

National Competitiveness Council publishes Ireland's Competitiveness Scorecard 2017

20 July 2017

STRONG MACROECONOMIC PERFORMANCE IS MASKING THREATS TO NATIONAL COMPETITIVENESS

FOUNDATIONS OF FUTURE GROWTH MUST BE SECURED

ENSURING GROWTH IS SUSTAINABLE AND GENERATING AN UPLIFT IN ENTERPRISE COMPETITIVENESS AND PRODUCTIVITY IS VITAL TO ENSURE IMPROVEMENTS IN LIVING STANDARDS

The National Competitiveness Council (NCC), today (20 July 2017) published its annual benchmarking report, Ireland's Competitiveness Scorecard 2017. The Scorecard provides a statistical assessment of Ireland's competitiveness performance with regard to a range of countries with which we compete for trade and investment.

Based on the analysis herein, the Council finds that many facets of Ireland's competitive performance continued to improve over the last year. Economic growth, improved public finances, trade performance and a strong labour market performance have all contributed to Ireland's improved international competitiveness. The exporting sectors of the economy continue to perform strongly and many of Ireland's traditional strengths (such as our competitive taxation regime, highly educated, young, labour force, and supportive environment in which to do business) remain. Reflecting this strong economic performance, Ireland moved from 7th to 6th in the IMD's annual World Competitiveness Yearbook 2017.

The Council however is concerned that our strong performance from a macroeconomic perspective is overstating our overall competitiveness position and masking weakness in the underlying drivers of future competitiveness performance and sector specific challenges, particularly related to costs and productivity. Furthermore, the Council warns that while the overall economic outlook for Ireland is positive, the economy faces significant downside threats, including Brexit, a potential shift in trade and taxation policy in the US, and the uncertain nature of global growth, particularly, the potential for slower than projected growth in the UK and US. This makes it crucial that we address those factors within our control.

Speaking at the launch of the report, Professor Peter Clinch, Chair of the Council commented, "The competitiveness and consistency of our tax offering, legal, regulatory and administrative environment, cost base, the availability of talent, technology and property solutions will remain vital to our ability to withstand the ebb and flow of global economic developments and external economic shocks. While Ireland's overall economic performance is strong, the economy faces significant downside threats, including Brexit, a potential shift in trade and taxation policy in the US, and the uncertain nature of global growth. We are at a critical juncture in terms of ensuring the foundations for future competitiveness are in place. We face major competitiveness challenges in developing the resilience of the enterprise base particularly in light of Brexit, and ensuring the environment in which to do business remains competitive, particularly in terms of costs, skills availability, infrastructure capacity and productivity".

To ensure sustainable growth, the Council considers we must ensure our fiscal position remains sustainable. While we must continue to compete from a taxation perspective, we should avoid any narrowing of the tax base and ensure the tax system supports and rewards employment, enterprise, investment and innovation. Developing our infrastructure base, while complying with the EU's fiscal rules, is a fundamental challenge to enhancing competitiveness. Measures to reduce infrastructure bottlenecks including by improving and prioritising public investment, particularly our capacity to deliver regionally connected projects in line with the National Planning Framework are essential. Related to infrastructure prioritisation, meeting Ireland's climate change commitments and transitioning to a low emissions economy presents significant challenges and opportunities at sectoral level and will be central to the direction of long term economic growth prospects. In an international context Ireland ranks strongly when it comes to developing, attracting and retaining talent. However, a rapidly improving labour market and positive inflation is likely to pose challenges for competitiveness in terms of sector skill shortages and costs. The return to sustained levels of growth has resulted in upward cost pressures at sectoral level (e.g. labour) and property costs. Ireland's labour productivity performance is strong in an international context. However, Ireland's performance has been greatly affected by shifts in the composition of employment and the influence of a number of high value added sectors on output. As a small open economy, any deterioration in our cost competitiveness will have a major negative impact upon growth, employment and our standard of living.

Brexit has underlined the importance of generating uplift in enterprise competitiveness to secure future jobs and growth. A more diverse export base can reduce exposure to external demand shocks, exchange rate fluctuations and instability in export earnings, upgrade value-added, and enhance growth and jobs. Policies to facilitate enterprise evolve into new products, markets and sectors, whilst maintaining the competitive advantages we enjoy in existing ones, are critical at this time. Bridging the productivity gap that exists between the most productive firms and lagging firms is a major challenge to sustainable growth prospects. Facilitating workplace innovation and delivering uplift in management skills and labour force quality at all levels is particularly vital. Ensuring Irish enterprise stays at the forefront of technology and innovative activity, is able to access competitively-priced finance from a variety of sources remains an important challenge. From a competitiveness perspective, the returns from innovation are a vital component in securing productivity growth, diversifying and broadening the enterprise and exports base, growing FDI, and creating competitive advantage in intellectual property and commercial products and services.

Professor Clinch continued "The scale of the challenges which confront us have magnified over the past year since the Brexit referendum result. It brings into sharp focus the need for Ireland to maintain and improve our competitiveness performance across a range of areas such as infrastructure, ease of starting a business, talent, tax and innovation. Only a renewed focus on competitiveness will enable us to achieve sustainable improvements in living standards help us withstand external shocks and factors beyond our control".

