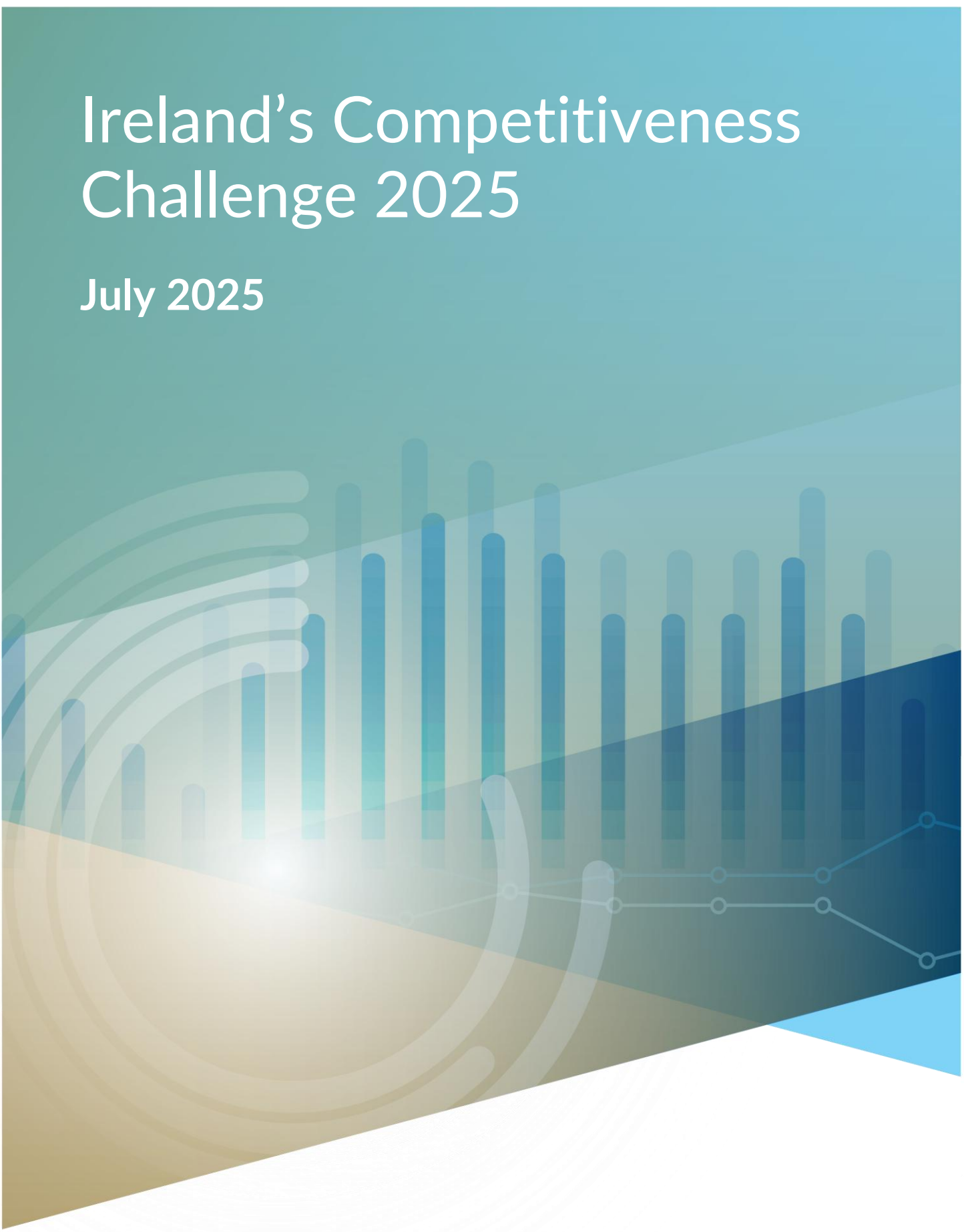
Ireland's Competitiveness Challenge 2025

July 2025



NCPC
National Competitiveness & Productivity Council
An Chomhairle Náisiúnta Iomaíochais agus Táirgiúlachta

Introduction to the National Competitiveness and Productivity Council

The National Competitiveness Council (NCC) was established in 1997. It reports to the Taoiseach and the Government, through the Minister for Enterprise, Tourism and Employment on key competitiveness and productivity 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 euro area 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. This expanded mandate underpins the decision to rename the Council, in November 2020, as the National Competitiveness and Productivity Council (hereafter referred to as "the NCPC" or "the Council").

Each year the Council publishes an annual report for Government on the key competitiveness and productivity challenges facing the Irish economy and suggests specific policy actions to address these challenges. In its assessment of the competitiveness challenges facing Ireland, the Council is guided by the Competitiveness and Productivity Framework (see below), which depicts productivity and competitiveness as two mutually reinforcing concepts.

As part of its work, the Council also periodically publishes:

- A **Competitiveness Scorecard**
- A series of **Competitiveness Bulletins** and other papers on specific competitiveness and productivity issues.
- An annual **Pre-Budget Outlook** paper to highlight those issues in the Competitiveness Challenge Report that are ready to be considered in the annual budget process.

The Council uses it Competitiveness and Productivity Framework as the basis for its Challenge Report:

National Competitiveness and Productivity Council Members

Dr. Frances Ruane	Chair, National Competitiveness and Productivity Council
Dr. Laura Bambrick	Head of Social Policy & Employment Affairs, ICTU
Edel Clancy	Group Director of Corporate Affairs, Musgrave Group
Kevin Sherry	Interim Chief Executive, Enterprise Ireland
Ciaran Conlon	Director of Public Policy, Microsoft, Ireland
Luiz de Mello	Director of Policy Studies, Economics Department, OECD
Maeve Dineen	Chair of Ireland's Financial Services and Pensions Ombudsman
Brian McHugh	Chairperson, Competition and Consumer Protection Commission
Gary Tobin	Assistant Secretary, Department of Enterprise, Tourism and Employment
Michael Lohan	Chief Executive, IDA Ireland
Liam Madden	Independent Consultant, Semiconductor Industry
Neil McDonnell	Chief Executive, ISME
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Paul Hogan	Department of Housing, Local Government and Heritage
Paul Bolger	Department of Climate, Environment and Energy
John McCarthy	Department of Finance
Colin Menton	Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation
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Table of Contents

Taoiseach's Foreword

Competitiveness and productivity are essential parts of Ireland's economic offering, driving sustainable growth, job creation, and ultimately, are key contributors to improving the living standards of all our people.

While we hold a strong competitive position globally and we have enjoyed a period of strong growth, with exceptional economic performance and job creation, we cannot take this success for granted. There are clear challenges facing not only Ireland but the many businesses, whether indigenous or FDI, operating here, and our European partners.

At this time of geopolitical upheaval and the increasing trend of protectionism in national markets, we once again now find ourselves at a time of considerable uncertainty for our economy. The global economic environment has changed significantly since the publication of last year's report, but our priorities and motivations are unchanged.

National competitiveness and "controlling the controllables" must be a central focus as we strive to inject certainty into the economy. This Government aims to protect the long-term prospects for our economy through increasing the productivity and the competitiveness of our domestic and international businesses, as reflected in our Programme for Government commitments.

Working with our European partners, mindful of the findings of the Draghi report, we are committed to reducing the cost and regulatory burden on businesses, supporting research and development and innovation, improving planning and regulation, investing in infrastructure and energy reform. These steps are necessary for supporting our domestic enterprises, improving the attractiveness of Ireland as a place to grow, innovate, and invest, for maintaining our competitiveness and future-proofing our economy.

Therefore, I very much welcome this report, which highlights Ireland's unique position in the global economy. The detailed analysis conducted by the National Productivity and Competitiveness Council puts great emphasis on the most pressing risks our economy and wider society are currently facing. The findings of this comprehensive report will be a key input into the development of the Government's forthcoming Action Plan on Competitiveness and Productivity.

I would like to thank the Council for its work on the report and analysis on Ireland's competitiveness. For many years, the National Competitiveness and Productivity Council have been a guiding light and have assisted the work in Government to ensure the correct policies and right environment is in place for businesses and Ireland to succeed and flourish. I have no doubt this will continue in the years ahead.

Micheál Martin, T.D.,
Taoiseach

Chair's Preface

Competitiveness remains at the fore of the political agenda at both national and international levels, with the deepening climate of economic and political uncertainty only adding to its prominence. The latest round of economic forecasts all point to lower growth estimates. Ultimately, Ireland's competitiveness and productivity performance is the most significant determinant of standard of living over the years ahead. For this reason, we must get better at developing and adopting measures now that will give us long-term success. In effect, this means prioritising and executing expeditiously actions on those factors that fall within the domestic sphere of influence.

While Ireland's competitive performance continues to look strong on many fronts, we are – like all small, open economies – deeply exposed to potential changes in the international economic environment and this is a theme at the centre of this year's report. The recently published IMD World Competitiveness Rankings show Ireland down three places compared to 2024. This is a reminder, if needed, that we should not be complacent.

In the face of increased geopolitical uncertainty, it is also timely to recall that the factors which have contributed to Irish economic success will help us to compete strongly into the future. Recent work by the Council shows the Government to have made slow progress in implementing some of the actions it committed to in response to the Council's previous recommendations. It raises the issue of why implementation is so slow, and whether we have the right processes and resources to deal with what is needed to make progress.

I welcome the Government's increased focus on the competitiveness agenda, following the Council's contribution to the inaugural Competitiveness Summit of Ministers in September 2024. This focus has continued with the commitment to publish an Action Plan on Competitiveness and Productivity later this year. This year's Challenge report will help inform the Action Plan and I was pleased to have had the opportunity to engage further with Government on this work at the most recent Competitiveness Summit (July 2025).

In the current economic uncertainty, it is imperative that Government utilises fiscal restraint while actioning competitiveness-enhancing reforms. The Council calls for greater strategic prioritisation in infrastructure and for this to be reflected in more timely policy actions and expenditure decisions. As noted in recent work by the Council, Ireland's dysfunctional housing market continues to adversely impact our competitiveness and the living standards of many. While the Council welcomes the Government's efforts to boost investment into the private rental sector, it is imperative that these actions are designed and managed to avoid any possibility of an unintended adverse supply shock.

The new emphasis on competitiveness across the EU, linked to the publication of the Commission's Competitiveness Compass, presents opportunities for Ireland. These include fostering growth in new sectors and progressing towards a Savings and Investment Union which will create increased scaling opportunities for Irish firms. A significant gap continues to exist in the levels of innovation in SMEs compared with multinationals – an issue that Ireland must address in order to drive greater domestic productivity growth. The Council suggests a targeted SME innovation credit to promote indigenous investment. The Council also sees considerable scope for greater use of AI technology in the public service, unlocking capacity, boosting productivity, and reducing delays. Action on these and other recommendations made this year by the Council are needed to ensure that Ireland is taking the steps to improve performance in the areas it can control.

