

National Competitiveness Council publishes Ireland's Competitiveness Scorecard 2018

18 July 2018

EMERGING COST PRESSURES AND CAPACITY CONSTRAINTS WEAKEN OUR COMPETITIVENESS AND RELIANCE ON A NARROW EXPORT BASE THREATENS IRELAND'S ECONOMIC SUSTAINABILITY

The National Competitiveness Council (NCC), today (18 July 2018) published its annual benchmarking report, Ireland's Competitiveness Scorecard 2018. The Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance with regard to a range of countries with which we compete on international markets for trade and investment.

A range of indicators show that the Irish economy continued its expansion in 2017 and into 2018. As well as the headline measures of economic growth, the labour market and public finances continue to improve. The exporting sectors of the economy, supported by the enterprise agencies, performed strongly in 2017 and our taxation regime, highly-skilled young workforce, and business environment remain, for the most part, relatively competitive. Ireland performs well in both subjective and objective measures of well-being, indicating that the country is an attractive location in which to live and work.

While the economic outlook for Ireland appears positive, Ireland's competitiveness is under threat. Speaking at the launch of the report, Professor Peter Clinch, Chair of the Council commented, "Events which influence the performance of the Irish and global economy are unfolding rapidly. Several external uncertainties and domestic challenges endanger national competitiveness in the medium-term. Global economic uncertainty, particularly in trade policy and international tax policy developments pose a threat to growth. Brexit remains the single biggest, and most immediate, threat to Ireland's medium-term prosperity. Domestically, while the headline measures of economic growth are positive, it is worrying that Ireland's debt per capita is the highest in the EU which places us in a very vulnerable position should an external economic shock occur. A significant concern is that the sustainability of Irish growth is threatened by the reliance of the economy on a small number of exporting companies and export markets and a narrow range of exported products and services. And, we are beginning to see a return to domestic policies that threaten the sustainability of the economy such as rapid house-price inflation, transport congestion, failure to meet our climate obligations, and failure to invest sufficiently in R&D and to address the funding crisis in higher education. Ireland is on an inevitable path to competitiveness loss placing us in a vulnerable position if the international economic conditions were to worsen."

To improve our capacity to absorb and respond to economic shocks, the Council believes the Government must continue its efforts to reduce debt and avoid any narrowing of the tax base. Any loosening of the fiscal discipline at this stage would undo much of the progress achieved to date, and would have potentially significant negative implications for future competitiveness. Improving Ireland's relative tax competitiveness to create a supportive environment for SMEs and investment, and to promote a more entrepreneurial culture, is crucial.

As the economy continues to grow, cost pressures and capacity constraint are becoming more prominent. Ireland performs below competitor countries particularly in terms of costs of residential property, labour, credit, energy and services prices. It is essential that wage growth is underpinned by productivity improvements and does not outpace

competitors. From a national competitiveness perspective, it is vital that policies are developed in a manner that do not negatively affect the incentive to work or impact on enterprise competitiveness, particularly in terms of increased financial and administrative costs to business.

The globalised nature of the Irish economy means that productivity remains fundamental to growth. Productivity levels and growth rates in Ireland are strong but Ireland is vulnerable in terms of our reliance on a small number of firms in a small number of sectors delivering the bulk of our productivity performance. Bridging the productivity gap that exists between the most productive firms and lagging firms remains a challenge.

The availability of talent is a fundamental source of competitive advantage and a key driver of productivity growth. As the labour market continues to tighten, job vacancy levels are increasing and the need for certain skills is becoming more pronounced. In a rapidly changing world of work which imposes new competency requirements, addressing the challenge to equip more than half of the population with at least basic digital skills is crucial.

As the economy is approaching full employment, creating conditions for increasing participation rates and attracting talent from abroad is vitally important. The availability of affordable high-quality child and after-school care, and policies encouraging older workers to remain in the labour force longer, could help to address skills shortages and improve Ireland's attractiveness as a location in which to work and live. The shortfall and affordability of residential housing can also influence decisions around relocation of talent. Despite an increase in construction activity, strong demand, particularly for apartments in urban areas, means that property price inflation is likely to continue. High rents push the cost of living out of line with other developed European economies. Increasing property prices and rental costs, combined with a tight labour market, are likely to result in higher wage demands and diminish Ireland's ability to attract and retain talent.

Ireland's long-term productivity prospects will be dependent on our ability to build innovation capacity. Ireland's national R&D investment levels lag our key competitors. Measures which enhance the absorptive capacity of domestic enterprises to utilise technology would help reduce Ireland's asymmetric productivity performance. Ireland must transform from an innovation follower into a leader.

