

## ESRI RESEARCH NOTE

The Irish economy in the 2020s

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## Abbreviations

CJEU	Court of Justice of the European Union
CSO	Central Statistics Office
CT	Corporation tax
GDP	Gross domestic product
GNI*	Modified gross national income
GVA	Gross value added
ICT	Information and communications technology
MNE	Multinational enterprise
NIE	National income and expenditure accounts
NNI	Net national income
NNP	Net national product
OECD	Organisation for Economic Co-operation and Development
PLC	Public limited company
PPP	Purchasing Power Parity

## 1. Introduction

Since 2019 the growth in national income in Ireland has been impressive, averaging almost 5 per cent a year. We investigate the drivers of this growth and the extent to which growth is translating into higher standards of living for those living in Ireland.

Net national income (NNI) is preferred as an estimate of the income available to those living in Ireland. Unlike modified gross national income (GNI\*), it excludes the capital used up in producing Ireland's national income – depreciation.<sup>1</sup> In addition, our approach allows for national income to be split out, both by sector and into the contributions from the domestic and foreign sectors of the economy.

We also isolate the impact of windfall corporation taxes on growth in national income over the past decade. Average annual growth in national income would have been one percentage point lower in the period since 2019 without windfall corporation taxes. Much of the apparent shift in the structure of the economy towards the foreign sector is also explained by windfall corporation tax receipts. The domestic productive sector shows up as playing a larger role in recent growth when windfall corporation tax receipts are removed.

This contribution extends the focus on windfall corporation tax receipts beyond their impact on the public finances. In particular, they are shown to materially affect both the share of national income coming from foreign sectors and the overall growth rate of the economy in the 2020s.

## 2. Methodology

The role played by foreign-owned firms is central to understanding recent developments in the Irish economy and the standard of living of its residents. Well-documented distortions to national accounts statistics caused by the activities of multinational firms must be accounted for. This note applies the method developed in a contribution to the Commentary by

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<sup>1</sup> GNI\* excludes the profits of redomiciled public limited companies (PLCs), as does our preferred measure in this paper. These are large multinational corporations whose headquarters are located in Ireland but whose management and operations are largely carried out abroad. As such, the profits they accumulate have little to do with the Irish economy.

Fitzgerald (2020) and applied in Fitzgerald (2023) and Fitzgerald (2024). In this note we show net national product (NNP) by industrial sector and by institutional sector for two additional years.<sup>2</sup> In doing so, we combine data from the CSO's institutional sector accounts and national accounts, and the Revenue Commissioners' accounts.

The tables below show the composition of NNP at factor cost. After adjusting for taxes and subsidies it becomes NNI at market prices. The profits earned by multinational enterprises (MNEs) are excluded from NNP, but the corporation tax paid on these profits is included because this income is available to those living in Ireland.

In the case of NNP, the factor income of redomiciled public limited companies (PLCs) is also excluded here as, unlike profits earned by MNEs, there is no corresponding outflow of income because these funds take much of their income as capital gains.

Table 1 shows how gross domestic product (GDP) at market prices relates to our preferred measure of output, NNP, highlighted in blue, through a series of transformations.

