value since the first quarter of 2009.

Business survey indicators lost momentum over the second quarter but remained at relatively high levels.

According to the European Commission’s business surveys, confidence in industry has declined significantly from its record high pre-war levels but remains well above its long-term average. The decrease is mainly due to a significant drop of production expectations, signalling some fading of momentum. At the same time, the assessment of order books managed to stay close to historical highs. Also managers’ assessment of past production trends remained broadly stable over the second quarter. On the upside, the S&P Global manufacturing PMI supply delivery indicator shows that supply side bottlenecks are attenuating in the euro area. For the services sector, the European Commission’s survey points to a stable assessment of the past business situation and