

National Competitiveness Council assesses Ireland's competitiveness performance and highlights seven areas of concern

The National Competitiveness Council (NCC), today (6th September 2011) published its annual benchmarking report, *Ireland's Competitive Scorecard 2011*. The report provides a comprehensive assessment of Ireland's competitiveness performance, using 127 statistical indicators which provide insights into Ireland's ability to compete on world markets. The indicators are drawn from data sources such as Forfás, OECD, Eurostat, CSO and others.

Dr Don Thornhill, Chairman, NCC commented, "*Ireland's Competitive Scorecard* provides us with a clear view of our competitive strengths and weaknesses. The country faces undisputable challenges and there are seven priority competitiveness areas of concern."

Dr Thornhill emphasised the need to relentlessly continue to work to improve Ireland's competitiveness, "Ireland cannot aim for just being good enough, we must strive to be world beating in all the areas essential for competitiveness. While significant progress has been made, Ireland has much further to go if we are to deliver long lasting competitiveness and sustainable growth. We need to continue the emphasis on expanding exports through increasing productivity in all sectors of the economy and through developing new exports businesses and sectors. The NCC will be publishing *Ireland's Competitiveness Challenge* report later in the year, which will outline detailed recommendations on addressing Ireland's competitiveness issues."

Martin Shanahan, Chief Executive, Forfás commented, "The unsustainable nature of the domestically driven growth during the second half of the 2000s has brought home to us all the role of exports in delivering sustainable economic growth and has reiterated the central importance of competitiveness. Exports are currently the only source of economic growth, and improving our competitiveness is essential to growing our exports. It is an opportune time, therefore, to identify and agree a set of ambitious, key competitiveness targets for Ireland that are within domestic policy control, and to put in place a plan to deliver on these targets. It is critical that we provide Ireland's businesses with every possible competitive advantage."

Mixed Competitiveness Performance

The report shows that Ireland's competitiveness performance in 2011 is mixed. Notwithstanding the problems in the banking, construction and retail sector, the export focused enterprise sectors are performing strongly. Ireland's exporting companies are performing well driven by significant competitiveness gains. In 2010 export volumes and values increased, while Ireland's market share in world trade also grew. Growth in exports was facilitated and supported by the reductions in the cost base for firms as well as improvements in productivity. As a consequence of lower costs and higher productivity, unit labour costs fell in 2010.

On the downside, however, high public debt, falling investment, and shortages of credit all weaken Ireland's competitive position and Ireland remains an expensive country in which to do business. Concerns also persist in other areas - for example while our educational attainment has improved

significantly in the last two decades (the proportion of the working age population with tertiary level education has increased from 26% in 2003 to 33 % in 2008), Irish 15-year old students performed poorly in terms of scientific, mathematical and reading literacy as measured by the Programme for International Student Assessment.

Seven Priority Competitiveness Areas

Cost of Doing Business: Restoration of cost competitiveness is central to any economic recovery. While there have been significant improvements in Ireland's cost competitiveness over the last two years, further progress is required. Even though prices in Ireland have fallen since 2008, the cost of a range of business inputs remain relatively expensive compared to those in other countries with which we are competing. High cost areas include property costs, calls from landlines and legal fees.

Productivity and Innovation: Ireland needs to complement the reduction in costs which is currently underway with a renewed focus on enhancing productivity. Irish productivity levels remain below OECD average. However, there has been a reversal of the negative productivity growth experienced between 2005 and 2009.

Access to Credit: The annual rate of change in lending to the non-financial corporate sector has been negative since late 2009 and the contraction in lending to this sector has continued in recent months. The difficulties in the banking sector are likely to lead to continued difficulties for the SME sector in accessing credit supply.

Labour Activation: Unemployment, youth unemployment and long term unemployment have all increased substantially since 2007. Age and education attainment are strong determinants of unemployment.

Taxation Policy: Average and marginal income tax rates on labour have been increasing: for a single worker earning €40,000 per annum the average rate of tax has increased from 18.6 percent in 2008 to 24.2 percent in 2011, while the marginal rate has increased from 47 percent to 52 percent. High marginal income tax rates reduce the incentive to work and to invest in education, training and business expansion. Maintaining a pro-enterprise taxation system while broadening the tax base is central to repairing the public finances.

Education: Average educational attainment has improved significantly in the last two decades, although older cohorts still have relatively low levels of attainment. Challenges persist at primary school level, with 9-11 year students receiving fewer hours of tuition in maths and science than most other OECD countries; at second level there is a persistence of early school leavers and Ireland performs poorly in the OECD PISA studies; and at third level there are significant funding challenges.

Infrastructure: Ireland's perceived performance across several infrastructure areas ranks below the OECD and euro averages. Ireland's distribution infrastructure is perceived poorly and while the score in air and water transport has improved it remains below the performance of comparator

countries. The quality of Ireland's energy infrastructure is also perceived to be weak. World class telecommunications are vital to our ability to do business and Ireland ranks poorly in this regard and lags behind leading countries in terms of upgrading the local broadband access network to fibre and on offering very fast broadband speeds over fibre.

