National Competitiveness and Productivity Council
Budget 2026 and Competitiveness: Navigating Uncertainty

- **Competitiveness remains a central focus in political discussions both nationally and globally, increasingly reinforced by the ongoing climate of economic and political uncertainty.**
- **Although Ireland's competitiveness ranking remains relatively strong, there are significant and longstanding challenges which continue to threaten its competitiveness position.**
- ***Ireland's Competitiveness Challenge 2025* report places a clear emphasis on addressing those challenges that come within domestic control (or 'controlling the controllables'). This *Pre-Budget Outlook* – the second in our annual series – highlights those recommendations that are most pertinent to *Budget 2026*.**
- **The Council sees the recently published *Action Plan on Competitiveness and Productivity* as setting out key overarching actions to be taken in order to address current vulnerabilities, and *Budget 2026* will play an important role in allocating public funds to address discrete issues.**

INTRODUCTION

Ireland's global competitiveness ranking remains strong, although there are significant and longstanding challenges which threaten Ireland's competitiveness. These challenges are the focus of this year's ***Pre-Budget Outlook*** paper by the NCPC. The Council's annual *Ireland's Competitiveness Challenge* report, published in June, has sought to contribute to the development of Budget 2026 and has also provided an important input into the development of the *Action Plan for Competitiveness and Productivity*. The latter was published on 10th September.

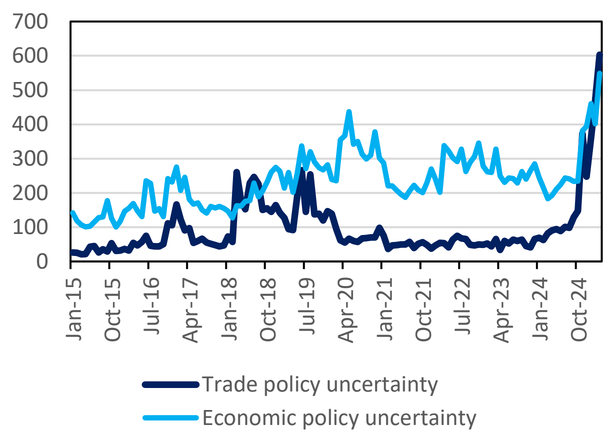
This year's Challenge report emphasises those challenges that come within the sphere of our domestic control (or 'controlling the controllables'). In July, An Taoiseach hosted a second Competitiveness Summit, at which the Challenge report was discussed, emphasising the need for Ireland to take account of global uncertainty and to use all its policy tools to strengthen the competitiveness of the Irish economy for large, medium and small businesses.

BUDGET CONTEXT

Whilst the *Action Plan on Competitiveness and Productivity* will be of key importance in setting out those overarching actions to be taken in order to address current vulnerabilities, Budget 2026 will also play an important role in allocating public funds to address discrete issues. This paper highlights and reiterates those recommendations from this year's Challenge report that are most pertinent to Budget 2026.

Budget 2026 is being prepared against an increasingly challenging global economic backdrop. As shown in Figure 1 below, there has been a significant rise in global policy uncertainty over the last 12 months which is triggered by actions that inhibit cross-border trade including tariffs, export restrictions and other non-tariff barriers.

Figure 1. Policy Uncertainty Indices, 2015-2024[1]



Source: OECD Interim Economic Outlook, March 2025.

The Government's *Summer Economic Statement (SES) 2025* set out an overall budgetary package of €9.4bn., including €7.9bn. for spending (increased by 7.3% since last year) and a €1.5bn. tax package. This reflects the continuation of a process over several years whereby the Government has continued to breach its own National Spending Rule. Total public expenditure has increased by 54% since 2019, rising from €67.3 billion to over €105 billion in 2025. As assessed by the Central Bank of Ireland, while the pace of growth in Government expenditure is projected to decline in the coming years, it is still expected

[1] Figure 1 assesses how often the terms "trade policy" and "uncertainty" appear together in major newspaper articles. A value of 100 on the index means that 1% of all articles contain both terms, providing a quantifiable gauge of trade-related uncertainty over time.

to be larger than the increase in underlying revenue (5.9% compared to 5.3% in 2027)[2].

The *SES* also suggests that Budget 2026 will focus on investment over consumption in order to address infrastructure gaps and to boost economic resilience. It notes that economic resilience can be improved via non-budgetary policy interventions as well, for instance, reduction in regulatory burdens proposed in the recently published *Action Plan for Competitiveness and Productivity*, Additionally, Government has recently published a review of the National Development Plan (NDP) which includes an additional €34 billion in capital spending over the period 2026 to 2030[3].

