Ireland’s ‘de-globalised’ data calculate a smaller economy

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Vincent Boland in Dublin

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The Irish economy is about a third smaller than expected. The country’s current account surplus is actually a deficit. And its debt level is at least a quarter higher than taxpayers have been led to believe.

These are some of the startling results thrown up by a new measure of Irish economic activity adopted by Ireland’s official statisticians. The measure, known as “modified gross national income” and presented as GNI*, is an attempt to de-globalise one of the world’s most open economies.

GNI* — which will be published as an annual measure of activity alongside more traditional quarterly data such as gross domestic product — has added to the confusion surrounding how well the Irish economy is faring as it emerges from the worst financial collapse in its modern history, and what is making it tick.

“What it shows is that we’ve got a weird economy,” says Tom Healy, director of the Nevin Economic Research Institute, a think-tank.

He believes the volatility of official Irish economic data is related at least in part to Ireland’s role as a hub for global corporate tax management. Companies based in Ireland may be adding more assets to their operations there to take advantage of its low corporate tax rate, because of tentative moves in the US and internationally to reform the way companies are taxed.

“A lot of companies are just positioning themselves for tax reform — you can see that by reading between the lines,” Mr Healy says.

The search for a new measure for Irish economic activity started a year ago when it emerged that Ireland’s GDP — a traditional barometer of economic activity used by investors when making decisions on where to put their money — had expanded by 26 per cent in 2015, because of internal restructuring at some of the big multinationals based in the country.

It was the highest rate of annual growth any developed country had reported and generated headlines around the world. Embarrassed by what Paul Krugman, the economist, denounced as "leprechaun economics", Ireland's policymakers were determined to avoid a repeat.

This year a study steered by Ireland's central bank concluded that, if a measure of activity were required that eliminated wild fluctuations and would be consistent over time, it should be along the lines of GNI*. The Central Statistics Office last week published its first set of data using this benchmark.

The outcome was sobering. Using GDP data, the value of the Irish economy in 2016 was €275bn. Using GNI*, it was just €190bn. The lower figure was reached by excluding the profits of US companies with big operations in Ireland, such as Google, Microsoft and Pfizer, and the effects of the depreciation of the assets domiciled in Ireland by the aircraft leasing sector, for which Dublin is a global hub.

Dermot O'Leary, chief economist at Goodbody Stockbrokers, says Ireland "is one of a small number of countries that have such a scale of distortion as a result of foreign direct investment".

The new measure also revealed that Ireland's current account surplus, the difference between exports and imports, is a deficit when measured against the new benchmark.

> We've got a weird economy

Another consequence is that the country's headline debt level, of about 75 per cent of GDP, is 106 per cent of GNI*.

This reinforces the point made last week by the National Treasury Management Agency, which manages Ireland's €200bn of government debt, that the country remains highly indebted. Irish per capita sovereign debt is nearly twice the EU average, the NTMA said.

The GNI* figure is unlikely to weigh on Ireland's investment-grade credit rating but is a further warning shot to policymakers that the economic recovery from the financial crisis is still a work in progress.

Still, GNI* provides information that Irish taxpayers may have been missing in recent years about what is happening to the domestic economy, which is dominated by small and medium enterprises, farming and agrifoods. "What you're trying to measure is the real income and output of real people living in Ireland," says Professor John Fitzgerald of Trinity College Dublin.

The CSO will continue to use GDP as its main economic indicator. Using that measure, the Irish economy grew 5.1 per cent last year, and shrank 2.6 per cent in the first quarter of 2017.

Jennifer Banim, assistant director-general of the CSO, says the alternative measure is aimed at "removing the effects of globalisation" from economic data that "will be more stable over time" and "more immune to shocks and one-off activity".

Its introduction is resonating beyond Ireland, with the EU and the International Monetary Fund, which participated in the central bank review group, waiting to see whether GNI* will, as it were, measure up.

Christopher Sibley, the CSO's senior statistician, says: "The whole global statistics industry is interested in what we are doing."

Dublin's statistics dilemma

Ireland's case points to the important but little remarked upon difference between a country's gross domestic product — that is, the income generated by its economy — and its gross national income, which is what is available to its residents, **writes Valentina Romei**.

The distinction usually matters to statisticians rather than policymakers, since for most industrial countries the two measures are similar and the terms can be used almost interchangeably. But Ireland's gap between its GDP and its GNI is large and rising.

The difference between GDP and GNI is what statisticians call "net factor income from abroad" — mostly wages earned by cross-border workers, repatriated profits and dividends of foreign-owned companies operating in the country.

Because there are so many foreign companies in Ireland, its GDP is more than 20 per cent larger than the GNI figure — the largest proportional difference among the 70 largest national economies that account for more than 97 per cent of global GDP. Twenty years ago the difference in Ireland was about 10 per cent.

Grappling to convey the underlying story of Irish economic activity, statisticians have gone a step further with a measure of "modified gross national income" or GNI*, stripping out other factors related to Ireland's status as a favoured foreign investment destination. The largest difference is accounted for by depreciation on intellectual property related to research & development.

Using GNI rather than GDP measures shows Ireland as less prosperous. It is 20 per cent richer than the US in terms of GDP per capita, but poorer in terms of GNI per capita. Irish GDP per capita is more than 60 per cent larger than the eurozone average but only about half that much larger in GNI per capita.

Similarly, financial stability measures tend to look gloomier in GNI terms. According to the Irish statistics office, Irish government debt in 2015 was 79 per cent of GDP but 100 per cent of GNI.

And while the fiscal deficit did not look too bad at 1.9 of GDP, as a proportion of GNI it was a much less flattering 3.4 per cent — outside the EU limit of 3 per cent.