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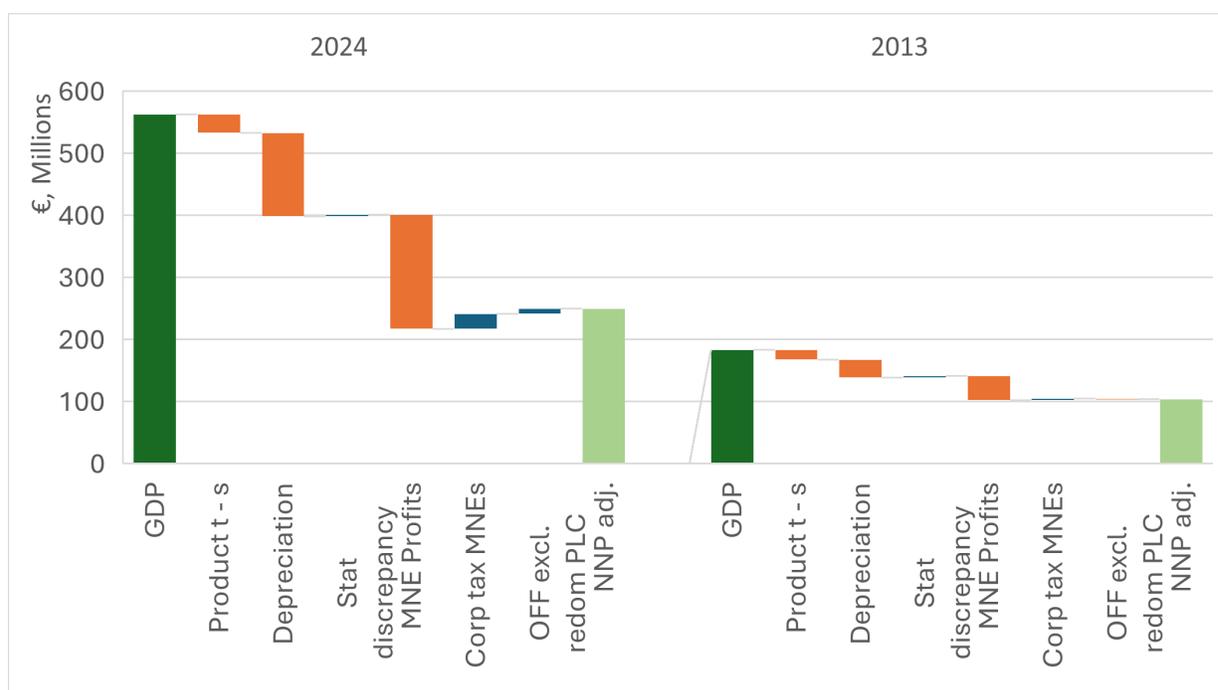
<sup>2</sup> Throughout this note, 'sector' refers to the NACE Rev.2 classifications of sectors, e.g. Manufacturing, Construction etc.; while 'institutional sector' refers to the classifications used in the Central Statistics Office's (CSO) institutional sector accounts, e.g. Households, Foreign-owned non-financial corporations etc.

**TABLE 1** Calculating preferred measure of adjusted NNP

GDP at market prices	Add product subsidies		
	Less product taxes	=	GDP at basic prices
GDP at basic prices	Less depreciation		
	Less MNE profits		
	Add back MNE CT	=	NNP excluding all other factor flows
NNP excluding all other factor flows	Add other factor flows excluding redomiciled PLCs	=	NNP excluding redomiciled PLCs
NNP excluding redomiciled PLCs	Add income of redomiciled PLCs	=	NNP
NNP	Add certain indirect taxes and deduct subsidies	=	NNI

Figure 1 shows the monetary values of some of the variables in Table 1. It presents the walk between GDP and the preferred adjusted NNP measure in 2013 and in 2024. Adjusted NNP is 2.4 times larger in 2024 than it was in 2013 at current prices. However, increases over this period in depreciation (4.8x), the profits of multinational firms (4.7x), and the corporation tax paid by MNEs (8.4x) have been much larger.

The continued growth in the size of the multinational-related elements of the economy underlines the need for a reliable adjusted measure of national income. Other measures like modified gross national income (GNI\*) can provide such a reliable adjusted measure but the key advantage of using NNP is that it can be decomposed by industrial sector and by institutional sector, helping us understand what is happening in the economy.

**FIGURE 1 GDP to NNP walk, 2013 and 2024, current prices**

Note: T - S refers to taxes less subsidies, OFF refers to other factor flows.

Some imputation is necessary to split adjusted NNP into the contribution from the foreign and domestic sectors. Specifically, depreciation and corporation tax must be allocated by NACE sector across the foreign and domestic sectors. In Appendix A, we outline our approach to the allocation of corporation tax across sectors. The windfall component of corporation tax is assumed to come from the foreign sector entirely. The figures for windfall corporation tax are taken from the Irish Fiscal Advisory Council estimates for the period 2015–2020 and from Department of Finance estimates for the period 2021–2024.