Dr. Frances Ruane,

Chair, National Competitiveness and Productivity Council

Overview

- **As a highly open economy Ireland is exposed to disruptions in international trade and to external vulnerabilities.** Sustained uncertainty in international trade policy can increase risk in business planning, dampen investor confidence, delay key decisions, and lead to foregone investment opportunities, ultimately constraining growth and increasing our vulnerability to shocks. This underscores the importance of maintaining key domestic strengths. Our membership of the EU provides Ireland with stability and access to a large, integrated market, supporting the conditions needed for continued growth.

  With the economy operating at close to capacity, it is vital that Ireland preserves its economic resilience while preparing for potential external shocks. Maintaining fiscal discipline by adhering to the national spending rule will safeguard the public finances, while avoiding excessive demand stimulus, and will help prevent inflationary pressures. At the same time, prioritising productivity-enhancing reforms in areas that are within domestic control (particularly in addressing the infrastructure deficit), will strengthen Ireland's capacity for sustainable growth **(Recommendation 1.1**).

- **Recent trends towards deglobalisation and defensive trade patterns in the global economy have emphasised the need for Ireland to deepen ties with EU and other global trade partners**. The innovation gap between the EU and other regional trading blocs has been flagged as a key impediment to regional competitiveness. Irish indigenous firms are also lagging multinational groups in terms of R&D activity. The government needs to ensure that indigenous Irish enterprises are well placed to avail of increases in EU innovation and competitiveness funding and that Irish firms are able to participate in Important Projects of Common and European Interest (IPCEI) (**Recommendation 2.1**).

  The government should also explore opportunities arising from the European Unions renewed focus on industrial strategy. Although Ireland has a preference for horizontal supports that are not sector focused, there may be growth opportunities for certain Irish industries presented by initiatives such as the Clean Industrial Deal **(Recommendation 2.2)**. The Savings and Investment Union also presents opportunities for Irish firms by eroding barriers to investment within the single market **(Recommendation 2.3)**.

  The concentration of trade with partners in the United States has been jeopardised in recent months. By aiding Irish firms in their efforts to diversify export markets and supply chains, the state can take action to mitigate these trade risks **(Recommendation 2.4)**. The reliance of the European economy on external payment platforms has also been flagged as a major risk, given the implications for economic security and cost pressures due to a lack of local competitors. The establishment of a European payments platform would be helpful in promoting economic security and regional competitiveness **(Recommendation 2.5)**.

- **The cost of doing business in Ireland continues to present significant competitiveness challenges.** Personal injury claims are emerging as a major cost driver for businesses in Ireland through their significant influence on insurance premiums and risk assessments. Furthermore, legal costs in litigation are disproportionately high. In advance of the next review of the Personal Injuries Awards Guidelines, there should be a re-examination (and re-consideration) of the appropriateness of the methodology used to benchmark the level of awards **(Recommendation 3.1).**

  A new source of increased labour-related costs stems from compliance with the recently introduced *Enhanced Reporting Requirements* For employers submitting relevant returns outside of standard payroll filings, this represents a new administrative burden. There is a concern about the proportionality of

requiring all employers – regardless of turnover or workforce size – to provide such information. The current Enhanced Reporting Requirements should be reviewed, with consideration given to amending them for SMEs below a certain threshold **(Recommendation 3.2).**

Rising global energy prices and supply chain disruptions have sharply increased electricity costs in Ireland, placing significant pressure on businesses. Prices, set through the all-island Single Electricity Market (SEM), are highly sensitive to international volatility, making domestic costs vulnerable to global shocks. The Government should advocate at the EU level for reforms to prevent the SEM pricing mechanism from locking in unnecessarily high prices **(Recommendation 3.3(a))**. Additionally, infrastructure-related cost recovery—covering investment, maintenance, and operation—further drives up prices. Funding models should be reviewed to ensure that investment in energy, water, and wastewater infrastructure is not borne solely by end-users **(Recommendation 3.3(b)).**

- **There remains a critical need to enhance the delivery of our economic infrastructure to address growing deficits.** Significant infrastructural demand arising from strong population growth, in combination with an insufficient supply response has resulted in growing deficits across housing, energy, water and transport. In a constrained market, Government needs to prioritise key economic infrastructure and ensure that this is reflected in policy signals **(Recommendation 4.1)**. In order to prioritise, Government must also be well appraised of future population dynamics which can be influenced by employment trends, among others. While action on planning reform is welcome, delays continue to hamper our ability to meet targets. Government should consider the introduction of mandatory timelines in relation to licensing, including for environmental licenses issued by the Environmental Protection Agency. Alongside this, consideration should also be given to the degree to which parallel decision and greater consultation between regulators might expedite delivery of infrastructure **(Recommendation 4.2)**. Total employment in construction has a significant bearing on that sector's output, however the sector's low productivity levels remain unacceptably low in a period of critical need for increased output. There is a need to better understand the drivers of Ireland's particularly low productivity in this area, while continuing to drive uptake of Modern Methods on Construction, including through public sector utilisation of this **(Recommendation 4.3)**.

  Competing in an increasingly digitised global economy requires affordable and clean, and secure energy. The publication, by the CRU, of a decision in relation to Large Energy Users; along with a Private Wires Policy Framework would both contribute to increased clarity for investors in critical economic **(Recommendation 4.4)**.

- **In an increasingly technology-driven economy, education and skills developments are particularly crucial drivers of competitiveness and productivity**. By fostering a stronger culture of continuous learning, Ireland can maintain a competitive advantage, further enhance productivity and economic growth, as well as build a thriving workforce of the future. To support participation in the labour force, and in particular women's participation, it is suggested that an Action Plan to improve childcare is implemented without a delay **(Recommendation 5.1).** To further embed a culture of continuous learning, it is recommended that the National Training Fund (NTF) should be strategically targeted among underrepresented groups (such as older male workers) and among workers in sectors of rapid change to increase lifelong learning participation. It is also suggested that consideration should be given to setting an upper limit on the surplus of the NTF and a new Action Plan on Lifelong Learning should be developed **(Recommendation 5.2).**

It is also important to consider any administrative challenges that may arise for workers and employers due to the interdependence between visa and work permits system. A more coordinated, transparent process is urgently needed to mitigate risks to both employers and prospective employees. Government's decision to improve employment permits and visa systems are welcomed, and it is recommended to implement a single application system as soon as is practicable **(Recommendation 5.3).**

- **Advanced technologies offer a key opportunity to deliver productivity improvements across the public sector and within Ireland's domestic enterprise base.** Ireland's productivity landscape continues to be characterised by a persistent gap between smaller, Irish-owned enterprises and large multinationals. Addressing this divide will require investment in digitalisation and advanced technologies to improve productivity within domestic enterprises. To support these objectives, the publication of national productivity statistics disaggregated by domestic- and foreign-owned enterprises would provide clearer insights into the performance of domestic enterprises and facilitate more effective international benchmarking **(Recommendation 6.1)**.

  Significant opportunities also exist to enhance public service efficiency through the prioritised adoption of AI technologies, supported by a clear national strategy and implementation plan, helping to unlock capacity and drive productivity gains **(Recommendation 6.2)**. The disparity in RD&I investment among SMEs remains an ongoing challenge, underscoring the need for targeted incentives to drive new-to-firm innovation and support the adoption of advanced technologies, strengthening the productive capacity of domestic enterprises **(Recommendation 6.3)**. A cohesive, system-wide approach to RD&I will also be necessary to align national strategies and ensure effective execution of national priorities.

Summary of National Competitiveness and Productivity Council Recommendations 2025

The annual Challenge report identifies a specific range of recommendations that address both immediate competitiveness issues, and more medium- and long-term challenges that require urgent action, aimed at enhancing Ireland's competitiveness and productivity performance[1]. The National Competitiveness and Productivity Council has a primary focus on competitiveness and productivity, and through this lens it identifies broad areas where reform is needed to support a sustainable and inclusive economy. This year, the Council has focused its analysis and recommendations on specific issues where progress is required and acknowledges additional areas requiring attention but are outside of the scope of this report. Some of these areas will be discussed in other publications later in the year.

Ireland's Competitiveness Challenge 2025 contains twenty recommendations targeting areas where progress is urgently required to strengthen Ireland's competitiveness and productivity. This year's report focuses on the domestic policies that can be taken in a context of ongoing geopolitical and economic uncertainty. Building on the engagement with Government at the last year's Competitiveness Summit, the Council looks forward to further discussions at Competitiveness Summit 2025 and contributing to the Action Plan of Competitiveness and Productivity.

Chapter 1: Immediate Issues Facing the Irish Economy

Recommendation 1.1: The Council recommends that the Government exercises fiscal restraint and adheres to the national spending rule to safeguard the resilience of the public finances during this period of significant uncertainty. Priority should be given to investment in competitiveness and productivity-enhancing reforms, particularly in areas within domestic control – most notably in addressing the infrastructure deficit.

Responsibility: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Finance

Chapter 2: Ireland in a Changing Global Economy

Recommendation 2.1: In the face of deglobalisation trends, the Council recommends that Ireland:

(a) ensures that indigenous Irish enterprises are well placed to avail of increases in EU innovation and competitiveness funding. This should be complemented by measures which seek an ambitious expansion of innovation activity among Irish firms.
(b) enhances our engagement with the Important Projects of Common and European Interest (IPCEI) framework through active participation in – and funding for – new investments.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Finance

Recommendation 2.2: The Council recommends an examination of the growth opportunities arising from the EU's increasing focus on industrial strategy, and the degree to which this could drive and support new sectoral developments in Ireland.

[1] Many key themes are revisited by the Council across multiple years in the *Challenge* reports but not every theme is explored in detail each year.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Foreign Affairs and Trade

Recommendation 2.3: The Council recommends that Ireland should advocate at EU-level for progress on a polycentric Savings and Investment Union within the EU.

Responsibility: Department of Finance; Department of Foreign Affairs and Trade

Recommendation 2.4: The Council recommends that in response to potential risks arising from concentration with trade partners, the Government should actively support Irish enterprise in diversifying export markets and supply chains.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Foreign Affairs and Trade

Recommendation 2.5: The Council recommends that Ireland advocate at EU-level for the development of a European online payment platform.

Responsibility: Department of Finance

Chapter 3: The Cost of Doing Business in Ireland

Recommendation 3.1: In advance of the next review of the Personal Injuries Awards Guidelines, the Council recommends a re-examination (and re-consideration) of the appropriateness of the methodology used to benchmark the level of awards.

Responsibility: Department of Justice; Department of Enterprise, Tourism, and Employment

Recommendation 3.2: The Council recommends that a review is undertaken of the proportionality of the current Enhanced Reporting Requirements and consider amendments for SMEs below a certain threshold (i.e., below 20 staff and/or below €1m in annual turnover) to lower the relative administrative burden.

Responsibility: Department of Finance; Office of the Revenue Commissioners

Recommendation 3.3: The Council recommends that the Government should:

(a) Advocate at EU-level for steps to ensure that the pricing mechanism for the Single Electricity Market (SEM) does not lock-in unnecessarily high prices for European consumers.