The Council is of the view that consistent and sustainable domestic policies can provide a competitive advantage for Ireland and can contribute to enhancing its reputation. Over the past decades, Ireland's institutions have provided strong and steady policy certainty, and this has contributed towards a positive environment for business growth and investment. The source of this certainty includes prudent management of our fiscal resources. Ireland should ensure that it continues to be recognised as a country where both indigenous and foreign enterprise can make secure investments for future developments.

IRELAND'S COMPETITIVENESS CHALLENGE 2025

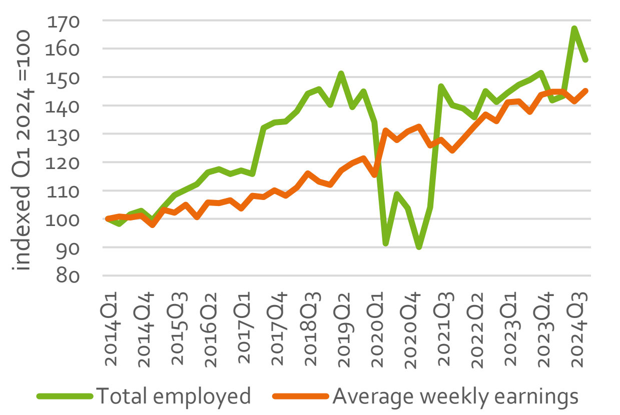
Ireland is highly exposed to disruptions in international trade and to external factors. The resultant uncertainty may increase risks in business planning, dampen investor confidence, delay key decisions, and lead to foregone investment opportunities. These impacts are likely to constrain growth and increase our vulnerability to shocks.

Consequently, the Council's Challenge report for 2025 continues to emphasise the importance of Government maintaining fiscal discipline and recommends that it adhere to its own national spending rule. This will safeguard the public finances, while avoiding excessive demand stimulus, helping to prevent inflationary pressures. This recommendation is set in the context of a significant expansion of public expenditure and public sector employment over the last decade. While such expenditure has enhanced the capacity of the State, its sustainability is contingent on an ongoing increase in revenue. Government should prioritise productivity-enhancing reforms in areas that are within domestic control (particularly in addressing the infrastructure deficit) which will strengthen Ireland's capacity for sustainable growth **(Recommendation 1.1).**

For instance, the current Programme for Government includes a commitment to reduce VAT for the hospitality sector, made at a time before the full extent of the current global economic and political uncertainty were clear. Current estimates indicate that a reduction from 13.5% to 9% in VAT on the Food and Beverage sub-sector alone would cost the Exchequer a total of €626 million on a full-year basis going forward[4]. Whilst many sectoral representatives have highlighted difficult trading conditions, the Challenge report drew on recent data to show that that there has been a net expansion in the number of firms in Ireland's hospitality sub-sector, as well as in employment and earnings (see Figure 2).

As shown in Figure 3, this sector has also made a visible recovery post-pandemic, as measured by Gross Value Added (GVA). Consequently, the rationale underpinning the any change merits careful consideration[5] in light of the changed global situation, particularly as VAT is payable by the consumer (rather than the service provider).

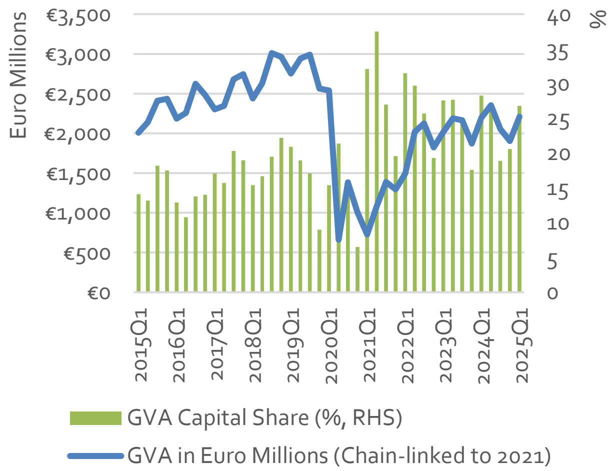
Figure 2. Index of total employment and average weekly earnings in Food and Beverage Service Activities, Q1 2014 - Q1 2025



Source: CSO

[2] Quarterly Bulletin – QB2 2025, Central Bank of Ireland, 19th June 2025.
[3] Government publishes updated National Development Plan July 2025.
[4] This measure would also disproportionately benefit larger firms as a result of their higher turnover (rather than smaller and/or more vulnerable firms).
[5] A more focused set of policy actions targeted at specific underlying operating cost pressures would likely be more effective.