### 3. Share of activity from foreign sector

The publication of the institutional sector accounts on an annual basis allows for a more long-term perspective on the changing structure of the Irish economy. Table 2 shows the average share of adjusted NNP by industrial sector in two periods, 2013–2018 and 2019–2024. These figures include the windfall corporation tax receipts. The foreign sector accounted for 29 per

cent of output on average in the later period, a notable increase from the corresponding figure of 19.7 per cent for the earlier period.

This breakdown is useful in capturing changes in the relative shares of each industrial sector and the relative size of the domestic and foreign components of each sector. For example, the construction sector has increased its share of output from 4.4 per cent to 5.4 per cent across the two periods. This increase has been concentrated in the domestic component of the construction sector.

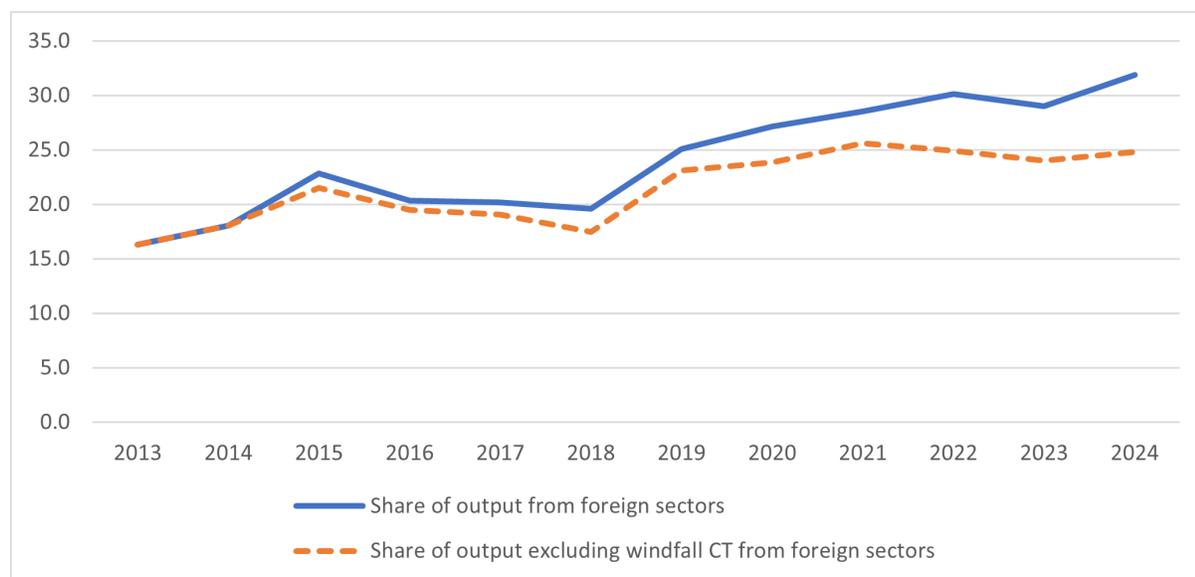
**TABLE 2** Average share of NNP by industrial sector, current prices, 2013–2024, %

	2013–18			2019–24		
	Total	Foreign	Domestic	Total	Foreign	Domestic
Agriculture, forestry and fishing	1.4	0.0	1.4	1.8	0.0	1.8
Manufacturing	12.0	7.0	5.0	14.4	10.5	4.0
Electricity, gas and water	1.9	0.1	1.8	1.7	0.1	1.6
Construction	4.4	0.3	4.1	5.4	0.5	4.9
Distribution, transport, hotels	20.2	4.3	15.9	16.8	4.2	12.7
Information and communication	6.5	3.9	2.6	8.7	6.4	2.2
Financial and insurance activities	8.4	3.8	4.6	6.8	3.6	3.3
Real estate activities	7.9	0.2	7.7	8.4	0.2	8.2
Professional, admin etc.	11.8	2.8	9.0	13.3	3.9	9.4
Public admin, education and health	21.4	0.4	21.0	19.5	0.5	19.1
Arts, entertainment and other etc.	2.7	0.2	2.5	2.2	0.1	2.1
Factor income – Profit repatriations	49.0	49.0	n.a.	71.1	71.1	n.a.
NNP after profit repatriations	98.6	23.0	75.6	99.1	30.0	69.2
Factor income – other, excluding redomiciled PLCs	-1.4	3.3	-4.7	-0.9	1.0	-1.8
NNP adjusted for redom. PLCs	100.0	19.7	80.3	100.0	29.0	71.0

