

24 July 2024

Press Release

Today (24 July 2024), the Chair of the National Competitiveness and Productivity Council (NCPC), Dr. Frances Ruane, launched *Ireland's Competitiveness Challenge 2024* report. The *Competitiveness Challenge 2024* report sets out a range of key challenges facing Ireland's economy, particularly over the medium to long-term. The Council places a clear emphasis on addressing those challenges that come within domestic control, in a sequenced and strategic way, including but not limited to, addressing the costs of doing business, managing current population pressures and planning for future population growth, and giving urgent attention to ensuring that the infrastructure which underpins our public utilities is sufficient to supply both firms and households with critical energy, water, and waste-water services.

This year, the Council has brought forward the publication of the Challenge report, with a view to increasing the focus on medium- and long-term issues in policy discussions in advance of Budget 2025. At a time of persistent global economic and political uncertainty, it is fundamental that we seriously address those matters that are within our own sphere of influence and control.

Ireland has continued to score highly on rankings of international competitiveness in recent years, with our placing driven by strong economic growth, our highly skilled workforce, and our success in attracting inward investment in high value-added economic sectors. Despite this, businesses in Ireland continue to face some long-standing challenges which need to be addressed urgently, especially as there are concerns that these may now be impacting on the pipeline of both domestic and international investment. Ireland's tight labour market and high-cost environment are symptomatic of an economy operating at capacity, which is limiting our output in multiple areas – but particularly in the delivery of key infrastructure, including housing, energy and water.

In an increasingly competitive international environment, where foreign direct investment patterns are being reshaped, it is important for Ireland to retain its core strengths, including having a competitive business environment, policy stability, strong international connectivity, the availability of relevant skills, and an openness to external sources of talent. At the same time, we must also continue to address domestic weaknesses in our competitiveness offering, by improving our relative performance on R&D, and the digitalisation of SMEs in particular, as well as dealing with infrastructural deficits, most notably in housing, energy security, water and water-waste.

On launching the report Dr. Ruane said: *"Ireland has continued to perform relatively strongly in terms of its competitiveness throughout 2023 and into 2024. However, there remain significant longstanding challenges to securing Ireland's competitiveness into the medium to long-term. Many of these – in areas such as business costs, infrastructure and planning – have been highlighted by the Council in our previous reports over a number of years. It is imperative that we take the decisions around prioritisation and sequencing which are necessary to meet these challenges.*

Government needs to do more to address these challenges and in this year's Competitiveness Challenge report, we identify further actions that must be progressed, if Ireland is to achieve sustainable growth.

This reflects the nature of competitiveness, which requires persistent action over a number of years, with the impacts of this action becoming evident in the medium to long-term.

I am delighted that An Taoiseach will be convening a roundtable discussion on competitiveness this September which will give us an opportunity to engage directly with Ministers on some of the key themes and priorities identified by the Council in this year's Challenge report."

Dr. Ruane added: *"To this end, the Council has identified a number of key strategic areas where actions are required, and the Council calls for the Government to commit to achieving a competitive and productive economy that delivers sustainable economic growth and benefits all of society in the years ahead."*

The *Competitiveness Challenge 2024* report makes 20 targeted and actionable recommendations to Government across five broad medium and long-term strategic challenges, that are aimed at enhancing Ireland's competitiveness and productivity performance. These strategic challenges are:

- Utilising the potential of the European Single Market to enhance growth and scaling opportunities for Irish firms;
- Addressing issues relating to the cost of doing business, which remains a long-standing challenge to Ireland's competitiveness;
- Taking action towards building and retaining a skilled and talented labour force;
- Embracing the opportunities afforded by technological change and innovation; and
- Tackling obstacles to the planning and delivery of sustainable infrastructure.

Dr. Frances Ruane added: *"The Council looks forward to receiving the Government's formal response to the Competitiveness Challenge recommendations in the coming months. The Council believes that this formal response contributes significantly to the transparency of policymaking in this area. Later this year, the NCPC Secretariat will study how Government has delivered on the commitments in its responses in a multi-period setting."*

ENDS

NOTES TO EDITORS

Ireland's Competitiveness Challenge 2024

Ireland's Competitiveness Challenge 2024 is based on analysis for the Council which draws on the best available domestic and international research, and the most recent data available at the time of publication. The report makes 20 targeted and actionable recommendations to Government on the best ways to improve the competitiveness and productivity of the economy. Along with immediate issues facing the Irish economy, each of the five medium- to long-term challenge areas are explored in detail in a distinct chapter of the report. The following section provides a high-level overview of the main findings in each chapter.