Figure 3. Gross Value Added in Accommodation; Food and Beverage Service Activities, Q1 2025 - Q1 2025



Source: CSO

Recent trends towards deglobalisation and defensive trade patterns in the global economy have also emphasised the importance of EU membership and significance of deepening ties with other global trade partners. This year's *Challenge* report notes the risk arising from the high concentration of Irish trade with United States firms, and the potential impact of the current US approach to trade policies. By aiding Irish firms in their efforts to diversify export markets and supply chains, some of these trade risks can be mitigated **(Recommendation 2.4).**

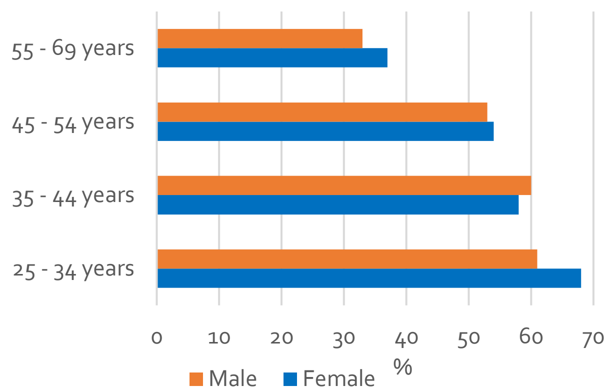
The innovation gap between the EU and other regional trading blocs has been highlighted in the Draghi Report as a key barrier to regional competitiveness. Irish indigenous firms are also lagging behind multinational groups in terms of research and development activity. Furthermore, and more importantly, recent analysis by Lawless (2025)[6] finds a systematically lower level of productivity among domestic enterprises in Ireland compared to domestic enterprises in other small European economies.

Scale appears to be a significant explanatory factor. It raises the issue of whether the dual structure of Ireland's economy is drawing resources away from the sectors dominated by domestic-facing SMEs. During a period of uncertainty, when fiscal discipline is of key importance, the Government should prioritise productivity-enhancing investments in domestic SMEs.

The Government also should ensure that indigenous Irish enterprises are well placed to avail of increases in EU innovation and competitiveness funding and that Irish firms are supported to be able to participate in Important Projects of Common European Interest (IPCEI) (**Recommendation 2.1).** Additionally, the Government actively explore opportunities arising from the EU's renewed focus on industrial strategy following the publication of the Draghi Report. For example, there are potential growth opportunities for Irish industry presented by initiatives such as the Clean Industrial Deal **(Recommendation 2.2).**

In an increasingly technology-driven economy, education and skills developments are particularly crucial drivers of competitiveness and productivity. By fostering a stronger culture of continuous learning, Ireland can maintain its competitive advantage in education and skills; this will further enhance productivity and economic growth, as well as build a thriving workforce of the future. While Ireland had been strong in its investment in formal education, it has been less proactive in relation to life-long learning. Figure 4 below shows that the participation rate for lifelong learning is much lower among males over 55 years old, with only 33% compared to over 50% for all other age cohorts. As a result, the Council is drawing attention once again to the need for reform of the National Training Fund (NTF) to ensure its central role in promoting investment in lifelong learning.

Figure 4. Lifelong learning participation rate (last 12 months) by gender and age, 2022



Source: Adult Education Survey, CSO

It is recommended that the NTF should be strategically targeted to increase lifelong learning participation among underrepresented groups (such as older male workers)

[6] Hare or tortoise? Productivity and growth of Irish domestic firms | ESRI

and among workers in sectors of rapid change. This year, the Council also suggests that consideration should be given to setting an upper limit on the surplus funds in the NTF and that a new Action Plan on Lifelong Learning (LLL) should be developed **(Recommendation 5.2).** This should focus on creating a comprehensive and high-quality LLL model for Ireland, and one which could be used by all Government Departments to promote LLL for private sector workers across the various sectors under their remit.