The key sectors where foreign firms play a major role are manufacturing, ICT, distribution, and financial and professional services. A major part of the output of manufacturing and ICT is exported, as well as a significant share of professional services output. Manufacturing has increased its share of national output, primarily because of an increase in the output of the foreign-owned pharmaceutical firms.

Foreign firms are also important in the distribution sector, supplying goods and services for the domestic sector, though the sector's overall share of activity is declining. The professional services sector has increased its share of national output over the two time periods, and much of that output comes from domestic firms.

Although useful, the breakdown provided above is influenced by recent windfall corporation tax receipts, which are concentrated in the manufacturing and ICT sectors. Although windfall receipts began during the period 2013–2018, they averaged €1.2 billion in that period. Since 2019, windfall receipts have averaged €8.7 billion. In the context of adjusted NNP averaging €191 billion, this is a significant addition to national income that is unrelated to domestic economic activity. Figure 2 shows that increases in the foreign share of adjusted NNP are much more modest when windfall corporation is excluded.

**FIGURE 2** Foreign share of NNP, including and excluding windfall corporation tax

The relative stability since 2019 in the foreign share of NNP, after windfall corporation tax has been excluded, is mirrored by the foreign share of wages. Table 3 shows that this share is higher in the later period but the increase is more modest than the headline increase in the foreign share of NNP outlined in Table 2. Within the manufacturing sector, the share of total wages is the same but there is evidence of a clear shift towards the foreign component.

**TABLE 3** Share of total wages by industrial sector, 2013–2024, %

	2013–18			2019–24		
	Total	Foreign	Domestic	Total	Foreign	Domestic
Agriculture, forestry and fishing	0.8	0.1	0.8	0.9	0.1	0.8
Manufacturing	12.2	6.9	5.3	12.2	7.8	4.4
Electricity, gas and water	1.3	0.1	1.1	1.2	0.2	1.0
Construction	3.9	0.5	3.4	4.7	0.7	4.0
Distribution, transport, hotels	21.0	6.0	15.0	18.4	5.7	12.6
Information and communication	7.4	4.4	3.0	9.6	7.0	2.6
Financial and insurance	8.8	5.2	3.6	7.7	5.0	2.8
Real estate activities	0.9	0.2	0.6	0.9	0.3	0.6
Professional, admin, support	11.9	3.9	8.0	14.5	5.2	9.3
Public admin, education, health	29.4	0.5	28.9	27.8	0.7	27.1
Arts, entertainment etc.	2.4	0.3	2.1	2.1	0.2	1.9
<b>Total</b>	<b>100.0</b>	<b>28.2</b>	<b>71.8</b>	<b>100.0</b>	<b>32.9</b>	<b>67.1</b>

#### 4. Impact of corporation tax on recent growth in national income

The continued receipt of large amounts of windfall corporation tax impacts our understanding of recent growth in national income. Before taking account of the windfall nature of these receipts, headline growth in national income has been underpinned by growth in the foreign-owned sector of the economy producing tradable goods and services, largely for export. However, when the windfall corporation taxes are excluded, the contribution to growth of foreign MNEs, while still very important, is reduced.

Table 4 shows the growth rate of NNP for the periods 2013–2019 and 2019–2024, including and excluding the windfall corporation tax. As expected, the impact of excluding windfall taxes is more pronounced in the later period. Excluding the windfall corporation taxes reduces the growth in NNP in the

period 2019–2024 – from 4.8 per cent a year to 3.6 per cent a year. However, this still represents a robust growth rate, especially when compared to other EU economies. Annual rates are presented in Appendix C.

