

Press Release

Tuesday, 18 August 2009

National Competitiveness Council publishes Competitiveness Benchmarking Report

The National Competitiveness Council (NCC), which reports to the Taoiseach on key competitiveness issues facing the Irish economy, today (Tuesday, 18 August 2009) published its *Annual Competitiveness Report: Volume I, Benchmarking Ireland's Performance*. The report provides an assessment of the competitiveness strengths and weaknesses of the Irish economy relative to competitor countries.

The Irish economy is experiencing a rapid and painful adjustment to the bursting of the property bubble, the international financial crises and the downturn in world trade. As a small, open and competitive economy, Ireland prospered from an export boom driven by globalisation and investment in the 1990s and early 2000s. In recent years, strong growth in the domestic economy, driven by housing and consumption, replaced exports as the key driver of growth. Though economic growth rates remained strong, our international competitiveness weakened as the domestic boom increased the costs of doing business here and as reforms to improve competitiveness were delayed.

The NCC's Annual Competitiveness Report found that Ireland's competitiveness position, while weakening over a number of years, has not changed dramatically in the past year. The recent rapid decline in national income is primarily a reflection of the collapse of the property market and its effects on the wider economy. Ireland continues to retain a range of important competitive strengths including a young and comparatively well educated workforce, improving infrastructure, growing levels of research and development activity, a modern internationally trading enterprise base and a long track record as a successful location for overseas investors.

The ability of Ireland to protect the gains in living standards of recent decades and to secure future increases rests on our ability to succeed as competitive exporters of high quality goods and services on international markets. To date, the report highlights that Irish exporters have performed relatively well. While Irish exports of goods and services are expected to decline by 3.9 percent in 2009, the OECD forecasts that OECD exports will fall by 16.5 percent. The fall in the value of sterling is noted as a significant challenge, particularly for indigenous exporters who are focused on the UK market and compete against UK firms in other markets.

The NCC believes that targeting export-led growth is the only sustainable strategy to maintain living standards and to secure long term prosperity. The Irish economy needs to respond to the current crises and position itself to benefit from a global recovery by improving our competitiveness. Given the severity of our current economic position, it is now time for Ireland to achieve a swift improvement in competitiveness across a range of areas.

Cost Competitiveness

Strong domestic growth in recent years led to significant increases in the costs of doing business in Ireland. There are initial signs that cost competitiveness is beginning to improve but the cost base in Ireland remains high.

- Between January 2000 and April 2008, Ireland experienced a 35 percent loss in its trade-weighted international price competitiveness. Between January 2000 and June 2009, the index has fallen to 30 percent.
- Irish inflation, as measured by the HICP, declined by 1.7 percent in the year to May 2009, compared to a decline of 0.7 percent in the EU¹.
- Following a number of years of strong growth, growth rates in Irish labour costs slowed significantly in 2008 and were lower than the EU-15 average. Data for 2009 is not yet available. Unemployment in Ireland is now significantly above the OECD average. Younger and lower skilled workers are particularly exposed.
- Non-pay costs in Ireland compare poorly with other countries across a range of business inputs. These include utilities (electricity, communications and waste) and a range of services, such as accountancy and legal fees. For example:
 - Ireland has the second most expensive industrial electricity prices of the EU-14. At the end of 2008 industrial electricity prices were 34 percent above the EU-14 average.
 - The incumbent broadband provider in Ireland offers a relatively low speed at a relatively high cost in comparison to the benchmarked countries.
- While the annual rate of inflation declined by 5.4 percent in June 2009 - the sharpest fall in Ireland since 1933 - administered services inflation (e.g. public transport, health insurance, education) is projected to average 13.2 percent this year.
- Growth in productivity can offset higher costs. The report outlines that productivity growth between 2004 and 2008 has been relatively low.

Broader Business Environment

The broader business environment that supports competitiveness comprises a wide range of areas including taxation, regulation and competition, finance, infrastructure, education and research and development.

- **Taxation:** Taxes on both profits and labour are low relative to other countries, though recent increases in personal taxes have weakened the competitiveness of

¹ The items included in the Harmonised Index of Consumer Prices are a subset of those that make up the CPI. Source: Eurostat.

Ireland's labour tax wedge. In terms of the creditability of the Government's finances, Ireland's general government consolidated debt as a percentage of GDP has risen sharply since the end of 2007, and payments on national debt will rise substantially in the coming years.

- **Regulation and Competition:** The general regulatory environment in Ireland is perceived to be supportive of enterprise - for example the financial and administrative costs of starting a business in Ireland are low compared to other countries. In relation to domestic competition, while competition legislation is perceived to be relatively efficient, incumbents still dominate the market in certain utilities.
- **Finance:** The turmoil in global financial markets and the exposure of Irish banks to bad loans in the declining property sector is affecting Irish firms in terms of their ease of access to finance and its cost. With regard to the cost of credit, the majority of loan types in Ireland were more expensive than the Eurozone average in 2009 Q1.
- **Infrastructure:** Ireland's investment rates in infrastructure have been among the highest in the EU in recent years and there have been tangible improvements. Deficits remain, particularly with respect to the availability of advanced broadband services where Ireland ranks 25th in the OECD in terms of its readiness to support next generation services.
- **Education:** Ireland has a young and comparatively well educated workforce. For example:
 - 42 percent of the 25-34 year age group in Ireland possess a third-level qualification. This compares very favourably with the OECD average of 34 percent.
 - Ireland continued to have a high number of graduates in the fields of mathematics, science and computing per 1,000 of population aged 20-29.
 - Older workers in Ireland remain less qualified than the OECD average and a relatively large share of the working age population (34 percent) has no more than lower secondary education. Adult participation in life-long learning remains relatively low.
- **Innovation and R&D:** Starting from a relatively low base, Ireland is making significant progress. For example:
 - Ireland's innovation performance continues to improve and its score on the summary innovation index is above the EU 15 average.
 - The number of researchers in Ireland is growing, up from five researchers per 1,000 of total employment in 2000 to six per 1,000 in 2006.
 - Total R&D spending in Ireland increased from 1.26 percent of GNP in 2000 to 1.68 percent of GNP in 2008. Expenditure on R&D by businesses has increased significantly in recent years.

Benchmarking Ireland's Performance provides a statistical assessment of Ireland's competitiveness. Its findings will underpin Volume 2 of the Annual Competitiveness Report, Ireland's Competitiveness Challenge, which identifies the key competitiveness challenges facing enterprise in Ireland and sets out clear policy actions that can help restore Ireland's competitiveness. Volume 2: Ireland's Competitiveness Challenge will be published later this year. The NCC issued a short report in June, Getting Fit Again, which outlined the immediate actions required to support Ireland's competitiveness.