(b) Consider the feasibility of taking steps to ensure that infrastructural investment in the energy, water, and waste-water systems is not solely funded by charges on the end-user (with the Exchequer to co-fund this work).

Responsibility: Department of Foreign Affairs and Trade; Department of Climate, Energy and Environment

Chapter 4: Infrastructural Deficits and Ireland's Competitiveness Offering

Recommendation 4.1: The Council recommends that:

(a) Drawing on available data and analyses, Government should provide clear guidance on the prioritisation of infrastructure and should ensure this prioritisation is reflected in consistent policy signals, including grant schemes.

(b) That future projections for population growth are updated and used systematically to inform housing targets. Furthermore, these projections should be used to develop regional employment targets, which in turn should be used to inform housing targets (and for infrastructure more generally).[2]

Responsibility: Department of Housing, Local Government and Heritage; Central Statistics Office; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Enterprise, Tourism and Employment; Department of Climate, Energy and Environment

Recommendation 4.2: The Council recommends that Government should:

(a) consider the introduction of mandatory timelines in relation to licensing, including for environmental licenses issued by the Environmental Protection Agency, in order to expedite decision-making and delivery of infrastructure.

(b) consider steps to provide for parallel decision making, alongside greater consultation between bodies, to enhance delivery of infrastructure across housing, energy and water.

Responsibility: Department of Climate, Energy and Environment

Recommendation 4.3: To promote further use of Modern Methods of Construction (MMC), the Council recommends that there should be:

(a) an urgent review undertaken of available data on productivity levels in the Irish construction sector, with a focus on patterns of residential construction (with reference to international comparators), and including the identification of drivers for productivity improvements, while continuing to prioritise and embed MMC.

Responsibility: Central Statistics Office; Department of Housing, Local Government and Heritage; Department of Enterprise, Tourism and Employment

(b) ensure a coordinated approach and shared learnings across all public housing delivery bodies in the deployment of MMC in public housing delivery.

(c) regular reporting and monitoring undertaken by The Housing Agency to report on the profile of Local Authority housing delivered through MMC (as part of the development of new data collection protocols).

Responsibility: Department of Housing, Local Government and Heritage

[2] Specifically, the demand for housing in a given locale will reflect locational decisions (as households – whether indigenous or foreign-born – relocate in search of employment opportunities).

Recommendation 4.4: The Council recommends publishing the final CRU decision in relation to Large Energy Users; and a Private Wires Policy Framework, in order to provide greater certainty on energy-intensive and digital focused investment in Ireland.

Responsibility: Department of Climate, Energy and Environment

Chapter 5: Preparing the Workforce of the Future

Recommendation 5.1: The Council welcomes the Government's commitment to develop an Action Plan to improve childcare and recommends its implementation without delay.

Responsibility: Department of Children, Disability and Equality

Recommendation 5.2: The Council recommends that the following steps are taken in relation to the National Training Fund (NTF) and the development of lifelong learning:

- **(a)** The NTF should be strategically targeted to increase lifelong learning participation among underrepresented groups, such as older male workers, and among workers in sectors of rapid change. This can be achieved through dedicated (and ringfenced) programmes and the inclusion of clear KPIs in existing initiatives.
- **(b)** Consideration should be given to setting an upper-limit on the surplus in the NTF that can accrue by year-end (in any given year).
- **(c)** In response to the OECD review of Ireland's skills ecosystem, that a new Action Plan on Lifelong Learning should be developed.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Enterprise, Tourism and Employment

Recommendation 5.3: The Council welcomes Government's commitment to improve employment permit and visa systems and recommends implementation of a single application system as soon as is practicable.

Responsibility: Department of Justice; Department of Enterprise, Tourism and Employment

Chapter 6: Productivity, Technology and Innovation

Recommendation 6.1: The Council recommends the publication of national productivity statistics that provide insight into developments in the labour productivity of firms that are owned domestically, and that facilitates the international benchmarking of labour productivity across domestic firms.

Responsibility: Central Statistics Office

Recommendation 6.2: The Council recommends the publication of an ambitious national strategy and implementation plan to drive the adoption of AI technology in the public service, with a view to unlocking capacity, boosting productivity, and dealing with new ways of working that have emerged since COVID-19. This strategy should prioritise the delivery of outstanding actions for AI use in the Public Service as outlined in the National AI Strategy. In addition, further action should be taken to:

- **(a)** Identify the potential added value from use of AI at the organisational level.
- **(b)** Set appropriate targets for the take-up and use of AI at the local level.
- **(c)** Develop a reporting structure to facilitate oversight and accountability of progress towards adoption targets.

Responsibility: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of the Taoiseach

Recommendation 6.3: The Council recommends the introduction of an innovation investment incentive targeting small and medium sized firms that would support firm advancement in the form of new-to-firm investments, including those related to digitalisation and the take-up of advanced technologies.

Responsibility: Department of Finance; Department of Enterprise, Tourism and Employment

Chapter 1: Immediate Issues Facing the Irish Economy

Key messages:

- Ireland's economy is highly exposed to disruptions in international trade. Despite external vulnerabilities, Ireland enjoys key indigenous strengths, most notably its membership of the EU, which provides access to a vast and integrated market, fostering stability amidst global uncertainty. While there are signs that consumer confidence remains resilient across the EU, ongoing external risks could impact on this over time.

- While the detail of trade policy changes is of significant consequence to enterprises – both MNEs and SMEs – so too is the uncertainty surrounding these changes. When trade policies are unclear or subject to volatility in design or delivery, decision-makers face a higher degree of risk in their planning processes. Sustained uncertainty poses a significant threat, dampening investor confidence and delaying key business decisions. This uncertainty carries significant opportunity costs in the form of foregone investments, that will lead to slower growth and an economy that is more vulnerable to shocks.

- To navigate uncertain times in global markets, it makes sense to focus on factors which fall within the domestic sphere of influence. With the labour market at full employment, excessive demand stimulus could lead to inflationary pressures, eroding competitiveness. Instead, maintaining fiscal discipline, prioritising productivity-enhancing reforms, and adhering to spending limits will be critical in ensuring economic resilience amid rising external risks.

1.1 Current Situation

While the Council's primary focus is on structural issues that shape Ireland's long-term competitiveness and productivity – and, by extension, living standards and sustainable growth – it is equally important to consider the immediate economic landscape in which these ambitions are pursued. Short-term developments can have lasting effects, and the lived experience of citizens is grounded in the present. Uncertainty remains a defining feature of the current global economic environment, and Ireland is particularly vulnerable to external sectoral shocks, volatility in financial markets, and geopolitical disruptions. Understanding how these dynamics affect the Irish economy provides essential context for understanding the challenges to Ireland's competitiveness performance. This chapter, therefore, takes stock of Ireland's current economic position, highlighting immediate challenges – particularly those with implications for our international competitiveness – and areas requiring close attention in the months ahead. This chapter outlines the implications of uncertainty regarding the international trade environment (1.1.1) and sets out the current global growth outlook (1.1.2). The chapter also provides an update of Ireland's international competitiveness performance (1.1.3) and gives an overview of the domestic economic outlook (1.1.4), and developments in consumer and producer prices (1.1.5).

1.1.1 Understanding Uncertainty

Amid unprecedented global economic uncertainty – driven by a dynamic geopolitical backdrop and a rapidly shifting trading landscape – small, open economies like Ireland face heightened vulnerability. With a high reliance on US foreign direct investment (FDI), Ireland is acutely sensitive to changes in transatlantic trade dynamics and currency fluctuations. This can impact export competitiveness and investment flows, which have been the foundations of our economic success for over four decades. Figure 1.1a shows the significant rise in global policy uncertainty over the last 12 months, while Figure 1.1b tracks consumer confidence, which has fluctuated more significantly in the US than in Europe.

Figure 1.1a: Policy Uncertainty Indices

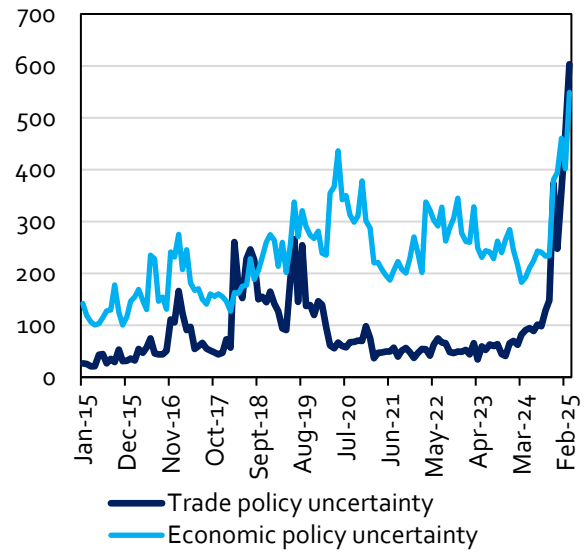
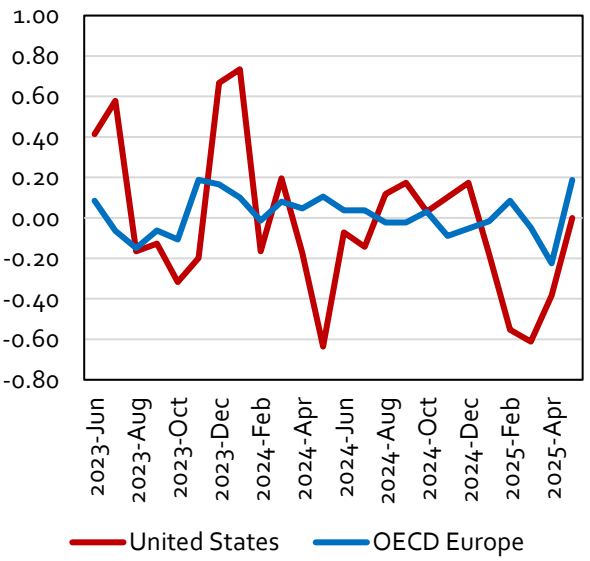


Figure 1.1b: Consumer Confidence Index



Source: OECD Interim Economic Outlook, March 2025. Note: Figure 1.1a measures how often the terms "trade policy" and "uncertainty" appear together in major newspaper articles. A value of 100 on the index means that 1% of all articles contain both terms, providing a quantifiable gauge of trade-related uncertainty over time.[3] Figure 1.1b reflects the 3-month moving average of the OECD Consumer Barometer.

[3] See: Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A., & Raffo, A. (2020). The economic effects of trade policy uncertainty. Journal of Monetary Economics, 109, 38–59. The Global EPU is a nominal GDP-weighted average of national EPU for 21 countries: AUS, BRA, CAN, CHL, CHN, COL, FRA, DEU, GRC, IND, IRL, ITA, JPN, MEX, NLD, RUS, KOR, ESP, SWE, GBR and USA.