**TABLE 4** Average annual growth rates: NNP and other indicators constant prices, %

	2013 – 2019	2019 – 2024
NNP	3.5	4.8
NNP excluding windfall CT	3.2	3.6
GNI* from NIE	4.0	4.9
GDP from NIE	10.3	6.0
Modified total domestic demand	4.9	4.0
Employment	3.2	3.4

The impact of windfall corporation taxes also affects our understanding of the sources of growth.

This is illustrated in Table 5, which shows the rapid growth in the volume of output in the foreign-owned manufacturing and ICT sectors with and without the windfall taxes.<sup>3</sup> It also shows how the growth in NNP is affected by the windfall revenues.

Three export-oriented sectors<sup>4</sup> contribute over half of national income growth; ‘Manufacturing’, ‘Information and communication’, and ‘Professional, admin etc.’<sup>5</sup> Among these, the ‘Professional, admin etc.’ sector is the only one where domestic firms made a substantial contribution to growth.

<sup>3</sup> We assume that one-half of windfall receipts come from manufacturing and one-half from ICT.

<sup>4</sup> Input-output tables from 2022 identify manufacturing, ICT and professional services as the three sectors where over half of output is exported. Our analysis shows that these three sectors account for over 60 per cent of headline national income growth since 2013.

<sup>5</sup> The ‘Professional, admin etc.’ sector is a combination of NACE sectors M and N, namely ‘professional, scientific and technical activities’ and ‘administrative and support services activities’.

**TABLE 5** Average annual growth rate by sector, 2013–2024, %

	2013–19			2019–24		
	Total	Foreign	Domestic	Total	Foreign	Domestic
Agriculture, forestry and fishing	14.1	7.3	14.4	6.6	1.7	6.7
Manufacturing	4.9	9.0	-0.6	9.4	13.0	1.0
Manufacturing excl. windfall CT	3.6	6.9	-0.6	4.7	6.6	1.0
Electricity, gas, and water	-3.5	7.8	-4.1	16.3	26.6	15.3
Construction	6.5	2.7	6.9	0.2	2.8	0.0
Distribution, transport, hotels	4.7	7.4	4.0	1.7	2.1	1.6
Information and communication	8.2	13.5	0.6	13.2	15.8	6.7
Information and communication excl. windfall CT	5.5	9.3	0.6	5.9	5.4	6.7
Financial and insurance activities	-3.7	-1.2	-5.8	6.7	4.8	8.5
Real estate activities	2.3	6.7	2.2	3.9	2.1	4.0
Professional, admin etc.	7.9	9.7	7.3	6.4	7.0	6.1
Public admin, education and health	2.6	7.2	2.6	3.0	10.4	2.8
Arts, entertainment and other etc.	6.6	3.2	6.9	-0.1	-4.0	0.1
NNP	3.5	4.9	3.0	4.8	7.1	3.9
NNP excluding windfall CT	3.2	3.8	3.0	3.6	2.6	3.9

Overall, while the foreign sector accounted for 33.5 and 44.9 per cent of headline growth in the two periods; this falls to 28.9 and 17.8 per cent when windfall taxes are excluded.