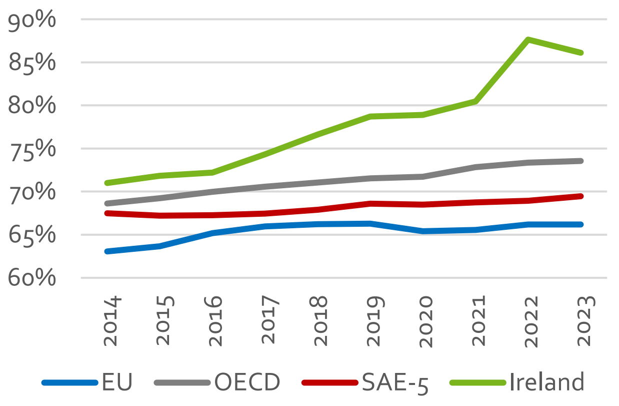
ENHANCING IRELAND'S PRODUCTIVITY

In June 2025, the IMD Competitiveness Rankings showed a significant drop in Ireland's ranking on the *Productivity and Efficiency* sub-theme under the Business Efficiency pillar (falling by 16 places to 22nd). This represents a particular risk although it is not necessarily out of sync with broader EU developments. For example, the recent Draghi report identified a greater need to focus on competitiveness and innovation within the Single Market)[7].

Investment in research, development and innovation (RD&I) – in addition to the associated upskilling and training – is recognised internationally as a key driver of long-term competitiveness. RD&I supports the development of new technologies and processes, while skills ensure that people apply them effectively, combining to drive productivity. It is, however, important to point out that the performance of RD&I system depends not just on the quantum of investment, but on the balance of investment between the public and private sectors. While Ireland's overall RD&I intensity has improved, a deeper issue lies in the composition of GERD (Gross Expenditure on R&D).

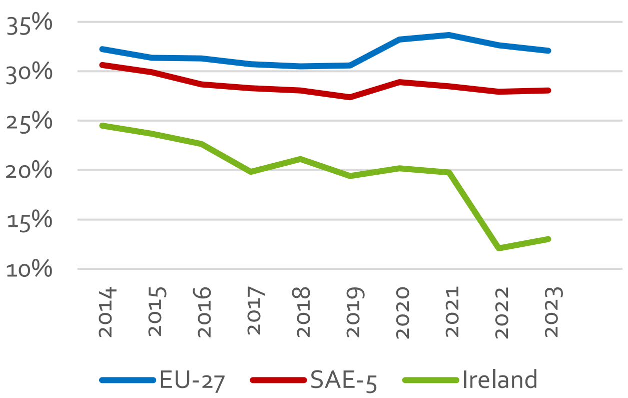
Ireland is heavily reliant on the private sector in driving overall GERD with the public sector contributing only a very small fraction, in comparison with peer economies. This is most striking when we compare Ireland to a group of five other small, advanced economies[8] (hereafter: the SAE-5 group) (see Figure 5). In order to bring Ireland into line with the SAE-5 in terms of the Government budget allocations for R&D (or GBARD), a significant amount of additional investment will be required. As shown in Figures 5 and 6, it is clear that Ireland's RD&I system is dominated by business (i.e., private sector)-funded R&D expenditure (BERD), while other similar economies have adopted a more balanced model, underpinned by sustained public investment and institutional support.

Figure 5. Expenditure on R&D (BERD as % of GERD), 2014-2023



Source: OECD and Eurostat

Figure 6. Expenditure on R&D (GBARD as % of GERD), 2014-2023



Source: OECD and Eurostat

Advanced technologies offer a key opportunity to deliver productivity improvements across the public sector and within Ireland's domestic enterprise base. As noted above, Ireland's productivity landscape continues to be characterised by a persistent gap between productivity in smaller, Irish-owned enterprises and large multinationals. Addressing this divide will require investment in digitalisation and advanced technologies to improve productivity within domestic enterprises.

Significant opportunities also exist to enhance public service efficiency through the prioritised adoption of AI

[7] Bulletin 25-4: IMD World Competitiveness Rankings - Competitiveness

[8] SAE-5 average includes Belgium, Denmark, the Netherlands, Austria and Finland.