Targeted and timely capital expenditure in infrastructure is one of the principal means by which government can enhance productivity and competitiveness. Ireland's planning and development framework must be evidence-based, focussed, transparent, timely and agile. A critical challenge now is our capacity to deliver effectively-connected infrastructure projects that drive future productivity growth, that maximise returns on investment and which do not contribute to overheating the economy, and to do so in a way that ensures value for money in the face of low productivity levels and high-demand in the construction sector.

Professor Clinch continued "Improving our competitiveness is the key to our efforts to ensure Ireland develops a sustainable economic model that avoids a boom and bust cycle. Ireland's recent fall from 6th to 12th most competitive economy, as benchmarked by the Institute for Management Development, is a timely reminder that our relative competitiveness is under constant threat. The near-perfect competitiveness conditions Ireland has enjoyed are over. The risks to Ireland's prosperity at this point are increasing and the process of reform and improvement must be intensified if Ireland is to avoid the kind of trajectory that we experienced in the lead up to the last economic crisis. In this report, the Council is sounding a competitiveness alarm."

NOTES TO EDITORS

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

Key Findings

- The Irish economy continued its expansion in 2017. Exports were the key driver of economic growth in Ireland with both goods and service sector performing well in 2017. The labour market and public finances also continued to improve.
- On the international competitiveness indices, the 2017/2018 WEF Global Competitiveness Report shows Ireland is currently ranked 24th most competitive economy, a decline of 1 place in the year. Using the IMD measure of competitiveness Ireland is currently ranked 12th, a fall from 6th place in 2017. The World Bank's 2017 Ease of Doing Business report places Ireland 17th out of 190 economies – an improvement of 1 place from the previous year.
- The Council considers that a number of external factors (global economic uncertainty, developments in international tax policies and the outcome of the Brexit negotiations) pose a significant risk to Ireland's medium-term prosperity.
- Domestically, the sustainability of our economic model is threatened by the high public debt levels. Although Ireland's export performance is a major contributor to Ireland's economic growth, the range of products and services exported, the base of exporting enterprises and market destinations are relatively concentrated. The top 15 commodities accounts for approximately 90 per cent of total goods exports from Ireland. The top 100 traders in Ireland account for 80 per cent of total export value.
- In terms of the business environment, Irish income and corporate tax rates remain for the most part competitive but international competition is increasing. Marginal rates of income tax for individuals earning the average wage and above are above the Euro area and the UK. Maintaining a growth and entrepreneurship-friendly taxation system, whilst simultaneously broadening the tax base, is important for ensuring that growth is sustainable.
- Cost pressures and capacity constraint are becoming more prominent. Ireland performs below competitor countries in terms of costs of residential property, labour, credit, energy and services prices. Ireland remains an expensive location in which to live and do business with a price profile which can be described as "high cost and rising". While access to and affordability of credit has improved, Irish business continues to face higher interest rates and greater volatility in those rates than competitors abroad. Interest rates on new loans of up to €250,000 are more than the double the Euro area average.
- Productivity levels and growth rates in Ireland are strong but our performance is heavily influenced by a small cohort of enterprises which disguises, to a degree, underperforming sectors. The top 10 per cent of firms in Ireland account for 87 per cent of value added in manufacturing and 94 per cent in services. Bridging the productivity gap that exists between the most productive firms and lagging firms is vital for sustainable growth prospects.
- Government investment in infrastructure as percentage of GDP remains below pre-crisis levels and below the OECD average. Over the medium term, capital investment levels are projected to increase but at present remain low and infrastructure pressures are rising. It is vital that a careful balance is struck between addressing weakness and deficiencies in infrastructure and implementing policy in a way which does not contribute to overheating the economy.
- The shortfall and affordability of residential housing remains a challenge. Despite an increase in construction activity, strong demand, particularly for apartments in urban areas, means that property price inflation is likely to continue. High rents push the cost of living out of line with other developed European economies. Increasing property prices and rental costs, combined with a tight labour market, are likely to result in higher wage demands and diminish Ireland's ability to attract and retain talent.
- Ireland's knowledge base represents important competitiveness strength. The proportion of the working age population with tertiary education in Ireland is above the Euro area average, Ireland also produces more Science, maths & statistics and ICT graduates than the Euro area as a percentage of total third level graduates. However, although R&D investment has increased in recent years, investment levels lag our key competitors. Of concern are the low levels of lifelong learning and the fact that more than half of the population lacks at least basic digital skills.
- Employment is approaching peak pre-recession levels. As the labour market is nearing full capacity, job vacancy levels are increasing and certain skills needs are becoming more pronounced. It is essential that wage growth is underpinned by productivity improvements and does not outpace competitors.

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

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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. In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by Eurozone countries, in March 2018, the Government mandated the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland.

Each year the NCC publishes three annual reports.

1. The Costs of Doing Business in Ireland report 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 Bulletins on specific competitiveness issues. 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.