While the detail of trade policy changes is of significant consequence to enterprises operating in Ireland – both MNEs and SMEs – so too is the uncertainty surrounding these policy changes. Trade agreements take significant time to negotiate, particularly when they are multilateral and involve sectoral/product variation. Enterprises benefit from stable and predictable policy environments to plan and make informed decisions, from sourcing materials to expanding into new markets and making new investments. When trade policies are uncertain and subject to volatility in design or delivery, decision-makers face a higher degree of risk in their planning processes. Sustained uncertainty, therefore, poses a significant threat, dampening investor confidence and delaying key business decisions. This will impact on the performance of enterprises already operating here, and will be reflected in receipts from corporate tax, which have become a significantly more important source of revenue in recent years. This uncertainty also carries a significant opportunity cost in the form of foregone investments, leading to slower economic growth and greater vulnerability to external shocks.

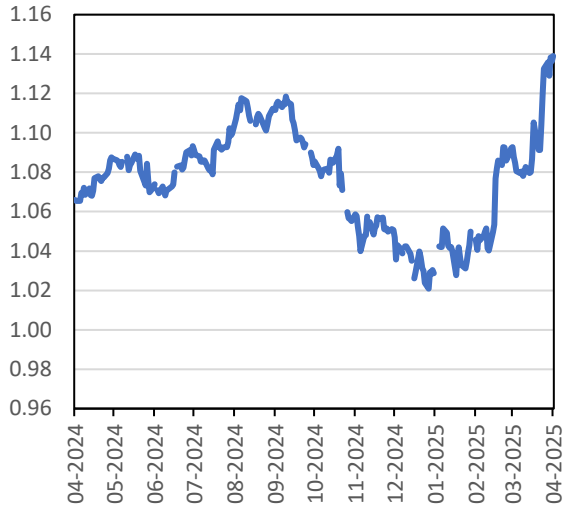
Over the coming weeks and months, there are several potential outcomes to ongoing trade disruptions. First, the US could – fully or partially – reverse its current policy stance, de-escalating global trade tensions. Second, a series of bilateral trade agreements could be negotiated between major regions to reduce significant trade tensions, it would mark a step-change away from decades of multilateralism which are usually to the benefit of small economies. Third, the global economy could enter – and remain in – a period of stasis, where tariff changes are implemented for an indefinite time. Fourth, we could experience a further escalation of tariffs, albeit there is likely a point at which further increases in tariff rates have a limited effect, with trade effectively ceasing (i.e., tariffs become a de-facto embargo). There may also be consequences arising from the re-routing of US-China trade, as Chinese exporters seek new markets to compensate for the loss of access to the US. Any surge in low-cost Chinese exports into the EU could increase competitive pressure on domestic and European producers, particularly in sectors where margins are already tight.

The picture turns more uncertain still when the impact of US-Euro currency fluctuations is considered. US imposed tariffs will make Irish (and EU) exports more expensive to US-based consumers. This effect will be compounded if the US dollar continues to weaken relative to the Euro (see Figure 1.2a), which, in addition to increasing the cost of imports, will also make the EU a less affordable travel destination for US households. There are also signs that investors are growing more cautious of exposure to the US market. Typically, during periods of disruption in which there is a fall in share prices, there is a strengthening of the US dollar alongside lower bond yields (and higher bond prices), reflecting greater relative demand for safe assets. But recent trends have seen a new and different pattern, namely a triple depreciation with respect to the US stock market, US bonds, and the US dollar. In another sign of the challenges facing the US Treasury, Moody's downgraded the US's sovereign credit rating in May.[4]

Taken together, all of these factors could indicate that the US is at risk of losing its safe haven status. Higher bond yields, should they persist, would significantly increase debt servicing costs for the US Treasury, especially against the backdrop of a projected increase in the US deficit.[5] This also suggests that the US bond market may act as a binding constraint, limiting the scope of what the current US administration can achieve in terms of radical changes to US trade policy.

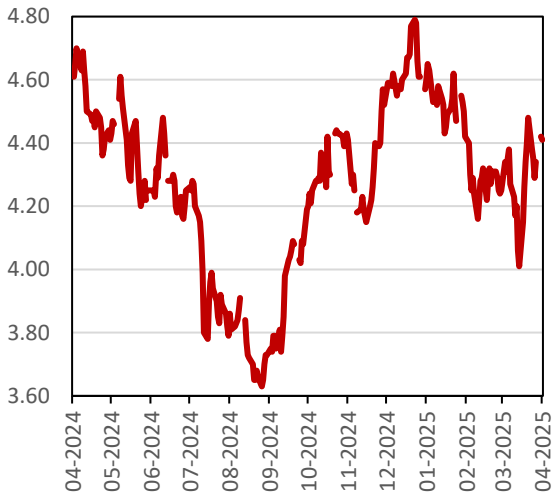
[4] See: Moody's Rating – Rating Action, 16 May 2025.
[5] The situation is further complicated by the fact that the US Treasury has upcoming refinancing needs with a significant volume of debt due to mature in 2025.

Figure 1.2a: US-Euro Spot Exchange Rate, between April 2024 and April 2025



Source: Federal Reserve Economic Data

Figure 1.2b: 10-Year US Treasury Yield, between April 2024 and April 2025



Source: Federal Reserve Economic Data

1.1.2 Global Growth Outlook

Global growth is still projected to be steady in the short term. Table 1.1 shows the latest estimates of global GDP growth from the main forecasting bodies. These forecasts suggest that the global economy will expand by approximately 3% in 2025 and 2026. However, an important caveat when interpreting economic forecasts is that point estimates alone do not fully account for uncertainty or the various factors that can influence the data's trajectory. There is also evidence of a stockpiling effect in anticipation of the increase in trade barriers.[6] This will complicate the interpretation of economic data in the coming weeks and months, flattering headline indicators and masking underlying stress in the short-term. For this reason, these data must be interpreted with caution. It may also take some time for the full impact of present uncertainty to manifest in economic data as uncertainty undermines investment, which impacts on long-run growth.

Table 1.1: Latest Forecasts of Global GDP Growth (%)

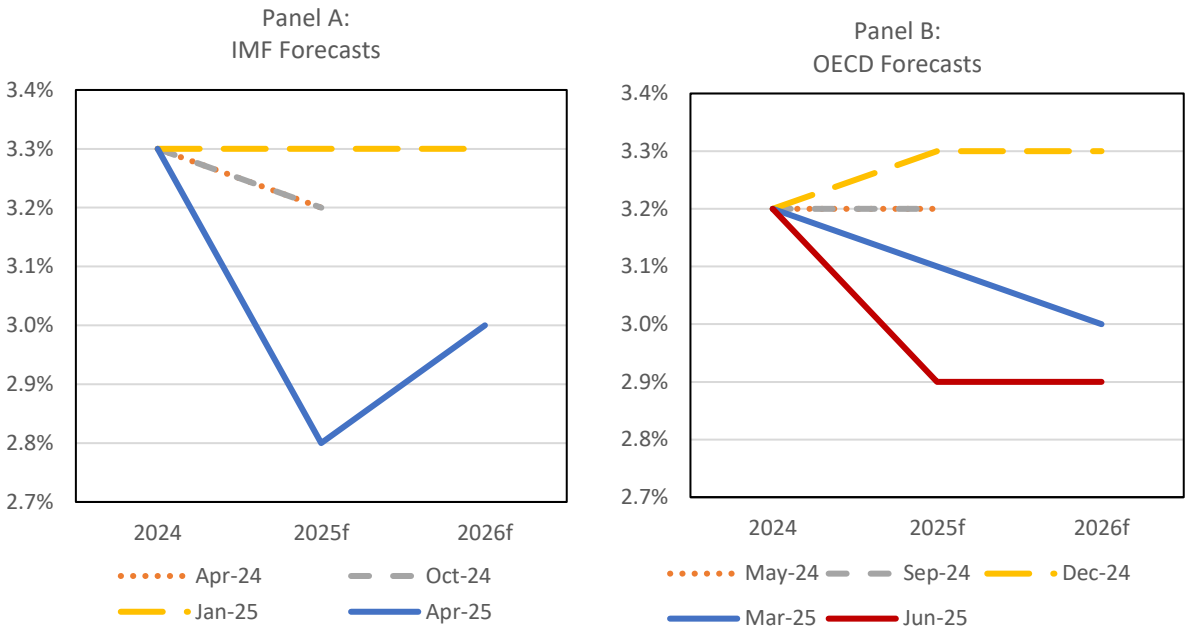
	2025	2026
IMF[7] (April 2025)	2.8	3.0
European Commission[8] (May 2025)	2.9	3.0
OECD[9] (June 2025)	2.9	2.9

Source: OECD Economic Outlook, European Commission Spring Economic Forecast, IMF World Economic Outlook

Figure 1.3 illustrates the various vintages of forecasts of global growth for 2025 and 2026, by both the IMF (Panel A) and the OECD (Panel B), since Spring 2024. As shown, the latest round of forecasts reflects a much less optimistic outlook, particularly compared to expectations towards the end of 2024, with downward revisions to estimates of global growth. This reflects changes in US trade policy and the rise in effective tariff rates to levels not seen in a century.

[6] See: Goods Exports and Imports February 2025 - Central Statistics Office.
[7] World Economic Outlook, IMF, April 2025.
[8] Spring 2025 Economic Forecast, European Commission, May 2025.
[9] OECD Economic Outlook, OECD, June 2025.

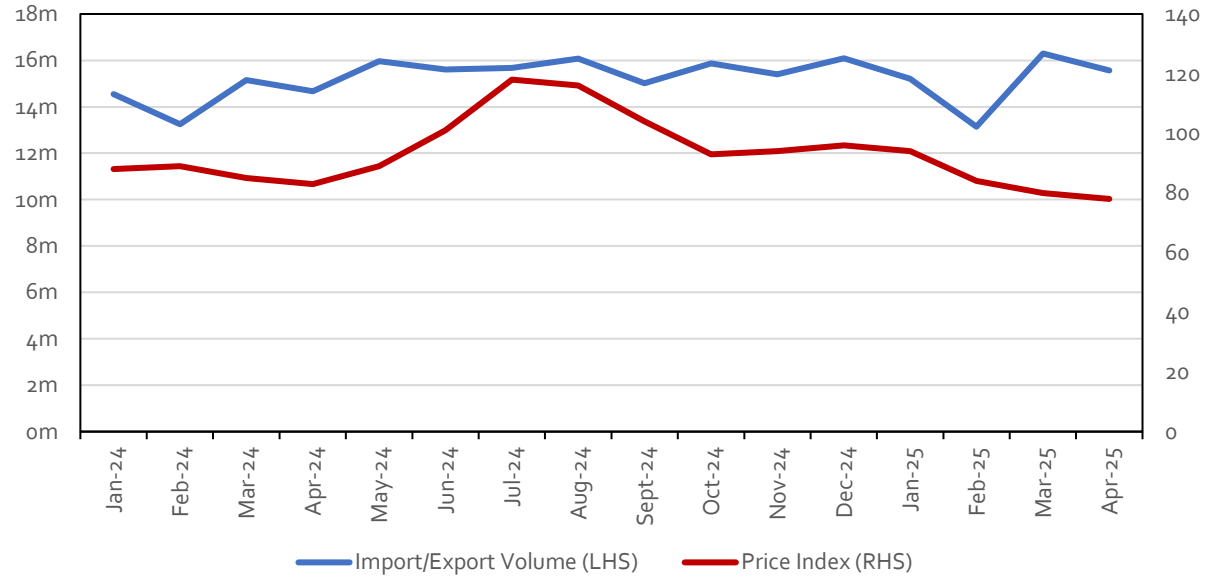
Figure 1.3: Vintages of Global GDP Growth Forecasts



Source: OECD Economic Outlook; IMF World Economic Outlook. Note: Actual growth estimate used for 2024.

