

National Competitiveness Council publishes Ireland's Competitiveness Scorecard 2015

Date: 31 July 2015

Council Chairman warns urgent action is needed to improve competitiveness if we are to grow exports, attract investment and achieve a sustainable economic recovery.

The same urgency and commitment that went into bringing down the deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving the competitiveness of the Irish economy – the challenge isn't over.

The National Competitiveness Council (NCC), today (31 July 2015) published its annual benchmarking report, Ireland's Competitiveness Scorecard 2015. 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.

The Irish economy is the fastest growing in Europe, with GNP growth of 5.2% in 2014 being driven by a strong export performance and increasingly by new enterprise investment, which is underpinned by our improving competitiveness performance. Ireland has moved from 25th to 16th on the IMD Competitiveness rankings, with progress being made in areas such as the environment for start-ups, regulation, and access to credit. This improving competitiveness is contributing to strong employment growth. The unemployment rate has fallen from over 15% in 2012 to below 10% and employment has grown for three consecutive years, increasing by 2.2% in the year to Q1 2015, with an additional 41,300 employed over the last twelve months.

However, the Council warns that sustaining the momentum of employment growth is under threat.

While we have made progress at national level in improving our competitiveness, our ability to compete in international markets has been boosted by benign external factors – a weak euro against our main trading partners of the UK and US and low energy prices – and these favourable factors could be quickly reversed, eroding the competitiveness gains made to date.

The key areas of concern identified by the Council include insufficient investment in transport, energy and broadband infrastructure to meet the needs of a growing economy. A step-up in investment in education and training is also essential, as we continue to have a high proportion of the labour force with relatively low levels of formal education. Ireland has relatively low levels of investment in workforce training and low levels of engagement in life-long learning. The narrow base of exporting firms and exporting sectors continues to pose a risk for the economy and we need to increase the rate of entrepreneurship and investment in new sectors. The Council is concerned about cost pressures, in particular, in the areas of childcare costs, property,

insurance and business services. The Council is also warning about the risks of increases in labour costs that are not underpinned by increases in productivity, in particular where these increased costs are being driven by skills' shortages. Ensuring skills and labour market mismatches do not grow and aligning education and training outputs to enterprise needs both remain critical.

The ICS report is a follow-up to the Council's Cost of Doing Business in Ireland report published in April 2015 which found that while costs have fallen significantly since 2009, Ireland remains an expensive location in which to do business, relative to some of our key competitors, and there is a need to refocus efforts on minimising domestically controllable costs to the extent possible.

Speaking at the launch of the report, Professor Peter Clinch, Chair of the Council commented:

"Ireland's improving competitiveness performance over the period 2011-2014 has been central to the recovery in employment and economic growth. However, we remain a mid-table performer across most benchmarks of international competitiveness. External factors – low energy prices and the weak euro - are currently boosting Ireland's international cost competitiveness. While these factors are currently working in our favour, they can be quickly reversed, eroding the gains made to date. They also serve to shield us from some harsh truths: Ireland's continuing competitiveness is under threat, and there are indications that pressures are already emerging which are undermining our ability to compete internationally".

He continued *"While growth prospects are likely to be strong, further progress is required to narrow the gap with the world's most competitive countries. The immediate challenge is to sustain the recovery underway by remaining competitive. While growth prospects are likely to be strong, we must continue to deliver aggressively the structural reforms required to support competitiveness, productivity and growth. The Council is concerned that as growth gathers pace, we are at risk of repeating past mistakes which would threaten the sustainability of Ireland's recovery. In this regard, there is an urgent need for both the public and private sectors alike to manage proactively their cost base and drive efficiency, thus creating a virtuous circle between the costs of living, wage expectations, productivity and cost competitiveness."*

Professor Clinch highlights six key areas of concern identified in the Scorecard report which require immediate policy attention. These are:

1. Maintaining Fiscal Sustainability;
2. Investing in Physical and Knowledge Infrastructure;
3. Ensuring Cost Competitiveness;
4. Enhancing Talent and Skills;
5. Fostering Innovation and Productivity;
6. Broadening the Enterprise and Export Base.

He added: *"The recent economic crisis demonstrated how international and national authorities were watching the wrong indicators and missed significant economic threats emerging. The risk now is that, having concentrated on improving Ireland's macroeconomic indicators; people will assume the hard work is done. The same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving the competitiveness of the Irish economy. Our future wage rates, our ability to pay for the health service - let alone improve it - our ability to pay for good education for our children, our ability to have a generous state pension and our ability as an economy to survive in the Eurozone all depend on the competitiveness of the Irish economy. The challenge isn't over. In terms of maintaining competitiveness, it has only just begun."*

The Council will consider the issues highlighted in the Scorecard report and put forward proposals to address them in its annual policy document Ireland's Competitiveness Challenge which will be published later this year.