The Council will consider many of the issues highlighted in the Scorecard report and will put forward proposals to address them in its annual *Competitiveness Challenge* report which will be published later this year.

NOTES TO EDITORS

The main conclusions from the most recent National Competitiveness Council analysis are summarised below.

Key Findings

- Ireland's improving competitiveness performance over the period 2011-2017 has been central to the recovery in employment and economic growth. The report concludes that the drivers of growth are becoming more balanced. While exports remain the key contributor, export growth and the composition of goods exported from Ireland has become increasingly concentrated
- Since 2011, Ireland's relative international competitiveness as measured by a range of international indices has improved. Ireland moved from 7th to 6th in 2017 in the IMD's World Competitiveness Yearbook, and from 24th to 23rd in the WEF Global Competitiveness Report. In addition, the World Bank's most recent "Doing Business" report shows Ireland is now ranked 18th out of 190 countries.
- The Council considers the sustainability of growth and improvements in living standards is under serious and imminent threat if we do not redouble our efforts at national level to improve our competitive position relative to other countries.
- Careful management of the public finances within the EU budgetary guidelines will remain a challenge, particularly in light of the need to address growing infrastructure and funding deficits, and to ensure that the economy does not overheat. Ireland's exposure related to the concentration of corporation tax receipts among a very small cohort of firms remains a risk and it is essential that the tax base is broadened in line with the OECD tax hierarchy for growth. This contends that taxes on immobile bases, such as property, and consumption are less distortive than those on personal and corporate income. Any loosening of fiscal discipline (i.e. unsustainable current expenditure increases, or narrowing the tax base for example) at this stage would undo much of the progress achieved to date, and would have potentially significant negative implications for future competitiveness.
- In terms of the business environment, Irish income and corporate tax rates remain competitive but international competition is increasing. Conditions for enterprise have improved – evidenced in Ireland's improved performance across a range of metrics, such as business efficiency, economic performance and government efficiency.
- While access to and affordability of credit has improved, Irish firms continue to face higher interest rates and greater volatility in those rates than their competitors abroad. Irish interest rates on business loans have been consistently higher than equivalent Euro area rates.
- Ireland's labour productivity performance is strong in an international context. However, Ireland's performance has been greatly influenced by shifts in the composition of employment and the influence of a number of high value added sectors on output. The effects of corporate restructuring, including the relocation of firms with significant IP assets and aircraft leasing, led to noteworthy increases in total output and hence labour productivity, particularly in 2015
- In terms of physical and knowledge infrastructure, Gross Fixed Capital Expenditure continues to recover. However, current levels of investment will be insufficient to meet emerging needs. Public investment (2.4% of GDP) remains below the Euro area average (2.7%) and inadequate capital investment, left unaddressed, will damage competitiveness and adversely impact future economic growth. Delivering the level of investment required over the medium to long term, while complying with the EU's fiscal rules, is a fundamental challenge to enhancing competitiveness.

- Ireland's knowledge base represents important competitiveness strength. The output from formal education of third level and STEM graduates is among the highest in the OECD. Of concern, however, are the GDP spend per capita on tertiary education, the high proportion of the labour force Not in Employment, Education or Training (NEET) and the low levels of lifelong learning. In addition, levels of investment in R&D as a percentage of GNP remain low.
- While there have been some positive developments in terms of cost competitiveness, Ireland remains an expensive location to do business – its price profile is described as 'High cost, rising slowly'. The return to robust economic growth has resulted in a range of price pressures emerging with regard to labour, property, insurance and business services costs.
- Employment growth is strong and total employment is still below pre-crisis employment levels. Long term unemployment and youth unemployment levels are declining, they remain high. Ensuring skills and labour market mismatches do not grow and aligning labour market needs with education and training output remains critical to competitiveness.
- Based on the analysis herein, the Council finds that while Ireland's competitive performance continued to improve into the first half of 2017, a number of downside risks persist. In terms of the positive messages emerging, overall economic growth is being sustained, resulting in employment growth and a more favourable fiscal balance. Ireland performs relatively well in objective measures of well-being (income, education attainment, air and water quality) and health. Conversely, factors weakening our competitiveness include Ireland's continued high cost base, our dependence on a narrow range of exporting sectors, a series of labour market challenges (i.e. relating to long term and youth unemployment), infrastructural bottlenecks and relatively weak productivity performance in many sectors of the economy.

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The full report is available at www.competitiveness.ie/publications/

For further information contact Press Office, Department of Jobs, Enterprise and Innovation: Phone: 01- 6312200; e-mail: press.office@djei.ie

About the National Competitiveness Council

The National Competitiveness Council reports to the Taoiseach and the Government on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

Each year the NCC publishes three annual reports.

1. The Costs of Doing Business in Ireland report is a requirement under the Action Plan for Jobs benchmarks key business costs and highlights areas where Irish enterprise costs are out of line with key competitors.
2. Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance.
3. Ireland's Competitiveness Challenge uses this information along with the latest research to outline the main challenges to Ireland's competitiveness and the policy responses required to meet them.

As part of its work, the NCC also publishes an annual Submission to the Action Plan for Jobs and Competitiveness Bulletins on specific competitiveness issues.