The trajectory of global growth will depend largely on the anticipated decline in world trade in response to trade barriers. The World Trade Organisation (WTO) estimates a decline in the volume of trade in goods by 0.2% in 2025, approximately three percentage points lower than baseline.[10] The latest available statistics on global shipping volumes indicate that activity has remained reasonably stable until quite recently (see Figure 1.4).

Figure 1.4: Global TEU Volumes & Shipping Price Indices



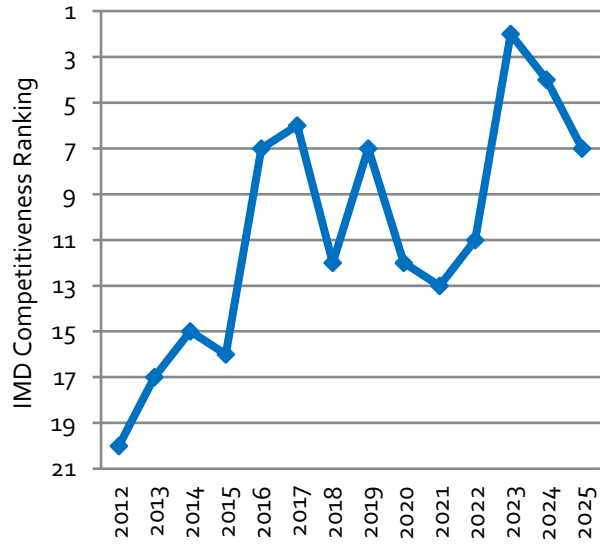
Source: CTS Container Statistics

[10] Global Trade Outlook, WTO, April 2025.

1.1.3 Ireland's Competitiveness Performance

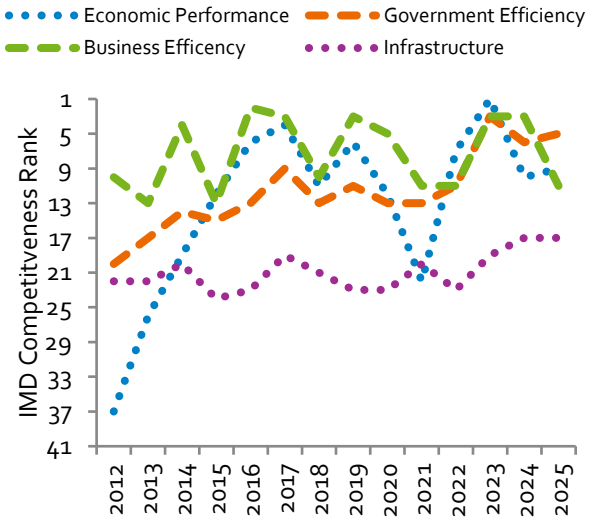
The Institute for Management Development (IMD)'s World Competitiveness Rankings 2025 show Ireland as the most competitive country in the euro area and the 7th most competitive economy in the world (out of 69 economies), a decline from 2nd position just two years previously. The Council will soon publish a *Competitiveness Bulletin*[11] discussing Ireland's global competitiveness position in more detail (as in previous years). Figure 1.1.3a demonstrates that Ireland has consistently been placed in the top 20 most competitive economies globally since 2012. This year's decline in Ireland's overall ranking is largely due to a drop under 'Business Efficiency' (covering themes relating to business productivity and efficiency – this saw a drop to 11th place (down from 3rd last year)). Ireland continues to perform strongly under 'Government Efficiency' (5th) and has improved its ranking under 'Economic Performance' (9th). The latter is up from 10th last year but down compared to 2023 (1st). Under 'Infrastructure' (17th) our performance continues to lag other pillar areas, as it has done consistently since 2014. Figure 1.1.3b shows Ireland's ranking across these four pillars.

Figure 1.5a: Ireland's Overall Competitiveness Rankings 2012-2025



Source: IMD

Figure 1.5b: Ireland's Ranking across Four Pillars 2012-2025



Source: IMD

While international indices like the IMD World Competitiveness Ranking (WCR) provides a valuable benchmarking tools, it is essential that they are interpreted critically and in context. These rankings often reflect methodological choices, data limitations, and structural assumptions that may not fully align with the particular structures of every economy. Interrogating how such indices are constructed, what they measure, how indicators are weighted, and which definitions are used, is essential to ensure that they provide an accurate and meaningful understanding of national performance. This in-depth analysis is especially important for small or structurally unique economies, where headline rankings may obscure underlying strengths or vulnerabilities. Relating to this, in May 2025 the Council published a *Competitiveness Bulletin*[12] that analysed how Ireland's performance in the IMD World Competitiveness Ranking 2024 is affected when selected indicators are rescaled using Modified Gross National Income (GNI*) in place of Gross Domestic Product (GDP). By adjusting selected indicators, the Council created a version of the competitiveness ranking that better fits Ireland's unique economic structure. This tailored approach allows for more meaningful comparisons.

[11] Forthcoming
[12] See: NCPC Bulletin 25-2 Re-estimating Ireland's International Competitiveness Performance, May 2025.

1.1.4 Domestic Economic Outlook

The risks to Ireland's economic outlook remain firmly tilted to the downside. Efforts to incentivise reshoring by US multinationals, the repatriation of intellectual property out of Ireland, and/or changes in pharmaceutical production patterns, could have major and lasting implications for Ireland's tax base and employment levels in key sectors. In the short-term, the more immediate impact might emerge through an adverse effect on Ireland's receipts from corporate tax – which have come to account for a significantly higher proportion of tax revenue in recent years. Any escalation of global trade disputes could also see Ireland caught in the crossfire of retaliatory measures between major economies, including the US, China, and the EU.

Table 1.2 shows the latest forecasts of Modified Domestic Demand (MDD) for 2025 and 2026. As shown, growth in the domestic economy is stiff forecast to remain steady in the short-term. The labour market continues to perform strongly, with record numbers of people at work. The latest results show that there are nearly 2.8 million people at work in Ireland, with an unemployment rate of approximately 4%[13]. Forecasts from the ESRI, Central Bank of Ireland and the European Commission estimate the unemployment rate will remain below 5% for 2025 and 2026. Inflation has been increasing since September 2024 (when the HICP recorded zero growth) towards the ECB target rate of 2%. The pattern of inflation in Ireland over the past year has mirrored broader trends across the euro area.[14] The persistent moderation in inflation has been reflected in successive decisions taken by the ECB to reduce key interest rates – policy rates have been cut eight times in the 12 months to June 2025. This will have a positive impact on lending rates to business once passed on by domestic banks.[15]

Table 1.2: Latest Forecasts for Growth in Irish Modified Domestic Demand[16] (%)

	2025	2026
Central Bank of Ireland[17] (June 2025)	2.0	2.1
ESRI[18] (June 2025)	2.3	2.8
Department of Finance[19] (May 2025)	2.5	2.8

Source: Central Bank of Ireland Quarterly Bulletin, ESRI Quarterly Economic Commentary, Department of Finance Annual Progress Report 2025.

To navigate uncertain times in global markets, it makes particular sense to focus on those factors which fall within the domestic sphere of influence. With the labour market at full employment, excessive demand stimulus could lead to inflationary pressures, eroding competitiveness. Instead, maintaining fiscal discipline, prioritising productivity-enhancing reforms – including the adoption of advanced digital technologies – and adhering to spending limits, will be critical in ensuring economic resilience amid rising external risks. As part of its process of engaging with enterprises on the competitiveness challenges they are facing, and in recognition of the importance of regional factors in determining overall competitiveness, the Council held its second annual regional seminar in April 2025 in Waterford. A summary of this event is provided in Box 1.A.

[13] Labour Force Survey Quarter 1 2025 - Central Statistics Office
[14] Energy costs have been a significant driver of recent inflationary pressures and still remain a significant challenge for Irish competitiveness. These will be discussed in more detail in Chapter 3 of this report.
[15] This assumes that inflation does not begin to rise again but in light of current uncertainty around tariffs, this situation could change.
[16] Modified Domestic Demand refers to Modified Final Domestic Demand, which excludes large transactions of foreign corporations that do not have a large impact on the domestic economy.
[17] Quarterly Bulletin, QB2 – June 2025, Central Bank of Ireland.
[18] Quarterly Economic Commentary – Summer 2025, ESRI.
[19] Annual Progress Report, Department of Finance.

Box 1A: National Competitiveness and Productivity Council – Regional Seminar

The National Competitiveness and Productivity Council (NCPC) – in conjunction with the South-East Chambers and the South-East Technological University (SETU) – organised a regional seminar on the 2nd of April 2024. The theme of the Seminar was *Regional Perspectives on Competitiveness and Innovation*. Its purpose was to examine competitiveness issues at a regional level. The attendance included local businesses, representative bodies, Local Government officials, public representatives, and education and research providers from across the region. Several key issues were highlighted at the Seminar.:

- **AI Adoption:** Concerns were raised about the region's preparedness for AI, with recognition of its potential if embraced.
- **Housing and Labour Market Dynamics:** Housing affordability and its impact on the local workforce were highlighted, alongside challenges posed by remote work.
- **Regional Data and Collaboration:** The limitations of regional statistics and under-funding of regional infrastructure were highlighted, alongside strong local collaboration and social enterprises.
- **Business Environment:** Issues with the planning system and public service efficiency were identified as barriers to local business development.

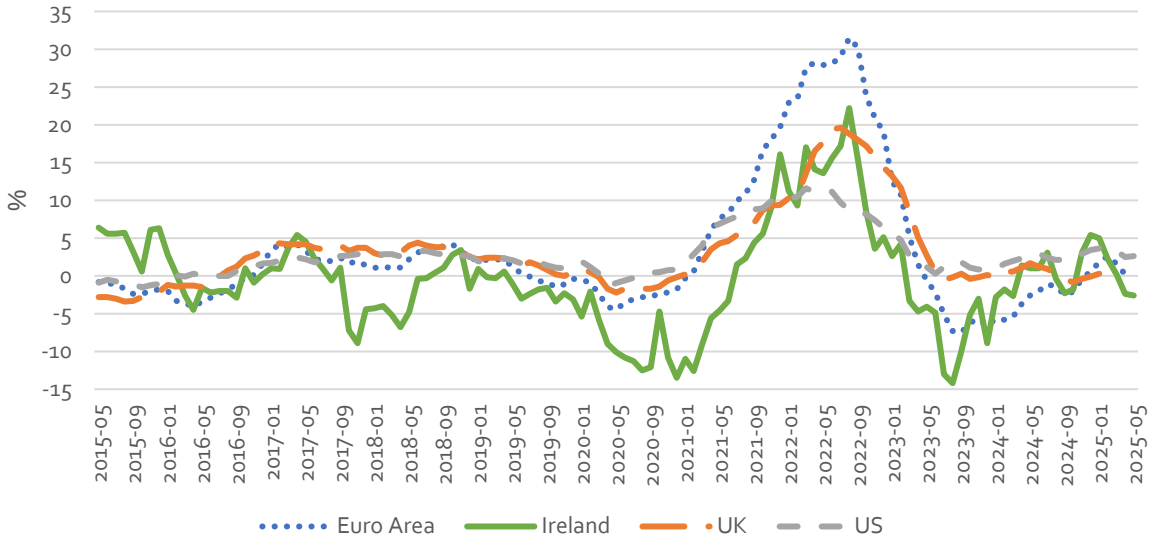
There was also a strong consensus among those in attendance that a key strength for the South-East was its continuing capacity to think and act as a 'region'. This provides valuable context for the Council's ongoing analysis of Ireland's competitiveness and productivity landscape.

