Brexit requires a determined response to enhance Ireland’s international competitiveness.

Now that our macroeconomic fundamentals are improved, we need the same relentless focus on improving Ireland’s competitiveness.

To secure Ireland’s competitive standing, we must invest in physical and knowledge capital, make work pay, broaden our tax base, and improve the efficiency and effectiveness of our public services.

The National Competitiveness Council (NCC), today (21 July 2016) published its annual benchmarking report, Ireland’s Competitiveness Scorecard 2016. 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 report finds that improving competitiveness has been central to recent strong economic growth. Ireland has moved from 16th to 7th in the IMD’s annual World Competitiveness Yearbook 2016. Ireland’s improved fiscal position, strong economic, employment and productivity growth, combined with cost competitiveness and the availability of talent have contributed to Ireland’s improved international competitiveness.

However, the Council warns that while the recovery appears to have consolidated, the outlook is precarious. As a small open economy, external threats such as financial market volatility and the fragile global economy are now exacerbated by the uncertain consequences of the British decision to leave the EU. All of the countries with whom we trade, and compete for FDI are also striving to improve their business environments. We need a relentless focus on reform and on continuing to improve Ireland’s competitiveness performance in areas that can be influenced by domestic policy action.

Chairman of the Council Professor Clinch emphasised at the launch of the report that sustainable economic growth and improved living standards are the primary goal of national competitiveness. He noted that “Improving our national competitiveness will need an increased emphasis on policies to support fiscal sustainability, incomes, regional and urban development along with an emphasis on good planning and addressing the challenge of meeting our climate policy commitments”.

The Council highlights eight key areas of concern in the Scorecard report which require immediate policy attention. These are:

1. Maintaining fiscal sustainability – a continuation of prudent fiscal policy is essential, prioritising expenditure and investment to support competitiveness and essential services, while not becoming dependent on cyclical revenues, and maintaining a growth friendly taxation system;
2. Investing in infrastructure – a step-up in investment is needed in road, energy, water and broadband infrastructure and in education and research facilities, is needed to address existing and emerging bottlenecks that are impacting productivity and labour mobility;

3. Ensuring economic growth is environmentally sustainable – meeting our current and future internationally energy and greenhouse gas emissions targets in areas such as transport and agriculture is a significant challenge for Ireland and we need to continue to reduce our dependence on imported fossil fuels. Failure to meet our 2020 targets will have a direct impact on our cost base, as will our ability to agree feasible 2030 targets with the EU;

4. Ensuring cost competitiveness - costs are a major determinant of our ability to sell in international markets and a particular focus is required to address domestically influenced costs factors in the energy, legal, health and housing areas;

5. Enhancing talent and skills – it is vital the education and training system is responsive to enterprise needs to minimise skill mismatches, that students are attracted to technical, engineering, maths and language courses and that businesses invest in up-skilling and engage with the new apprenticeship system to underpin productivity and competitiveness at firm level;

6. Supporting innovation and productivity – access to investment capital on competitive terms, from banks and equity sources, is an essential input for firms to grow their productivity and invest in people, technology and processes. The Council remains concerned about the over-hang of non-performing loans, the cost and access to working capital and pace of development of alternative sources of non-bank credit. Further investment in management development is also important;

7. Broadening our enterprise and export base – supporting the internationalisation of Irish enterprise and market-led innovation to develop new products, services and solutions for international expansion was never more important in the context of Brexit and the enhancing the competitiveness of our key clusters is critical, together with an ambitious external trade agenda;

8. Increasing labour market participation – we need to address our relatively low levels of labour force participation and realise the untapped potential available, particularly female participation, through addressing the interaction of labour market policies and supports, childcare costs and the costs of returning to work for individuals; And,

9. The competitiveness implications of Brexit – slower growth in the UK, the realignment of the deep inter-linkages between Ireland and the UK in terms of physical, economic and regulatory systems, both on and off the island, together with exchange rate fluctuations, brings into sharp focus the need for Irish based enterprise to step-up their own productivity and innovation performance to compete in international markets and for Ireland’s policy system to be agile in responding to the competitiveness challenges and opportunities of the UK outside the EU.

Speaking at the launch of the report, Professor Peter Clinch, Chair of the Council commented, “The scale of the challenges which confront us have been brought into focus by recent events in the UK. Our long standing and extensive economic and cultural ties with the UK mean that their decision to leave the EU has significant and direct consequences for Ireland. It brings into sharp focus the need for Ireland to maintain and improve our competitiveness
performance across a range of areas such as infrastructure, ease of starting a business, talent, tax and innovation. Only a renewed focus on competitiveness will help to insulate us from external shocks and factors beyond our control.”

“In recent years, and quite rightly, Irish policy makers had a relentless focus on correcting a range of ‘macroeconomic variables’ - bringing down the government deficit, reducing public debt and stabilising the banking system. Macroeconomic sustainability remains a fundamental part of returning us to rapid growth and we must retain a prudent approach to government spending and revenues ensuring that increased revenues are spent where they can most yield competitiveness improvements. However, we must also now turn our attention to improving the microeconomic elements of our economy to support sustainable economic growth and job creation. This approach will provide the bedrock on which to build better public services and improve living standards.”

He continued “Much of Ireland's competitiveness improvement in recent years has resulted from improved relative cost competitiveness as a result of the economic downturn along with favourable exchange rates against Sterling and the Dollar. As the economy recovers, we are now seeing price pressures re-emerging and, at the same time, Brexit has resulted in a reversal of exchange rate trends, meaning Irish exports are now more expensive in the UK. It remains to be seen what overall impact the decision has on Ireland's relationship with the UK, across a host of policy areas, from energy to investment and trade to migration. Ireland must be seen to respond in a forthright and confident fashion to the challenges posed by Brexit and position Ireland to take advantage of the opportunities which emerge as a result. Focusing on policies which enhance Ireland's competitiveness is paramount in this regard.”

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.
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 2011-2015 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, they have been replaced by domestic consumption and investment as the primary drivers of 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 16th to 7th in 2016 in the IMD’s World Competitiveness Yearbook, and from 25th to 24th in the WEF Global Competitiveness Report. In addition, the World Bank’s most recent “Doing Business” report shows Ireland is now ranked 17th out of 189 countries.

- While we are continuing to benefit from external factors such as the weak euro, low energy prices and gradual 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, such as business efficiency, economic performance and government efficiency. E-commerce levels remain 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. However, current levels of investment will be insufficient to meet emerging needs. Public investment (2.4% of GDP) remains below the Euro area average (2.7%) and inadequate capital investment, left unaddressed, will damage competitiveness and adversely impact future economic growth. 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, however, are the GDP spend per capita on tertiary education and the high proportion of the labour force with relatively low levels of formal education. In addition, levels of investment in R&D as a percentage of GNP remain low.

- Both FDI and indigenous enterprise performance in 2015 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 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 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 2015, 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 as evidenced by our recent exit from the EU’s Excessive Deficit Procedure. 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), infrastructural bottlenecks and relatively weak productivity performance in many sectors of the economy.
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 Competitiveness Bulletins on specific competitiveness issues.