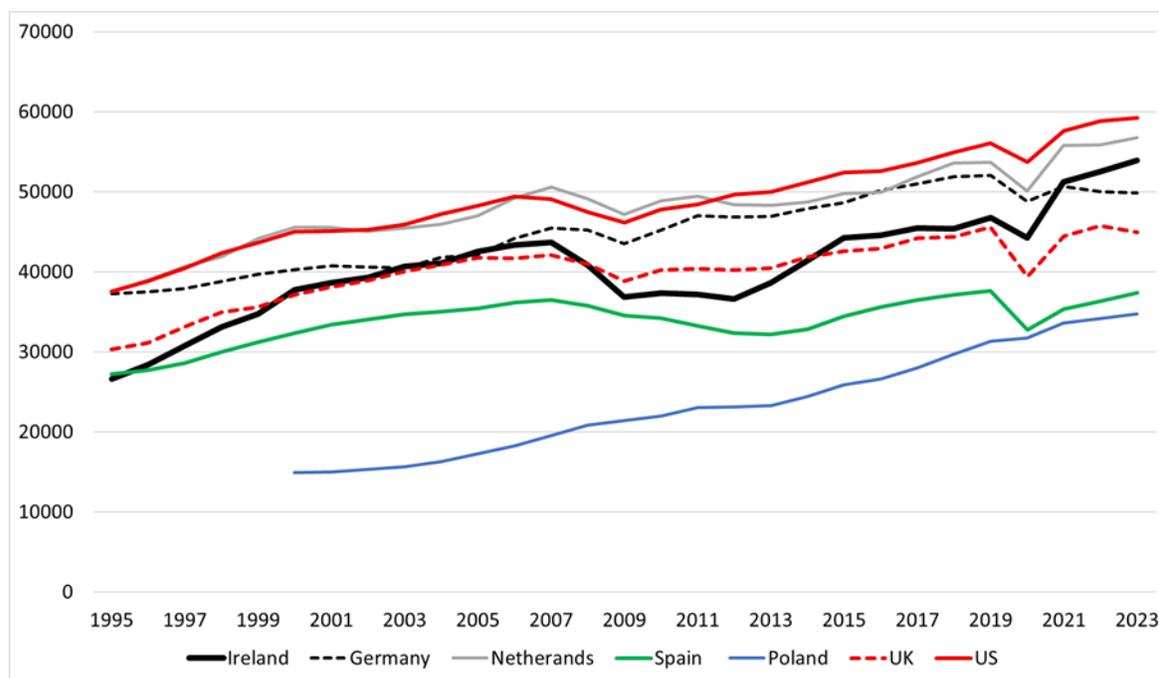
## 5. Cross-country trends in national income per capita

In the previous section we considered the contribution to growth in Ireland by different industrial sectors, cross-classified by domestic and foreign firms. It helps us understand the robust performance of the Irish economy since the financial crisis. This outcome contrasts with the performance of many of our neighbours over the same period. In this section, we consider how Irish growth in living standards has compared with that in other Organisation for Economic Co-operation and Development (OECD) countries.

Statistical offices are moving to recommend that when comparing growth rates across countries, NNI should be used rather than GNI. This is because the difference between the two reflects depreciation on capital, which should properly be treated as a cost of production. That is why we concentrated on the growth in Irish NNI/NNP in the previous section.

Unlike GDP, data on NNI are broadly comparable across countries, including Ireland. (The difference between the Irish data presented here and the adjusted NNP measure used in Sections 2 and 3 is that the OECD data do not adjust for incomes of redomiciled PLCs.)

Figure 3 shows OECD data on NNI per head for a range of countries, adjusted for purchasing power parity (PPP). This allows a comparison of living standards across countries. While national income per worker has not increased much in Ireland, national income per capita is growing strongly by European standards. The figure shows the gradual convergence of national income in Ireland to the US level in recent years. Within the EU, the Netherlands has followed a rather similar path, while countries such as Germany and the UK have not kept up.

**FIGURE 3** Annual net national income per capita, US \$, volume, constant PPPs

As discussed above, the rapid growth in key sectors of the Irish economy has underpinned the overall success of the Irish economy when compared to its neighbours. However some, but not all, of this outperformance has relied on the windfall corporation tax receipts.

## 6. Conclusion

The analysis in this paper shows that the very real progress made by the Irish economy in recent years has, indeed, been supported by the rapid growth in the foreign-owned firms operating in the manufacturing and IT sectors here. However, the paper also shows that the domestic sector has played a more important role than previously thought, in particular with the growth in the export-oriented professional services sector. The rapid progress of these export sectors has, in turn, underpinned an expansion of the rest of the economy, including the public sector, providing goods and services for Irish households.

Some of this economic success is attributable to so-called windfall corporation tax receipts. As shown in Table 4, while the average growth in NNP over the period 2019–2024 was 4.8 per cent a year, this falls to around 3.6 per cent a year when windfall taxes are excluded. However, even this lower growth rate contrasts very favourably with the recent experience of other OECD economies, and has supported a significant rise in the standard of living in Ireland.