1.1.5 Consumer and Producer Prices

Figure 1.6 shows developments in the Producers Price Index (PPI) for Ireland, the broader euro area (hereafter: EA), the UK, and the US from 2015 to May 2025. Ireland's PPI fell at a faster rate than the EA, UK and the US following the impact of COVID-19, before rising again in early-mid 2021. Ireland's PPI started to fall again in mid-2022, alongside PPI in the broader EA, the UK, and the US. From mid-to-late 2023 up to 2024, Ireland's PPI increased, converging with the UK and US PPI's and rising above the Euro Area average. In January 2025, Ireland's PPI was 5% higher compared to January 2024, the highest of the reference group considered in Figure 1.6. Ireland's relatively high wholesale electricity prices significantly influenced this increase, having risen by 67.7% between January 2024 and January 2025.

Figure 1.7a shows how the CPI has evolved in Ireland since 2019. The figure also tracks the contribution of individual components, such as housing, food, and restaurants and hotels. As shown, the CPI peaked at average annual growth of ~8.8% in Q4 2022 but had fallen to an average of 1.9% for Q1 2025, which was higher than the ~1% observed for Q4 2024. The decline in inflation has primarily been driven by an easing in supply-side factors such as food, furnishings, and energy. The recent uptick in inflation observed for Q1 2025 was primarily driven by increasing prices for restaurants and hotels as well as for alcoholic beverages & tobacco. The main drivers of overall inflation are, in effect, "*core*" components – specifically, energy and food – (Figure 1.7): '*Housing, Water, Electricity, Gas and Other* Fuels' as well as '*Food and Non-Alcoholic Beverages*'.

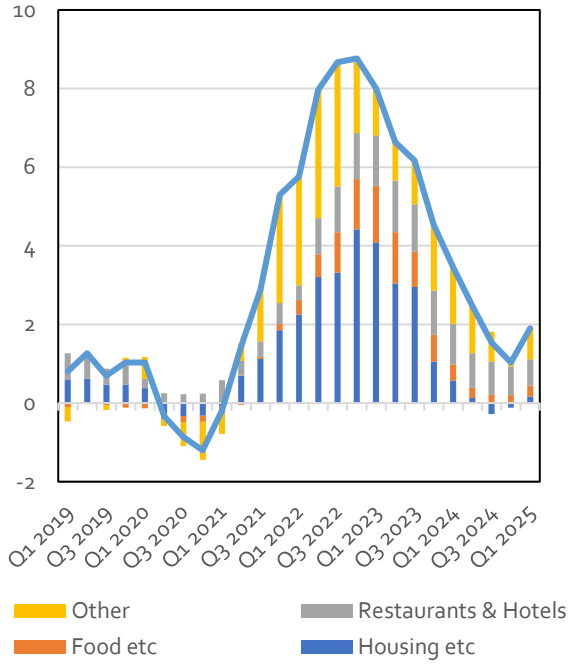
Figure 1.6: Annual changes in industrial PPI for Ireland and selected jurisdictions



Source: Eurostat, Office for National Statistics and U.S. Bureau of Labour Statistics

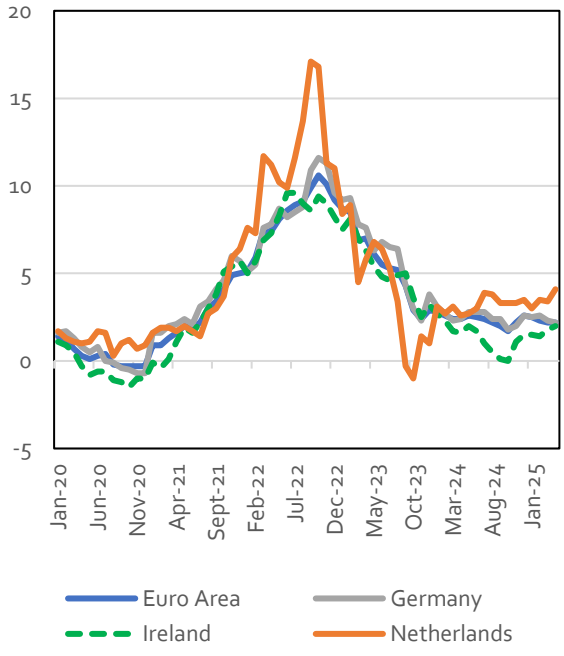
For the former, the key drivers over the past 12 months are increases in the cost of energy (primarily due to increases in gas prices[20]) and the cost of housing. Energy costs are significantly exposed to international price changes. The Central Bank of Ireland has noted that higher compensation per hour was the main driver of inflationary pressures in domestically-driven sectors in 2024.[21] Increasing compensation is discussed in more detail in Chapter 3.

Figure 1.7a: Average Contributions to CPI, Ireland, Q1 2019 – Q1 2025



Source: CSO

Figure 1.7b HICP for selected European countries (annual rate of change) January 2020 – April 2025



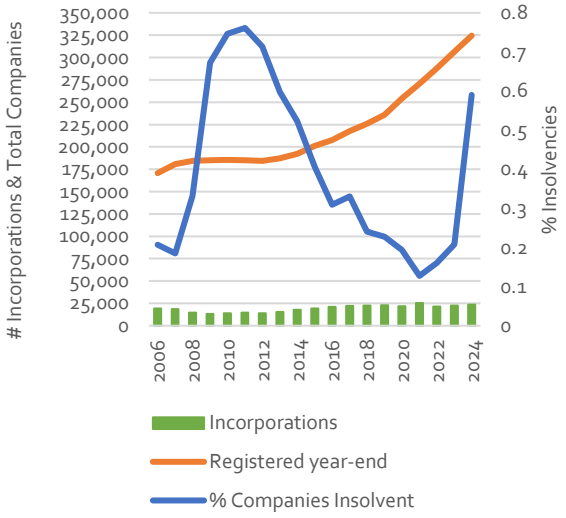
Source: Eurostat

[20] Driven by a combination of decreased supply from pipeline disruptions, increased demand from cold weather and the U.S. imposition of tariffs on energy imports from Canada and Mexico.
[21] Quarterly Bulletin, QB1 – March 2025, Central Bank of Ireland.

Box 1.B: Recent Patterns in Insolvencies

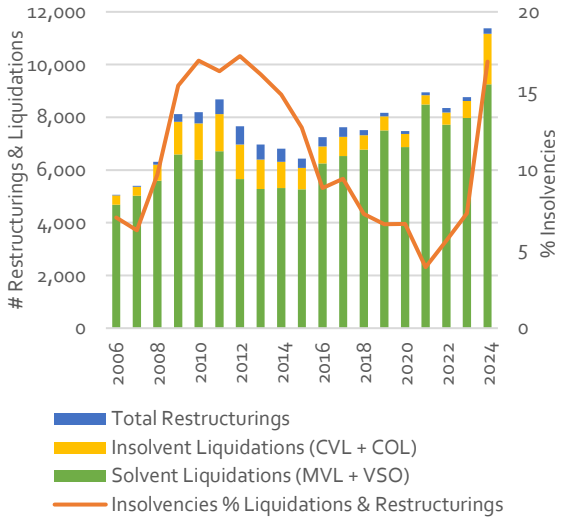
Businesses can close for a variety of reasons. The information available to the CRO relates to filings by those firms which wish to be voluntarily struck-off the register and those notifying the CRO when entering liquidation. It should be noted that the term 'liquidation' covers situations where a company may pursue a members' voluntary liquidation (or the winding down of a solvent company that has ceased trading). This also includes those cases where a company is subject to a creditors' voluntary liquidation or a Court-ordered liquidation. During 2024, 11,170 liquidations occurred. Specifically, the number of 'insolvent' liquidations increased to 1,917 (or three times higher than in 2023) whilst the number of 'solvent' liquidations was higher than in any of the previous 10 years. In 2024, there was a year-on-year increase of 5.7% in the number of incorporations (23,652).

Figure 1B.1: Number of Companies Registered (at year-end), Incorporations and Insolvencies as a % of Registered Companies, 2006-2024



Source: CRO

Figure 1B.2: Annual Restructurings and Liquidations, 2006-2024



Source: CRO

As shown in Table 1B.3, 320 new companies were incorporated in the hospitality sector over the first five months of 2025. This marks a significant decrease (49%) relative to the same period in 2024. In the retail sector, 276 new companies were incorporated in the first five months of 2025 (down 48%). The total number of voluntary liquidations has increased whilst the number of voluntary strike-offs has fallen.

Table 1B.3 Incorporations and Liquidations

	Jan – May 2024		Jan – May 2025	
	Retail	**Hospitality**	**Retail**	**Hospitality**
Incorporations	528	629	276	320
Voluntary strike-offs	117	100	93	70
Total Liquidations ***comprised of:***	51	55	74	93
Members Voluntary (MVL)	*21*	*26*	*51*	*66*
Creditors Voluntary (CVL)	*30*	*28*	*20*	*18*
Court ordered (COL)	*0*	*1*	*3*	*9*
Net change (+/-)	**360 (+)**	**474 (+)**	**109 (+)**	**157 (+)**

Source: CRO. Notes: (i) Data may be subject to change. (ii) CRO data does not include data on sole traders (iii) 'Restructuring activity' includes Examinerships, Receiverships and SCARP – these do not necessarily end in a liquidation.

Finally, we look again at the incidence of company incorporations and liquidations using CRO administrative data for the first five months of this year. This analysis is presented in Box 1.B.

1.2 Actions Crucial to Addressing the Immediate Issues Facing the Irish Economy

In an environment of heightened global uncertainty, it is prudent to focus policy efforts on factors within domestic control. With the labour market operating at or near full employment, additional demand-side stimulus risks fuelling inflationary pressures and undermining competitiveness. In this context, maintaining fiscal discipline, adhering to spending limits – specifically, the Government's own spending rule – and prioritising structural reforms that enhance productivity will all be essential to safeguarding economic resilience and long-term growth.