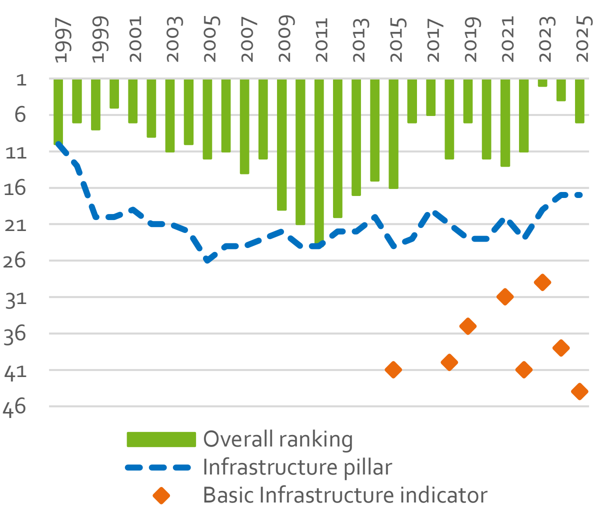
technologies. This needs to be supported by a clear national strategy and implementation plan, in order to unlock capacity and drive productivity gains **(Recommendation 6.2).** As mentioned above, fostering a stronger culture of continuous learning will help to further enhance productivity and economic growth.

The low levels of RD&I investment among many SMEs remains an ongoing challenge in Ireland, underscoring the need for targeted incentives to drive new-to-firm innovation and support the adoption of advanced technologies, strengthening the productive capacity of domestic firms **(Recommendation 6.3).** A cohesive, system-wide approach to RD&I will also be necessary to align national strategies and ensure effective execution of national priorities.

INFRASTRUCTURAL DEFICITS

Infrastructure continues to be Ireland's most critical competitiveness deficit, evident in a low position in the IMD World Competitiveness Rankings (see Figure 7 below). Since 1997, Ireland has never been in a higher position than 10th in terms of Infrastructure pillar globally and typically lower than 20th. More specifically, Ireland continues to score poorly under Basic Infrastructure indicator compared to other countries assessed by IMD rankings. For example, our ranking for this indicator has fallen from 29th position in 2023 to 44th position this year.

Figure 7. IMD World Competitiveness Rankings for Ireland, 1997-2025



Source: IMD World Competitiveness Rankings

It is critical that Ireland enhances the delivery of economic infrastructure to address persistent and growing deficits. Significant infrastructural demand arising from strong population growth and economic activity, combined with an insufficient supply response has resulted in a legacy of growing – and increasingly pressing – deficits in housing, energy, water, wastewater, and transport. In moving to finance the reduction in these deficits, however, it is important to take into account any likely implications for cost-competitiveness over the short to medium-term, so that economic balance is retained.

There will be significant investment through the updated NDP, and Government needs to prioritise and sequence key economic infrastructure in policy decisions **(Recommendation 4.1)**. In order to prioritise, the Government must be well appraised of future population dynamics which can be influenced by employment trends, among others. While recent action on planning reform is welcomed by the Council, persistent delays – such as in decision making on public projects and judicial reviews in relation to planning appeals – continue to hamper our ability to meet targets. This remains problematic and is a theme the Council intends to revisit again with more detailed analyses.

Additionally, Ireland now faces increased competitiveness challenges due to elevated business costs. While Ireland remains a price-taker on most international markets, firms face a wide variety of domestically originating cost increases which prove challenging. These include increases in the cost of doing business arising from outstanding and continuing legacy issues, such as legal and insurance costs. Infrastructure-related cost recovery through the regulatory system, including covering investment, maintenance, and operation further drives up prices facing businesses and households. In shaping *Budget 2026*, the Government should review whether the funding models currently in place ensure the appropriate balance in how investment in energy, water, and wastewater infrastructure is funded by central government and end-users **(Recommendation 3.3(b)).**

CONCLUSION

Ireland's competitiveness ranking remains strong globally, although our position has been trending downwards in recent years. This would suggest that Government should do more to address Ireland's competitiveness and productivity challenges. While the Council welcomes the recently published *Action Plan on Competitiveness and Productivity*, it wishes to see the forthcoming Budget make provision to deliver on the recommendations highlighted and discussed above, which are in line with the Action Plan's direction.

As the Budget occurs in a context of heightened uncertainty, it is crucial to address those challenges that come within domestic control (or 'controlling the controllables'), and which threaten Ireland's competitiveness, such as low SME productivity and infrastructural deficits. Furthermore, any household and business supports to deal with current pressures should be highly targeted to where need and impact is greatest. Addressing these issues is vital if Ireland is to maintain and further improve its competitiveness position.