When windfall taxes are excluded, average annual growth in NNP is only slightly higher than the average growth in employment (see Table 4). This raises questions about the need to increase productivity in domestic sectors of the economy, such as construction.

As has been highlighted in the past by the ESRI, the Irish Fiscal Advisory Council and the Central Bank of Ireland, the windfall nature of some of the corporation tax revenue means that it can't be relied upon to support our standard of living. Instead, a significant share of the exceptional revenue should be saved. Even if such savings were implemented in future Budgets, the underlying rapid growth would still allow a steady improvement in living standards.

Finally, the analysis in this paper has been based on combining the information in the CSO's national accounts with its institutional sector accounts data. In the future, the CSO might consider undertaking some of this analysis themselves, as they would have access to additional data that cannot be published, which would provide a fuller understanding of what is happening in the Irish economy.

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## Appendix A – Allocation of corporation tax across sectors

The corporation tax receipts in 2024 resulting from the Court of Justice of the European Union (CJEU) ruling are excluded. While a sum of €14.1 billion was accrued in 2024 for the purposes of calculating the General Government Balance, just €10.95 billion was received in the year 2024. This income is a transfer of income generated during the years 2003–2014. Therefore, it should not be included as income in 2024. It appears to have been recorded in the 'Wholesale and retail trade; repair of motor vehicles and motorcycles' sector in the Revenue Commissioner data.

In addition, this exercise applies a similar methodology to previous work in allocating corporation tax across sectors. In a group of companies, it is the sector of the subsidiary that pays the tax rather than the sector of parent company that is recorded. Cronin (2023) outlines how treasury firms within company groups in the ICT and pharmaceuticals sectors make large

corporation tax payments in Ireland. We calculate an implied tax rate by sector based on the Revenue data.

For the more domestically oriented sectors,<sup>6</sup> the implied tax rates are reasonable and we allocate the corporation tax to the foreign and domestic institutional sectors based on their share of net operating surplus for the sector. For sectors with stronger multinational focus, the implied tax rates are implausibly high. We therefore take the average rates for the domestic and foreign sectors. In practice, this results in a significant reallocation of corporation tax away from the financial and insurance sector and into manufacturing.

## **Appendix B – Choice of deflator**

Fitzgerald (2024) outlines that different results are observed depending on whether the deflator chosen is derived from the net value added series, or the gross value added series. We apply the gross value added deflator in this analysis.

## **Appendix C – Annual growth rates for variables presented in Table 4**

The table below shows the estimated annual growth rates for NNI estimated in this paper. The figures do not exclude windfall corporation tax receipts. While they are correlated with the estimates in the national accounts, they do differ each year, in some cases by a significant amount. (Some of the difference is because the constant price figures in our measure are added up to give the total for NNI while the CSO uses chain-linking.) However, the average growth rates over the 11 years are identical to those in the national accounts. Interestingly the average growth rate in GNI\* and in modified domestic demand over the same period are also identical to that for NNI.

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<sup>6</sup> Agriculture, forestry and fishing; Mining and utilities; Construction; Real Estate; Public admin; Arts and other

TABLE 6 Annual growth rates: NNP and other indicators constant prices, %

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Average Annual 2013-2024
NNP, basic prices	3.4	-3.4	9.4	1.1	9.1	2.0	0.7	9.6	1.9	9.9	2.0	4.1
NNI from NIE	9.4	-0.5	2.7	3.5	2.4	1.8	-3.3	19.2	0.2	8.7	4.5	4.2
GNI* from NIE	8.8	1.8	2.5	4.4	2.4	2.2	-2.5	13.8	3.3	5.7	4.8	4.2
GDP from NIE	9.4	24.6	1.2	10.1	7.7	5.0	7.2	16.3	7.5	-2.5	2.6	7.9
MDD	6.6	5.9	4.3	4.6	3.4	2.6	-3.8	7.8	10.2	6.1	0.3	4.3
Employment	2.6	3.4	3.7	3.1	3.0	3.1	-2.5	6.6	6.9	3.4	2.7	3.3

Note: Modified total domestic demand is used in this table. MDD=Modified domestic demand.