1.2.1 Safeguarding the Public Finances

Ireland's international reputation for prudent fiscal management has been hard-earned. The successful exit from the EU/IMF programme in 2013 was underpinned by a programme of institutional reforms – which included the establishment of the Irish Fiscal Advisory Council. Ireland now benefits from strong sovereign credit ratings and low government bond yields. Adherence to the national spending rule is essential to maintaining both the sustainability of the public finances – particularly amid growing external risks – and our reputation for prudent fiscal management. Ireland's strong recent revenue performance has relied heavily on a narrow base of corporation tax receipts, which remain highly volatile and vulnerable to shifts in global tax policy and the strategic behaviour of a small number of multinational firms. These risks are compounded by ongoing global trade disruptions and potential policy changes in the United States (a key trading partner and source of FDI), which could have significant implications for Ireland's export performance and tax base. In this context, pro-cyclical fiscal expansion could intensify inflationary pressures in an already tight labour market, undermine competitiveness, and reduce the capacity to respond to future shocks. By contrast, disciplined fiscal management, that is anchored in firm adherence to the spending rule, helps to preserve macroeconomic stability and safeguard fiscal buffers. This approach also ensures that public resources are deployed in a sustainable way, with a focus on productivity-enhancing reforms that strengthen economic resilience and competitiveness over the longer term.

Recommendation 1.1: The Council recommends that the Government exercises fiscal restraint and adheres to the national spending rule to safeguard the resilience of the public finances during this period of significant uncertainty. Priority should be given to investment in competitiveness and productivity-enhancing reforms, particularly in areas within domestic control – most notably in addressing the infrastructure deficit.

Responsibility: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Finance

Chapter 2: Ireland in a Changing Global Economy

Key messages:

- As a small open economy, the recent trends towards deglobalisation and defensive trade patterns present a distinct economic challenge for Ireland. In the face of these trends Ireland should continue to advocate for open, rules-based trade while continuing to diversify its export and import markets to avoid excessive concentration risks.

- Ireland is closely connected to the European economy through the Single Market. The EU's acceptance of the major messages in the Draghi Report underlines an increased focus on competitiveness, embedding resilience and strategic autonomy. These can generate significant value to the Irish economy, as long as excessive use is not made of subsidies. However, as a small economy we must be cognisant of risks arising from retrenchment in open trade along with threats to the level-playing field created by the Single Market rules.

- Finance for innovation is a fundamental competitiveness weakness for the EU and Ireland, when compared to the US. Ireland should ensure that indigenous Irish enterprise is well prepared to utilise new competitiveness and innovation funding from the EU, while also driving expanded funding and scaling opportunities in this area domestically.

- Many of the new industrial strategies to be launched by the EU will be in areas which Ireland has currently little to no presence. With good policies and planning, these new strategies could provide opportunities for Ireland to develop new sectors domestically.

- The issue of administrative and regulatory burden was another theme highlighted in the Draghi Report. Given that the EU is a key source of regulations applicable in Ireland, this is of very real importance to Ireland's economy. The EU simplification agenda can play a useful role in making business more agile in Ireland.

2.1 Current Situation

This last six months has seen a significant acceleration of previous trends towards de-globalisation, which have profound competitiveness implications for Ireland. Alongside this – since the publication of the last Competitiveness Challenge report – there has been a considerable step-up in Europe's engagement with its current competitiveness position following the publication of the Draghi Report on the future of European Competitiveness[22] and evidenced in the European Commission's response, the Competitiveness Compass[23]. This political buy-in to Europe's competitiveness issues is both important and timely given the numerous economic shocks which have occurred. As a small, open economy, the international environment looks set to present a number of challenges to Ireland in the years ahead. While many elements of this evolving situation are beyond domestic control, there are levers available in how we position Ireland to respond and adapt to a changing global economic environment.

2.1.1 European and Irish competitiveness

Over 2024 and 2025, momentum has continued to build on the European competitiveness agenda – building off a series of reports which was initiated with the European Commission's Communication on long-term competitiveness in March 2023[24]. The flagging competitiveness of Europe was brought into sharp focus with the publication of the report '*The Future of European Competitiveness'* from Mario Draghi in September 2024. The report identifies the key competitiveness issues for the EU as:

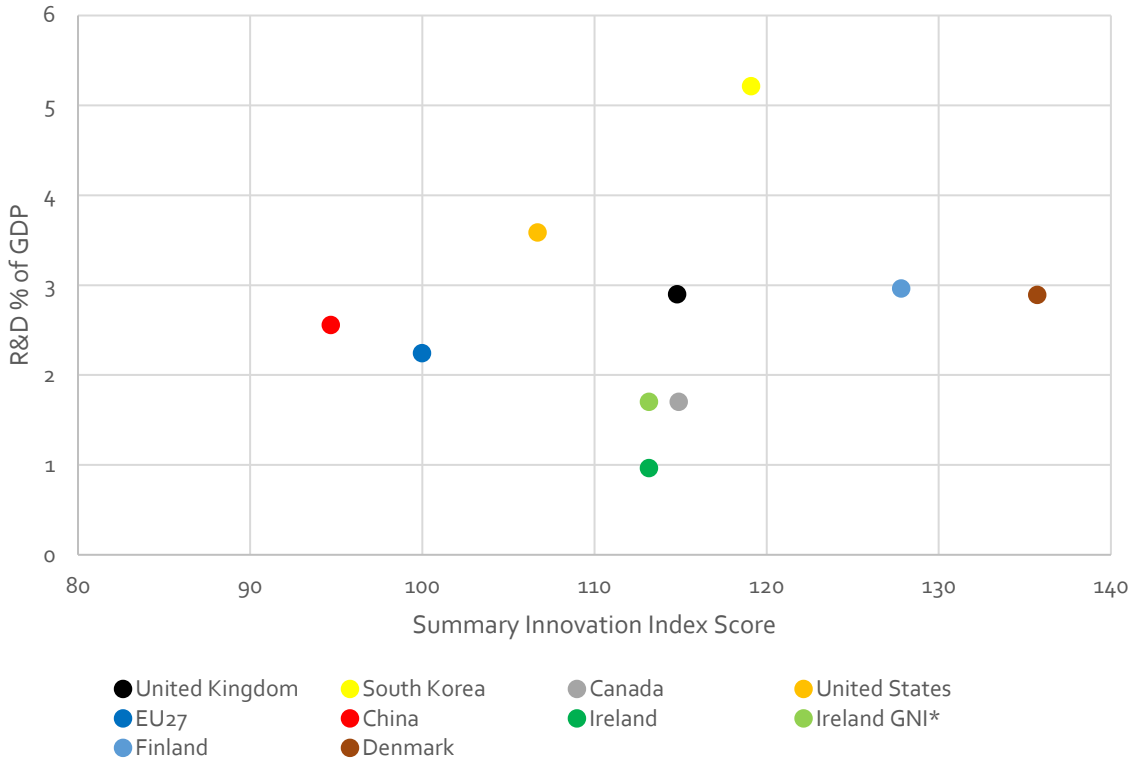
- closing the innovation gap to the US and China
- the need to lower energy prices and to capitalise on industrial opportunities to decarbonise
- the need to increase security and reduce dependencies in its supply chain

Draghi recommended a wide-ranging set of measures to significantly bolster the EU's economic performance. These included the full implementation of the Single Market including completion of the Savings and Investment Union, better financing environment for start-ups and scale-ups, higher levels of investment in R&D, policies to lower energy costs, enhancing industrial capacity for defence and space, and increasing coordination at EU level through a Competitiveness Coordination Framework. The Annual Single Market and Competitiveness Report (ASMCR) 2025[25] underscored the EU's lack of progress on closing the innovation gap to the US and China. The Report monitors 22 Key Performance Indicators (as set out in the 2023 Communication on Competitiveness) – which offer a comprehensive picture of the EU and its Member States performance.

Progress on a number of indicators has been flat or declined at the European level. Most striking is the degree to which the EU lags on labour productivity in comparison to the US – now at 77.8% of US levels. Although Ireland performs relatively well on this metric, growth in labour productivity slowed in 2024. The lagging labour productivity in the EU is indicative of its weak innovation performance in comparison to the US. Figure 2.1 below maps the Summary Innovation Score – based on the European Innovation Scoreboard (EIS) for 2024 – against R&D expenditure as a share of GDP. These scores are a composite of 32 indicators on innovation activity which provides a broad assessment of a country's innovation performance (with the EU benchmarked to 100).

[22] The Draghi report on EU competitiveness September 2024.
[23] Competitiveness compass - European Commission January 2025.
[24] Communication_Long-term-competitiveness.pdf March 2023.
[25] The 2025 Annual Single Market and Competitiveness Report - European Commission January 2025.

Figure 2.1: R&D Expenditure as a share of GDP, Summary Innovation Index, by Country/Area



Source: European Innovation Scoreboard 2024, World Bank[26]

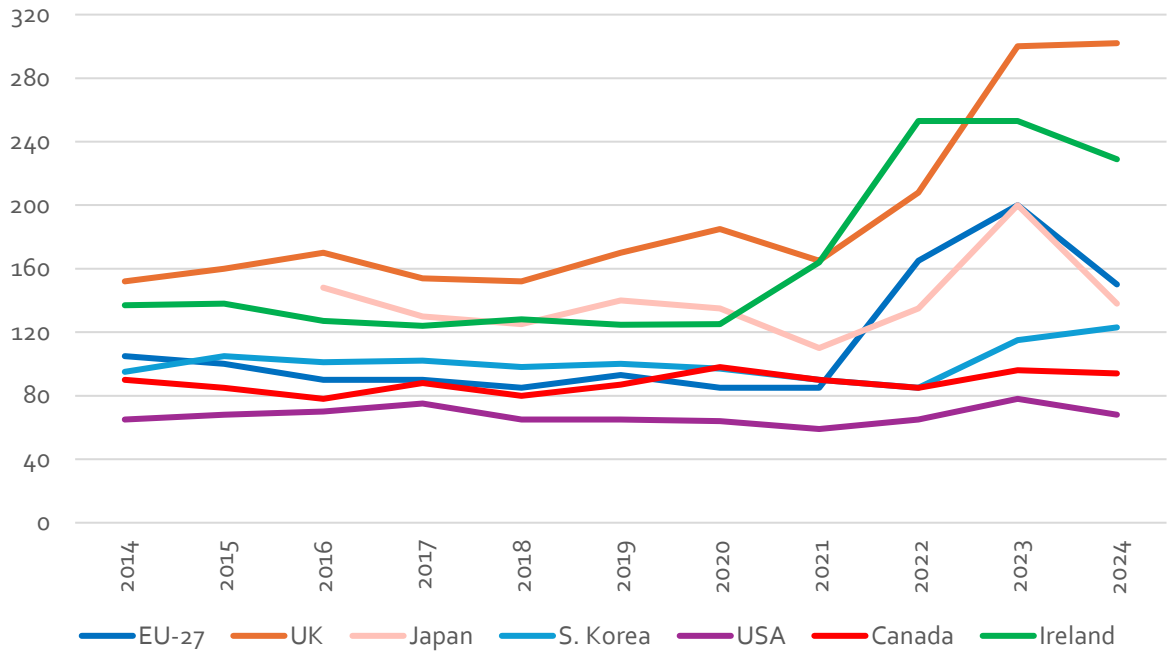
This shows that many economies outperformed the average for the EU-27 in terms of innovation, and that they are also investing more heavily in R&D expenditure to drive this innovation. For instance, South Korea, Finland and Denmark stand out for their strong innovation performance. These countries also report R&D expenditure of 3.5%, 2.96% and 2.89%, respectively (this being a useful lead indicator of potential for further innovation). Compared to the EU, China is now investing slightly more as a proportion of GDP in R&D at 2.5% (compared to 2.4%). China is now also catching up in terms of overall innovation performance (having historically lagged on this score). More recent reports indicate that the Chinese government continue to increase its science and technology expenditure with a rise of 10% in 2024[27]. Ireland scores above the EU average on the European Innovation Scoreboard (114) but as a share of GDP (and GNI*), it is spending less on R&D than the EU average. Indeed, Ireland lags both Finland and Denmark in terms of investment in R&D – both in terms of GNI* and GDP – and both also score quite significantly ahead in terms of their innovation scores.