Chapter 1: Immediate Issues facing the Irish Economy

This Chapter assesses the current global and domestic economic outlook and Ireland's current competitiveness position. It also looks at developments across 2024 and 2025 which may impact on Ireland's future competitiveness position, including global developments in trade and strategic value chains, and the interest rate environment. Additionally, this Chapter examines Ireland's fiscal position in the context of significant windfall tax revenue, developments in consumer and producer prices, and Ireland's current labour market position and its constraints.

Chapter 2: Ireland and EU Single Market

Ireland should utilise the potential of the European Single Market to enhance the growth and scaling opportunities for Irish firms. The international trading environment has faced challenges in recent years with concerns in relation to regionalisation taking hold. Supply chains and critical raw materials are coming under increased focus, and more defensive trade policies have been introduced. Open trade has significantly benefited Ireland in the past number of decades and we should continue to seek open trade with our partners and utilise our competitive strengths over seeking to secure inward investment through subsidisation. Further integration of the Single Market (Recommendation 2.1) represents a key competitive advantage which Ireland should continue to advocate for. There remain significant opportunities to enhance integration in the area of services, while reducing the level of regulatory and administrative burden experienced by firms both domestically and in cross-border trade will enhance the EU's competitiveness as a whole. The loosening of EU State Aid rules is a threat to the Single Market's level playing field and Ireland should hold its position against this. In particular, progressing a Capital Markets Union (Recommendation 2.2) offers a clear path for Irish and EU firms to scale more effectively.

Greater uptake of pension and long-term saving options across the EU will help increase the depth of EU capital markets. This has been a competitive disadvantage for the EU in comparison to the US and addressing it will enhance growth opportunities. While the international environment, and actions by other countries, has a clear influence on Ireland's competitiveness position – ultimately, the most important actions it can take to improve its position are domestic in nature (Recommendation 2.3).

Chapter 3: The Cost of Doing Business in Ireland

Ireland must address issues relating to the cost of doing business, which remains a longstanding challenge to Ireland's competitiveness. A variety of factors are influential here. To a certain degree, Ireland's cost position is reflective of high incomes which in turn is facilitated by the strong level of value-added in the economy. However, there are cost factors which are not reflective of a competitive equilibrium. In particular, the mismatch between aggregate demand and aggregate supply is adding to costs, this can be seen in ongoing labour market tightness and reflected in the slow delivery of key infrastructure set against a clear demand in areas such as housing and energy. These costs impact on Ireland's attractiveness for both large firms and SMEs. It is therefore important that an enhanced SME test is implemented to ensure that an enterprise perspective is present across all major Government decisions. This offers an opportunity to comprehensively set out (and consider) forthcoming impacts on business annually. The degree to which new regulations impact on firms should also be evaluated thoroughly and in a quality-assured manner, prior to their introduction (Recommendation 3.1).

There have been numerous cost challenges for firms in recent years, including increased input and energy costs, along with rising labour costs. While the recent Government's intervention to support SMEs was welcomed by this group of firms, the evidence for one-off broad supports is not clear. Instead, Government should ensure that the necessary and fundamental conditions for SMEs to compete are fair and adequate, and that direct Government intervention is only considered as a last resort (Recommendation 3.2). This will ensure enhanced value for money in the implementation of Government enterprise policy.

Chapter 4: Building and Retaining a Skilled and Talented Labour Force

Further action is needed towards building and retaining a skilled and talented labour force. The supply and quality of education and skills in an economy is vital for economic growth and for its competitiveness. In the context of changing market demands, a highly skilled and dynamic labour force is more productive, innovative and adaptable.

This is an area which Ireland has performed well over the last decade. However, with Ireland being essentially at full employment over the last two years, there are capacity constraints which are limiting Ireland's ability to expand output – particularly in the delivery of infrastructure – and this is a key competitiveness concern. The changes in the world of work, driven by the digital and green transformations as well as by population ageing, have been associated with greater job instability, reduced job quality and with potential costs for companies, workers and society. Skills mismatches are an issue for the Irish labour market. There is a need for action on lifelong learning, potentially utilising the National Training Fund.

