

Box 4: Exposure of the public finances to the ICT sector

The fog is gradually lifting on the post-pandemic economic landscape, though it will be some time before there is full clarity on what the 'new-norm' might be.

At a minimum, some reallocation of workers and firms across sectors is likely, as households, governments and firms adapt to *inter alia* hybrid working.

One sector that appears to be adjusting more quickly than others is the ICT sector, which expanded rapidly during the pandemic but where prospects are now being re-evaluated.

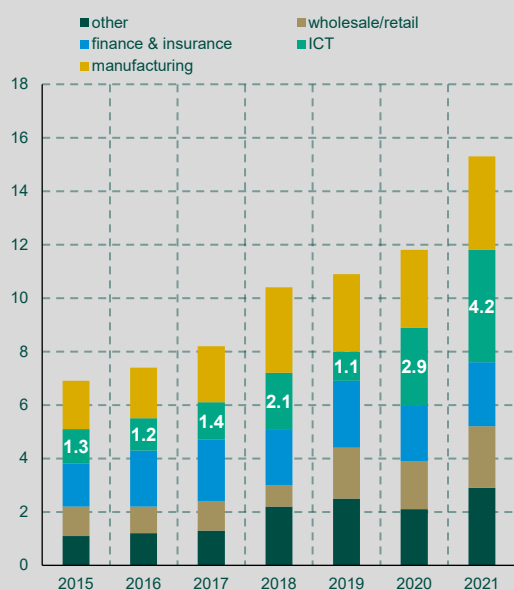
From an Irish economic perspective, this sector is of strategic economic importance: industrial policy has long been geared towards expanding the sector in Ireland *inter alia* because ICT services can be exported at very little cost (and, hence, reduce Ireland's geographical disadvantage[^]). In addition, employment in the sector is relatively knowledge-intensive and, accordingly, remuneration levels higher than average.

Available data show that around 165,000 people are employed in the ICT sector in Ireland, c. 6.4 per cent of total employment. This figure that would be somewhat higher if indirect effects were taken into account. Because the sector is largely composed of higher-wage earners, income tax payments in the sector amounted to €2.7 billion in 2021 (latest year for which data are available), 10 per cent of the total income tax-take.

As well as generating 28 per cent of Irish exports last year, the sector also accounted for €4.2 billion in corporation tax receipts in 2021 (figure 13A). This equated to over one-quarter of the total corporation tax-take that year. Preliminary data suggest that the share increased further last year and now accounts for around one-third of overall corporation tax receipts. Overall, the ICT sector contributed some €7.5 billion in tax receipts in 2021 (12 per cent of total tax receipts) (figure 13B).

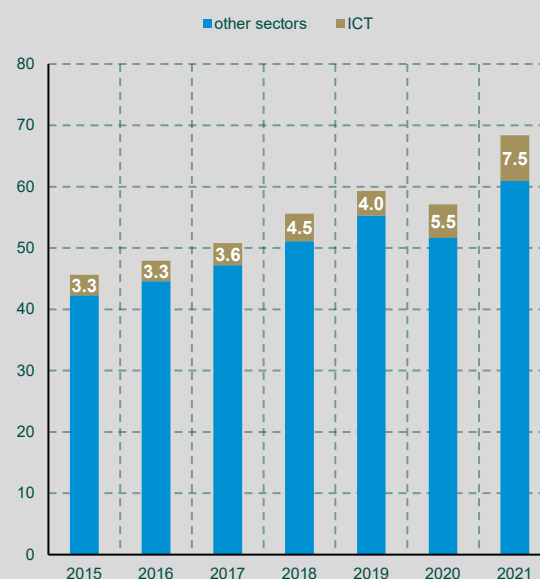
Figure 13: ICT and corporation tax

A: corporation tax receipts by sector, € billions



Note: ICT includes ICT manufacturing in 2021.^{^^}
Source: CSO, Department of Finance calculations.

B: sectoral distribution of tax receipts, € billions



Note: ICT includes IT, VAT, CGT and CT receipts.
Source: Revenue Commissioners.

The tax data, therefore, confirm a significant exposure of the public finances to the ICT sector. The ultimate extent of the correction in the sector is clearly unknowable, though the baseline labour market scenario assumes that the ICT sector remains relatively resilient. That said, a more painful adjustment cannot be ruled out.

The re-normalisation of the sector is a reminder that economic activity in Ireland is relatively concentrated and that micro-economic (or sectoral) shocks can have macroeconomic implications.

[^] Ireland does not have a comparative advantage in heavy manufacturing because of its peripheral location and small domestic market. On the other hand, economic research confirms a comparative advantage in the production of human capital-intensive, physically light goods and services.
^{^^} ICT manufacturing includes technology firms that are, for statistical purposes, classified in the manufacturing sector.