ENDS

NOTES TO EDITORS

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

Key Findings

- Ireland's improving competitiveness performance over the period 2011-2014 has been central to the recovery in employment and economic growth. The report concludes that the drivers of growth are becoming more balanced. While exports remain the key contributor, consumption, government expenditure and public and private investment are making increasing contributions to overall growth, albeit from low bases.
- Since 2011, Ireland's relative international competitiveness as measured by a range of international indices has improved. Ireland moved from 24th to 15th in 2014 in the IMD's World Competitiveness Yearbook, (but slipped back to 16th this year), and from 29th to 25th in the WEF Global Competitiveness Report. In addition, the World Bank's most recent "Doing Business" report shows Ireland is now ranked 13th out of 189 countries, up two places since 2014.
- While we are continuing to benefit from external factors such as the weak euro, low energy prices and fragile recovery in our key markets, the Council considers the sustainability and security of economic recovery and the objective of sustainable full employment is under serious and imminent threat if we do not redouble our efforts at national level to improve our competitive position relative to other countries.
- In terms of the business environment, Irish income and corporate tax rates remain competitive but international competition is increasing. Conditions for enterprise have improved – evidenced in Ireland's improved performance across a range of metrics, including time to start a new business, property registration requirements, speed of electricity connection and improving access to credit. E-commerce levels are among the highest in Europe. Challenges remain, however, in terms of increasing levels of enterprise start up.

- In terms of physical and knowledge infrastructure, Gross Fixed Capital Expenditure continues to recover and grew by 11% in 2014. However, current levels of investment will be insufficient to meet emerging needs. The scope to improve infrastructure capacity and effectiveness in the medium term must be guided by identifying and prioritising those investments which contribute most to Ireland's competitiveness and addressing enterprise needs and bottlenecks.
- Ireland's knowledge base represents an important competitiveness strength. The output from formal education of third level and STEM graduates is among the highest in the OECD. Of concern is the high proportion of the labour force with relatively low levels of formal education. At 6.7% the proportion of Ireland's population engaged in lifelong learning is well below the euro area average and far behind Finland's 31%. In addition, levels of investment in R&D as a percentage of GNP remain low.
- Both FDI and indigenous enterprise performance in 2014 was exceptionally strong in terms of export growth, jobs created and new investment. Of particular concern is that the export base (i.e. the range of goods we export) is narrowing and that favourable exchange rates with key trading partners such as the UK and euro area are temporarily boosting competitiveness. This leaves Ireland vulnerable to external demand shocks. Labour productivity and multifactor productivity performance is currently positive and above the OECD average. However, shifts in the composition of employment and the influence of the FDI sector are likely to overstate Ireland's performance. Increasing productivity across all sectors and occupations remains a significant challenge.
- While there have been some positive developments in terms of energy and telecommunications cost competitiveness, a range of price pressures have emerged with regard to labour, property, insurance and business services costs.
- Employment growth is strong and becoming more balanced from a sectoral and regional perspective. Job vacancy levels are increasing, particularly in professional services categories. While outward migration, long term unemployment and youth unemployment levels are declining, they remain high. High-level skills gaps are becoming more pronounced. Ensuring skills and labour market mismatches do not grow and aligning labour market needs with education and training output remains critical to competitiveness.
- Based on the analysis herein, the Council finds that while Ireland's competitive performance continued to improve in 2014, a number of downside risks persist. In terms of the positive messages emerging, overall economic growth has become more robust and broad-based than previously, resulting in employment growth and a more favourable fiscal balance. The exporting sectors of the economy continue to perform strongly and many of Ireland's traditional strengths (such as our attractive taxation regime, a highly skilled workforce, and generally pro-enterprise regulatory regime) remain in place. On the other hand, factors weakening our competitiveness include Ireland's continued high cost base, our dependence on a narrow range of exporting sectors, a series of labour market challenges (i.e. relating to long term and youth unemployment and labour force participation), debt and credit issues, and relatively weak productivity performance in many sectors of the economy.

The full report is available [here](#).

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.

Each year the NCC publishes three annual reports.

1. The Costs of Doing Business in Ireland report is a requirement under the Action Plan for Jobs 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 an annual Submission to the Action Plan for Jobs and Bulletins on specific competitiveness issues.