Notes to Editors

About the NCC and Forfás

The NCC reports to the Taoiseach on key competitiveness issues for the Irish economy and makes recommendations on policy actions required to enhance Ireland's competitive position.

The work of the NCC is underpinned by research and analysis undertaken by Forfás, Ireland's policy advisory board for enterprise, trade, science, technology and innovation.

About Ireland's Competitiveness Scorecard

The NCC publishes two annual competitiveness reports. *Ireland's Competitiveness Scorecard* (previously named *Benchmarking Ireland's Performance*) which analyses Ireland's overall competitiveness performance across a range of statistical indicators and *Ireland's Competitiveness Challenge* which identifies the national competitiveness issues of most importance to the enterprise sector and proposes a series of policy recommendations required to address these issues.

The full report is available at www.competitiveness.ie and www.forfas.ie.

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Key Findings

Macroeconomic Sustainability

- Between 2008 and Q1 2011, net exports increased, driven mainly by growth in services and a steep fall in imports. Private consumption, which had fuelled much of Ireland's economic performance over recent years collapsed between 2007 and 2008 and remains extremely weak.
- Despite the economic downturn, Ireland is still ranked as one of the wealthiest countries in the OECD in terms of GDP per capita (Figure 3.01). In terms of GNP per capita, Ireland ranks below the OECD-28 and euro area-16 average.
- From 2008 to 2010 GDP per capita in Ireland decreased by 8 percent and GNP per capita decreased by 11 percent. As a result, Irish living standards in 2011 have fallen back to 2005 levels (Figure 3.02).
- Ireland's general consolidated debt as a percentage of GDP has risen sharply since 2007 (Figure 3.06). The rapid increase in general government consolidated debt in Ireland is primarily due to the large Exchequer deficits that have emerged in the last three years and the capital support provided to a number of financial institutions in 2010.

Quality of Life

- While Ireland remains a wealthy country, many members of society remain at-risk-of-poverty. 13 percent of single people in work in Ireland are at-risk-of-poverty - this is above the euro area-16 average, Ireland performs relatively well in terms of families with two or more adults and dependent children; 4.4 percent of families in this category are considered at risk of poverty compared with 9.5 percent in the euro area-16 (Figure 3.10).

Environmental Sustainability

- Ireland generates considerably more waste (742 kg/person) than the euro area average (564 kg/person) and recycles 32 percent of waste compared to the euro area average of 22 percent (Figure 3.18).
- Ireland's share of renewable energy is approximately a third of the OECD average. By contrast, Ireland is amongst the countries most dependent on oil as an energy source (Figure 3.19).

Business Performance

- The private sector in Ireland has experienced a dramatic decline in investment from over 26 percent of GDP in 2005 to 7.3 percent in 2010 (Figure 4.01). By contrast, expenditure by Government has proved resilient in comparison, and at almost 4.5 percent of GDP remains above the euro area average.
- FDI remains critically important to the Irish economy (Figure 4.02). Inward investment levels remain among the highest in the OECD. Ireland remains an attractive investment location and continues to attract a large number of Greenfield investment projects (Figure 4.03).
- Rates of return on US overseas investment have decreased in many countries as a result of global economic difficulties. While the rate of return in Ireland has fallen over the last two years, it remains high compared with other locations within the euro area (Figure 4.04).
- Overall Irish firms have performed well in international markets. Ireland has continued to increase its share of the global commercial services market, while market shares for pharmaceuticals, chemical and a number of other manufacturing related products have declined somewhat (Figure 4.08). Ireland's market share in office, telecom equipment, agriculture products, and machinery has fallen sharply.

Productivity and Innovation

- Irish productivity levels in GDP terms are above the OECD average (Figure 4.13). Using GNP, Irish productivity levels remain below the OECD average.
- In terms of growth rates, following negative growth in 2008-2009 positive productivity growth was recorded both in GNP and GDP terms in 2009 and 2010 (Figure 4.14).
- Irish firms are more likely to be innovative (45 percent) than firms in the euro area-15 (40 percent) (Figure 4.17). 52 percent of Irish firms in industry were engaged in innovation compared to 41 percent of service firms. In terms of the proportion of turnover attributed to new/improved products, however, Ireland's performance is below the euro area average (Figure 4.18).

Prices and Costs

- Price levels in Ireland were the highest in the euro area in 2005. Prices in Ireland continued to increase until September 2008. On an annual basis Ireland experienced deflation in 2009 and 2010 as the overall costs of consumer goods and services declined (Figure 4.19).
- Ireland has the 11th highest total labour costs level in the OECD and is in line with a number of western European countries (Figure 4.22). In terms of net wage levels, however, Ireland has the fourth highest net wage level in the OECD-28, 40 percent above the OECD-28 average.
- Looking at growth rates in labour costs (Figure 4.23), there has been a significantly decline in Irish growth rates from a high of 5.9 percent in 2001 to -2.2 percent at the end of Q1 2011.
- Ireland has experienced reductions in many non-pay costs also - including reductions in property costs (Figures 4.28-4.31), energy costs (Figure 4.33), and waste costs (Figure 4.36).
- Over the course of the economic downturn, many business and professional sectors have shown substantial downward adjustment in prices (Figure 4.38). Since 2006, however, legal services prices increased by 12 percent (Figure 4.39).

