

FALL IN IRELAND'S INTERNATIONAL COMPETITIVENESS RANKING

- To support jobs and growth, competitiveness considerations must be at the heart of policy in Ireland
- Ireland's ranking in the IMD World Competitiveness Yearbook fell one place to 16th in 2015
- The decline in Ireland's ranking provides a timely warning that competitiveness gains can quickly be eroded
- Key factors which led to this fall include the high level of unemployment – particularly long term and youth unemployment, high government debt, the high cost of living and doing business, and poor infrastructure

THE IMD WORLD COMPETITIVENESS YEARBOOK

The **IMD's World Competitiveness Yearbook** is an internationally renowned publication and assesses 61 countries, using over 300 competitiveness indicators, and ranks and analyses the ability of nations to create and maintain an environment in which enterprises can compete. In 2015, Ireland was ranked 16th – a fall of 1 place from 2014.

CURRENT POLICY CONTEXT

While Ireland's international competitiveness has improved over the past five years, these improvements are largely being driven by benign external factors and there are **significant risks recent gains will be eroded** as the economy continues to grow and demand driven pressures mount. There is also a risk that policy makers will assume that all of the necessary hard work in re-establishing Ireland's competitiveness was completed during the course of the recession and that competitiveness, therefore, is no longer a priority.

A number of pressure points have already emerged which are **undermining Irish competitiveness**. These include a range of cost pressures, infrastructural bottlenecks, and our reliance on a narrow range of exporting sectors. Ireland's fall in the IMD's international competitiveness ranking serves as a timely reminder about just how quickly competitiveness can be eroded.

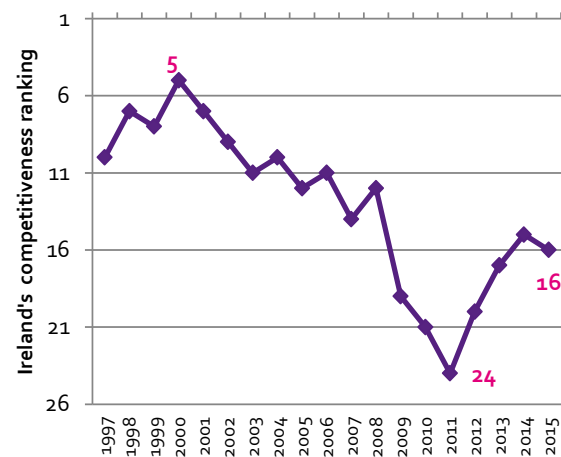
HOW IRELAND PERFORMS

Ireland's overall ranking in the IMD report peaked in 2000 (5th). During the years of the "Celtic Tiger" the overheating economy resulted in a steady decline in performance. In 2008, the impact of the financial crisis and economic recession resulted in a sharp drop in Ireland's ranking and, by 2011, Ireland had dropped to an all-time low of 24th.

As a result of improved cost competitiveness and a reduction in capacity constraints over recent years, Ireland's ranking improved and we ranked 15th in 2014. After several years of improvement - improvements which have been essential in creating the conditions to support economic

and employment growth – in the most recent IMD report, Ireland's ranking declined one place to 16th.

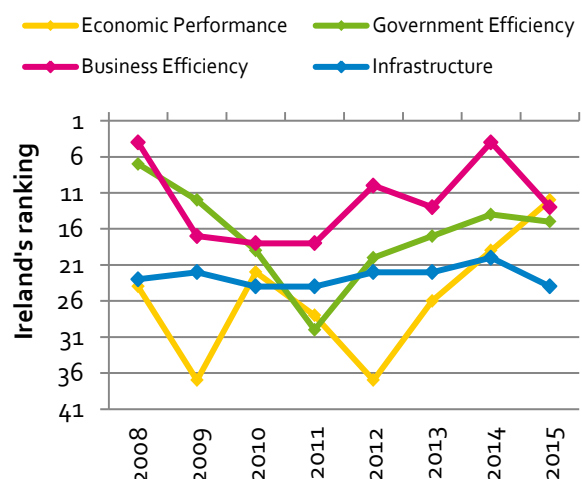
Figure 1: Ireland's IMD Competitiveness Ranking



Source: IMD

The IMD methodology divides the enterprise environment into four main factors (Figure 2).