A review and evaluation of existing Active Labour Market Policies, that leverages the available skills data, would help in optimising skills development and mitigating mismatches between the capabilities of our workforce and the requirements of enterprise (Recommendation 4.1). The availability of skilled and qualified workers are a key ingredient to support Ireland's economic growth and development. The Council believes that addressing shortages in key areas – including green, digital and construction – is crucial in order to build and retain a talented and skilled labour force in Ireland (Recommendation 4.2). Similarly, improving opportunities for learning is crucial for addressing skills needs in the economy, particularly so in the context of the green and digital transition, and the National Training Fund has a key role to play as part of this (Recommendation 4.3). With an economy at full employment, and capacity constraints emerging on multiple fronts, inward migration will continue to be an important

source of labour. Salary thresholds for employment permits were unchanged for almost a decade, and it is important that these keep pace with inflation and economic growth, particularly given the increased competition globally for particular skills in certain areas. However, this must also be balanced against the cost pressures for businesses, particularly SMEs (Recommendation 4.4).

Chapter 5: Embracing Technological Change and Innovation

Ireland should embrace the opportunities afforded by technological change and innovation. Ireland performs well compared to the EU-27 in terms of the digital intensity of firms and the use of AI technologies. However, a significantly greater share of SMEs (70%) report a low digital intensity compared to larger firms (25%) and this has implications for the adoption of AI with basic digitalisation seen as a prerequisite to the use of more advanced technologies. AI offers significant potential benefits for firms across all size classes. Evidence from industry suggests that there are divergent rates of adoption, by firm size and sector, with barriers preventing the further take-up and integration of AI systems. A consideration of the appropriate policy tools for incentivising the adoption of AI technology by SMEs could assist in driving higher adoption rates (Recommendation 5.1), while an assessment of current and future barriers facing SMEs in using this technology could inform Government policy on addressing divergent adoption rates (Recommendation 5.2). The high-level actions set-out in the Government's National Quantum Strategy broadly align with the Council's recommendation in Ireland's Competitiveness Challenge 2023. The publication of a detailed implementation plan is fundamental for the effective oversight of the Strategy and in ensuring the timely delivery of outstanding actions (Recommendation 5.3). Ireland must be an active and vocal participant in the development of an open and ambitious EU digital trade agenda, and this will require close cooperation with likeminded partners (Recommendation 5.4).

Chapter 6: Planning and Delivering Sustainable Infrastructure

There is a need to tackle obstacles to the planning and delivery of sustainable infrastructure. Infrastructure is a fundamental component of our competitiveness, and a vital part of both our support for SMEs and our foreign direct investment offering. Infrastructural deficits act as a drag on competitiveness, and Ireland must make progress in order to keep pace with international competitors.

Persistent deficits in respect of our energy, water, and waste-water infrastructure present the risk that future demand by enterprises will outstrip supply, with ramifications for SMEs and the investment decisions of internationally mobile foreign-owned firms. This represents a significant reputational risk for Ireland. While progress on the delivery of infrastructure is required on multiple fronts – and must be accompanied by the reforms to planning and regulation which are currently underway – careful consideration must also be given to the strategic sequencing of investments, particularly given the current context of an economy that is operating at full capacity, with a tight labour market. Planning has persisted as an on-going area of considerable concern in relation to infrastructure delivery. The time taken to receive planning permission remains a constraint.

Steps must be taken to ensure that supply is not outstripped by the demand for our public utilities in the coming years, and it is vital that the new National Planning Framework take full account of the challenges posed by our rapidly growing population (Recommendation 6.1). The Council welcomes the progress of the Planning and Development Bill through the Houses of the Oireachtas. This legislation will go some way to addressing the shortfalls of our planning system, and – once enacted – must be implemented as a priority (Recommendation 6.2). Previous studies have found that the cost of

conveyancing in Ireland is significantly higher than in other countries with similar legal systems, and the establishment of a specialist conveyancing profession would help drive competition and efficiencies in the provision of conveyancing services (Recommendation 6.3). Finally, the achievement of targets set out in the Climate Action Plan and ensuring the sustainability of supply into the future, will require the prioritisation of renewable energy projects (Recommendation 6.4).

The full report and the list of recommendations are available [here](#).

The National Competitiveness and Productivity Council

The National Competitiveness and Productivity Council (NCPC) reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment, on key competitiveness and productivity challenges facing the Irish economy and offers recommendations on policy actions required to address these challenges. Following the European Council recommendation in September 2016 and subsequent Government decision, the NCPC was designated as Ireland's National Productivity Board, tasked with analysing developments and policies in the areas of productivity and competitiveness.

Since 1997, in accordance with the NCPC's Terms of Reference, the Council has published its flagship policy report *Ireland's Competitiveness Challenge*.

The work of the National Competitiveness and Productivity Council is underpinned by research and analysis undertaken by the Enterprise Strategy, Competitiveness and Evaluation Division of the Department of Enterprise, Trade and Employment.

The members of the Council are:

Dr. Frances Ruane	Chair, National Competitiveness and Productivity Council
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