Employment and Labour Supply

- Employment in Ireland peaked in Q3 2007 when almost 2,150,000 people were employed (Figure 4.42). From Q1 2008, unemployment began to rapidly increase and by Q1 2011, over 295,000 people were unemployed.
- Long term unemployment (defined as employment lasting more than one year) as a proportion of total unemployment began to increase significantly from Q4 2008 and accounts for more than half of those unemployed in Q1 2011.
- The construction sector has seen the largest decline in employment (by 60 percent or 160,900) between Q3 2007 to Q1 2011 (Figure 4.43). There have also been significant declines in industry (-24%, or 74,800), wholesale and retail trade (-15% or 45,200) and agriculture (-25% or 28,400).
- The standardised unemployment rate in Ireland (14.1%) is the third highest amongst the countries benchmarked (Figure 4.44). This compares to the OECD-28 average of 8.1 percent.

Business Environment

- As a result of significant falls in revenue, the Irish Government is expected to run a deficit equivalent to 10.5 percent of GDP and 12.7 percent of GNP for 2011 (Figure 5.01). Since 2007, the largest declines in tax receipts have been recorded in capital taxes and stamp duties - both are closely related to the property market (Figure 5.03).
- In 2010 Ireland's total tax revenue was €31.8 billion, significantly down from €47.2 billion in 2007.
- While labour taxes have risen considerably since 2008, Ireland still is a competitive performer; for a married couple with two children on a combined income of 167 percent of the average wage, Ireland is ranked 4th in the OECD; for a single person with no children on 167 percent of the average wage, Ireland is ranked 11th (Figure 5.06).
- Average and marginal tax rates on labour have been increasing: for a single worker earning €40,000 per annum the average rate of tax has increased from 18.6 percent in 2008 to 24.2 percent in 2011, while the marginal rate has increased from 47 percent to 52 percent.

- Access to affordable credit is essential to keep the wheels of enterprise turning. Irish firms, however, have generally faced above average interest rates when it comes to getting loans (Figure 5.10) and overdraft facilities (Figure 5.11).
- Ireland's generally pro-enterprise regulatory environment is reflected in relatively low barriers to entrepreneurship (Figure 5.20), a competitive product market regime (Figure 5.19), and a legislative approach which maintains labour market flexibility (Figure 5.23).

Physical and Economic Infrastructure

- Considerable progress has been made in improving the quality of our physical infrastructure over the last decade and a half. This is reflected in the value of Ireland's fixed assets which has increased from €294 billion in 2000 to €470 billion in 2009 (Figure 5.24).
- Despite the sustained investment over the course of recent National Development Plans and the resultant improvement in infrastructure, perceptions about quality remain poor (Figure 5.26).
- Ensuring a secure, environmentally sustainable and economically competitive energy supply is a major global challenge. Ireland's overall energy import dependency was 88 percent in 2009 which compares unfavourably with the EU-15 average of 57 percent (Figure 5.29).
- In the context of climate change, water management is becoming increasingly important. Dublin compares relatively poorly to other European cities on a composite index which includes total annual water consumption, the percentage of water lost in the distribution system and policy measures to improve the efficiency of water use (Figure 5.31).

Knowledge Infrastructure

- The proportion of the working age population with tertiary level education has increased from 26 percent in 2003 to 33 percent in 2008 (Figure 5.36). Despite these advancements, older cohorts of Ireland's population aged 25-64 remain less qualified than the OECD average.
- Looking at primary education in Ireland, 11 year old students at primary level in Ireland receive fewer hours of tuition in maths and science than most other OECD countries (Figure 5.39).
- While 85 percent of 25-34 year olds had completed formal secondary education, attainment levels dropped to 69 percent for the population aged 25-64 years (Figure 5.40).
- Irish 15 year old students performed poorly in terms of scientific, mathematical and reading literacy, as measured by the OECD's latest Programme for International Student Assessment (PISA) scores (Figure 5.42). There was a significant decline in performance compared with 2006: in terms of reading literacy, the Irish ranking fell from 12th in 2006 to 17th in 2009, while our ranking for mathematical literacy fell from 10th to 26th.
- Younger age cohorts in Ireland enjoy significantly higher levels of tertiary attainment than older cohorts (Figure 5.46).
- Looking at the output from the third level sector, in 2009, Ireland had 17.2 maths, science and computing graduates per 1,000 of the population aged 20-29, which compares favourably with other euro area states (Figure 5.48).
- Ireland ranks below the euro area average in terms of lifelong learning and its performance in this measure has fallen since 2005 (Figure 5.50).
- In 2009 Irish expenditure on R&D was 1.77 percent of GDP. Business expenditure on R&D (BERD) in Ireland accounted for 1.17 percent of this (Figure 5.51). With expenditure in 2009 of €1.3 billion, foreign-owned companies undertake most business expenditure on R&D in Ireland (70%). Indigenous firms spent €563 million on R&D in 2009 (Figure 5.53).