Figure 2: Factors Driving Performance



Source: IMD

Ireland is ranked for each of these factors as follows:

- Economic Performance (12th, an improvement of seven places since 2014);
- Government Efficiency (15th, down one place);

- Business Efficiency (13th, down nine); and
- Infrastructure (24th, down four).

IRELAND KEY STRENGTHS

From a list of 15 indicators, respondents to the Executive Opinion Survey (which is used to compile many of the IMD criteria) were asked to select five that they perceived as the key attractiveness factors for Ireland. The most frequently cited factors for Ireland are:

- The **skilled workforce**;
- The **business friendly** environment;
- Our competitive **tax regime**;
- The high **educational** level; and
- Policy stability** and predictability.

It is notable that the percentage of respondents citing the competitiveness of our tax regime has declined by approximately 20% - in 2014 this was the number 1 ranked attractiveness factor.

WHY IRELAND'S RANK DECLINED

Economic Performance

Examining each of the four factors: in terms of economic performance, Ireland performed well in regard to both the domestic economy (14th) and international trade (10th). Our traditional strength in relation to international investment remains intact (4th). Primary drags on performance related to the labour market: despite growth in employment, the high rate of **unemployment** and **youth unemployment** drags damages Ireland's ranking (51st). Similarly despite low inflation, Ireland's **high cost of living** and high **property prices** result in a poor price ranking (22nd).

Government Efficiency

On the Government side, Ireland performs strongly in terms of business legislation (4th) which indicates the generally supportive environment for enterprise which is in place. Likewise, our fiscal policy framework (12th) and societal framework (16th) generally score quite well. The major weaknesses primarily relate to the public finances (39th) reflecting the large **Government debt** and remaining challenges in relation to the public deficit.

Business Efficiency

Ireland is *the* leading country in terms of productivity and efficiency (1st) and also performs extremely strongly in terms of attitudes and values (2nd). Performance is weaker in relation to management practices (16th) but the real drag on Ireland's score comes from the **labour market** (33rd) and finance (30th)

Infrastructure

Ireland's performance is relatively **weak across all of the main headings which comprise infrastructure** – basic infrastructure (41st), technological infrastructure (21st), scientific infrastructure (22nd), health and environment (16th) and education (19th).

Conclusions: The Competitiveness Challenge

Based on this data, the IMD identifies the following as competitiveness challenges for Ireland in 2015:

- Maintaining focus on **cost competitiveness**;
- Strengthening competition for **FDI**;
- Maintaining focus on **public sector reform**;
- Investment in infrastructure** to promote; and
- Maintain growth by enhancing **business investment**.

The IMD also conduct a simulation exercise to illustrate the scope to improve and the impact that policy change can have on international rankings. In the simulation, the economy's 40 weakest values are replaced with the average values of every economy to compute a simulated overall competitiveness ranking¹. This sees Ireland's ranking improve from 16th to 7th.

It is worth noting that the IMD competitiveness index comprises metrics that can be described as assessing economic performance (e.g. GDP growth, etc.) and those that measure potential (e.g. education system, infrastructure, etc.). During the latter stages of the boom/bubble, Ireland's economic performance indicators were generally very strong while indicators that assessed potential were weaker. This has reversed in recent years as our economic performance indicators have weakened dramatically. However, until the performance indicators improve, it will be extremely challenging for Ireland to attain a higher overall position.

The Council will put forward recommendations in a Competitiveness Challenge report in the autumn.

Further Reading

The NCC's benchmarking analysis for Ireland is available in *Ireland's Competitiveness Scorecard*. See www.competitiveness.ie.

Ireland's National Competitiveness Council reports to the Taoiseach (Prime Minister) on key competitiveness issues facing the Irish economy. This Bulletin has been issued by the NCC Chair and Secretariat.

¹ This simulation is a theoretical exercise and should not be perceived as policy advice from the IMD. Consideration must be given to each economy's development level, political constraints and social value system.