The NCPC reports to An Taoiseach and the Government, through the Minister for Enterprise, Tourism and Employment, on the key competitiveness and productivity issues facing the Irish economy and makes recommendations to Government on how best to address these issues. The latest NCPC publications can be found at: www.competitiveness.ie.

This Pre-Budget Outlook paper has been issued by the Chair, Dr. Frances Ruane, and was prepared by Erika Valiukaite, Rory Mulholland, Dr. Keith Fitzgerald, Patrick Connolly and Dr. Dermot P. Coates in the NCPC Secretariat.

APPENDIX: RELEVANT RECOMMENDATIONS FROM COMPETITIVENESS CHALLENGE 2025

Recommendation 1.1:

The Council recommends that the Government exercises fiscal restraint and adheres to the national spending rule to safeguard the resilience of the public finances during this period of significant uncertainty. Priority should be given to investment in competitiveness and productivity-enhancing reforms, particularly in areas within domestic control – most notably in addressing the infrastructure deficit.

Responsibility: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Finance

Recommendation 2.1:

In the face of deglobalisation trends, the Council recommends that Ireland:

(a) ensures that indigenous Irish enterprises are well placed to avail of increases in EU innovation and competitiveness funding. This should be complemented by measures which seek an ambitious expansion of innovation activity among Irish firms.

(b) enhances our engagement with the Important Projects of Common and European Interest (IPCEI) framework through active participation in – and funding for – new investments.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Finance

Recommendation 2.2:

The Council recommends an examination of the growth opportunities arising from the EU's increasing focus on industrial strategy, and the degree to which this could drive and support new sectoral developments in Ireland.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Foreign Affairs and Trade

Recommendation 2.4:

The Council recommends that in response to potential risks arising from concentration with trade partners, the Government should actively support Irish enterprise in diversifying export markets and supply chains.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Foreign Affairs and Trade

Recommendation 3.3:
The Council recommends that the Government should:

(a) Advocate at EU-level for steps to ensure that the pricing mechanism for the Single Electricity Market (SEM) does not lock-in unnecessarily high prices for European consumers.
(b) Consider the feasibility of taking steps to ensure that infrastructural investment in the energy, water, and waste-water systems is not solely funded by charges on the end-user (with the Exchequer to co-fund this work).

Responsibility: Department of Foreign Affairs and Trade; Department of Climate, Energy and Environment

Recommendation 4.1:
The Council recommends that:

(a) Drawing on available data and analyses, Government should provide clear guidance on the prioritisation of infrastructure and should ensure this prioritisation is reflected in consistent policy signals, including grant schemes.

(b) That future projections for population growth are updated and used systematically to inform housing targets. Furthermore, these projections should be used to develop regional employment targets, which in turn should be used to inform housing targets (and for infrastructure more generally).

Responsibility: Department of Housing, Local Government and Heritage; Central Statistics Office; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Enterprise, Tourism and Employment; Department of Climate, Energy and Environment

Recommendation 5.2:
The Council recommends that the following steps are taken in relation to the National Training Fund (NTF) and the development of lifelong learning:

(a) The NTF should be strategically targeted to increase lifelong learning participation among underrepresented groups, such as older male workers, and among workers in sectors of rapid change. This can be achieved through dedicated (and ringfenced) programmes and the inclusion of clear KPIs in existing initiatives.

(b) Consideration should be given to setting an upper limit on the surplus in the NTF that can accrue by year-end (in any given year).

(c) In response to the OECD review of Ireland's skills ecosystem, that a new Action Plan on Lifelong Learning should be developed.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Enterprise, Tourism and Employment

Recommendation 6.2:
The Council recommends the publication of an ambitious national strategy and implementation plan to drive the adoption of AI technology in the public service, with a view to unlocking capacity, boosting productivity, and dealing with new ways of working that have emerged since COVID-19. This strategy should prioritise the delivery of outstanding actions for AI use in the Public Service as outlined in the National AI Strategy. In addition, further action should be taken to:

(a) Identify the potential added value from use of AI at the organisational level.

(b) Set appropriate targets for the take-up and use of AI at the local level.

(c) Develop a reporting structure to facilitate oversight and accountability of progress towards adoption targets.

Responsibility: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of the Taoiseach

Recommendation 6.3:
The Council recommends the introduction of an innovation investment incentive targeting small and medium sized firms that would support firm advancement in the form of new-to-firm investments, including those related to digitalisation and the take-up of advanced technologies.

Responsibility: Department of Finance; Department of Enterprise, Tourism and Employment