Although the EU has strengths in the early stages of the innovation lifecycle, these are hindered by weaknesses further along. For example, the EU produces almost one-fifth of the world's scientific publications, but in only accounted for just 17% of the world's patent applications in 2021 (compared with US at 21% and China at 25%). Public sector support for R&I does not place an emphasis on disruptive innovation, and sources of financing can be fragmented. As a consequence, many growth-stage companies have sought funding from US venture capitalists and expanded into American markets because of their lower regulatory and jurisdictional hurdles[28]. Between 2008 and 2017, 147 *"unicorn"* start-ups were founded in Europe, with 40 of these firms relocating abroad (primarily to the US). The above factors have contributed to a growing gap in the size of markets in digital and advanced technologies between the two areas.

[26] European innovation scoreboard - European Commission; Research and development expenditure (% of GDP) | Data
[27] China promises more money for science in 2024
[28] This will include those early/growth-stage European firms that have been absorbed by non-European multinational groups

Energy is another area where the EU as a whole lags in comparison to competitor blocs with higher energy costs adding to business and household costs. Energy also remains a significant competitiveness weakness for Ireland as we had the highest electricity prices for non-household customers in the EU in 2024 (€0.21 per kWh compared with €0.16 EU average). Although wholesale electricity prices are only marginally higher than in other jurisdictions, Ireland's grid-related surcharges (or costs) – in the form of network traffic – are significantly higher than those in other European economies. For instance, network charges[29] are 11c per kWh in Ireland compared to 3c per kWh in France and 7c per kWh in Germany. This network charge, while partly reflecting our relatively dispersed population, nonetheless represents an additional cost to energy users.

Figure 2.1: Industrial retail electricity prices selected blocs (EUR/MWh)



Source: European Commission, SAEI (Irish data – Average Electricity Price to Business[30])

2.1.2 The future of European competitiveness

The growing discussion and analysis of the EU's competitiveness issues culminated in the European Commission publishing its Competitiveness Compass in January 2025. The Compass is intended to guide the Commission's work in the coming five years and lists priority actions to reignite economic dynamism in Europe. It establishes competitiveness as one of the EU's overarching principles for action and for pursuing two broad goals. Firstly, to identify the policy changes needed for Europe to shift to a 'higher gear' and accelerate the pace of economic transformation. The second goal is to develop new ways of working together to increase the speed and quality of decision-making, simplify frameworks and rules, and overcome fragmentation. The success of the broad set of measures in the Compass will dictate to a large degree how the EU performs over the longer term as it faces into a period of what appears to be considerable deglobalisation. Given the degree to which the Irish economy is integrated within the broader EU, this will have a significant impact on Ireland's long term competitiveness position.

[29] Network charges are intended to support ongoing investment in the electricity system: CRU approves Network Charges for Electricity Customers for 2024/25 | CRU.ie
[30] Report from the Commission to the European Parliament – Report on energy prices and costs in Europe

EU Competitiveness Compass

The Compass incorporates the recommendations in the Draghi report through identifying action under his three primary pillars: closing the innovation gap, a joint roadmap for decarbonisation and competitiveness, and reducing excessive dependencies and increasing security. The three pillars are complemented by five horizontal enablers – simplification (aiming to reduce reporting burden by 25% for firms), lowering barriers to the Single Market, enabling more efficient financing, promoting skills and quality jobs, and better coordination – including through the use of a 'competitiveness coordination tool' and funding pan-European projects through a Competitiveness Fund.

Table 2.1: Competitiveness Compass – Flagship Actions for 2025 and 2026 (selected)

Actions Pillar 1: *Closing the innovation gap*	Actions Pillar 2: *Decarbonisation and competitiveness*	Actions Pillar 3: *Reducing excessive dependencies and increasing security*
• Start-up and Scale-up Strategy [Q2 2025] • 28th regime [Q4 2025 – Q1 2026] • European Innovation Act [Q4 2025 – Q1 2026] • AI Factories Initiative [Q1 2025], Apply AI, AI in Science, and Data Union Strategies [Q3 2025] • EU Cloud and AI Development Act [Q4 2025 – Q1 2026] • EU Quantum Strategy [Q2 2025] and a Quantum Act [Q4 2025] • Advanced Materials Act [2026]	• Clean Industrial Deal and an Action Plan on Affordable Energy [Q1 2025] • Industrial Decarbonisation Accelerator Act [Q4 2025] • Electrification Action Plan and European Grids Package [Q1 2026] • New State Aid Framework [Q2 2025] • Steel and metals action plan [2025] • Carbon Border Adjustment Mechanism Review [2025] • Circular Economy Act [Q4 2026]	• Conclude and implement ambitious trade agreements, Clean Trade and Investment Partnerships • Joint purchasing platform for Critical Raw Minerals [Q2-3 2025] • Revision of Directives on Public Procurement [2026] • White Paper on the Future of European Defence [Q1 2025] • Internal Security Strategy [Q1 2025]

Source: European Commission

A key question for Ireland is how this series of initiatives will impact on our economy and our competitiveness position (both in the EU and globally). Ireland should strongly welcome the intent to step up European innovation activity. Ultimately, the rate of innovation in the EU is what will determine its productivity growth. This in turn will dictate the level of sustainable economic growth for the Union. However, the pursuit of this goal may prove contentious, as implementing the pillars of the Compass could entail a significant increase in public expenditure. There are particular elements within the Compass which should strongly benefit Ireland and enhance its competitiveness. For example, further integration of the Single Market – particularly in the area of services – will help reduce costs for Irish firms trading with the EU and support exports to other EU markets. Within this, progressing the Savings and Investment Union (SIU) will enhance access to finance and scaling. The absence of – and/or lower utilisation of private financing – is a major competitiveness disadvantage for small high-potential firms across the EU and Ireland.

The SIU in combination with the forthcoming Start-up and Scale-Up Strategy should help to improve the ability of Ireland – and the EU, more generally – to offer attractive and competitive financing to growing firms, thereby helping them to develop and expand within the EU rather than move to the USA. The commitment to increase R&D expenditure to 3% of GDP is very positive. Although the EU needs to drive innovation in key sectors, any large expansion of State Aid risks subsidising private sector activity that may occur anyway. This also risks disadvantaging smaller member-states with regard to larger investments. The impetus to enhance the EU's innovation performance is also reflected in its approach to competition. In May 2025, the Commission launched a public consultation on its review of merger guidelines[31]. The Commission has informed member-states that there will be no alteration to the EU Merger Regulation and that the exercise is purely focussed on updating the guidelines to provide a clear and consistent framework for businesses.

While such a move may indeed enhance economies of scale for these firms (such as reducing network investment costs), it is not clear the degree to which Ireland will benefit as a smaller peripheral Member State. The newly introduced Clean Industrial Deal contains a number of what could be seen as protectionist policies, including a commitment to develop policies in relation to public procurement with 'Made In Europe' preference. It also points out to specific sectoral supports (including automobiles), in which Ireland does not have any current economic interest. As a net contributor to the EU budget, Ireland needs to ensure that the EU's Industrial Strategy can deliver value-for-money.

EU Simplification Agenda

There are other elements of the Compass which Ireland can support such as continued efforts to reduce the regulatory and administrative burden on firms. The Compass outlines a planned 35% reduction in the reporting burdens for SMEs. This has already started with the introduction of an *'Omnibus'* package of simplification measures with four announcements made between February and May 2025[32]. The most recent of these is *'Omnibus IV'* – Simplifying the Single Market – which aims to boost incentives for SMEs to scale up, digitise regulatory processes, and to reduce red tape. One aspect of the overall package entails a streamlining of sustainable finance reporting, sustainability due diligence and taxonomy. This includes a 'stop the clock' mechanism whereby the Commission will postpone by two years the application of the Corporate Sustainability Reporting Directive (CSRD) requirements for companies in Wave 2 and Wave 3, which includes large companies that are not public interest entities, as well as listed SMEs. Finally, as part of these efforts to reduce regulatory burdens – and to help firms to start and scale across the EU – the European Commission has also announced the intention to proceed with the '28th legal regime', which provides for an optional legal framework that allows firms to operate across the EU under a single set of rules, thereby removing the need for compliance with different laws across each member-state[33]

2.1.3 Trade and Deglobalisation

US policy stance

Deglobalisation trends are presenting a growing challenge to Ireland's competitiveness position. These trends are well established, with the current wave of deglobalisation originating in the Global Financial Crisis and being exacerbated, in turn, by Brexit and post-pandemic efforts to secure value chains. The economic threat posed by the defensive trade stance of the new US administration, however, represents a major escalation. As a small,

[31] Review of the Merger Guidelines - European Commission
[32] Simplification and Implementation - European Commission
[33] The 28th legal regime: enhancing European competitiveness and innovation? | Loyens & Loeff

open economy – and one that is reliant on FDI – these developments pose significant challenges to Irish exporters and to Irelands prevailing position as an attractive investment destination. While the outcome of current trade tensions remain highly uncertain, the potential economic impact for Ireland from shifts in investment patterns is significant.

US firms play a significant economic role in Ireland in terms of employment, gross value added and to our level of exports to other countries. Data from the Annual Business Survey of Economic Impact (ABSEI) shows that in 2023, 178,000 people were employed in US firms operating in Ireland[34]. This employment is concentrated in the areas of ICT and pharmaceuticals, with US ICT firms employing over 93,000 people in Ireland and a further 19,918 are employed in US pharmaceutical companies. A significant item of expenditure for these firms is payment for labour supplied. In 2022, US firms with operations in Ireland had Irish payroll costs of €16.1 billion (with an average payroll cost of €79,100 per person employed). In 2022, US firms made €27 billion in direct expenditure in the Irish economy, with €10.8 bn of this comprising the purchase of Irish goods and services from local supplier, utilities, professional services, etc.

The announcement that the US has applied a baseline 10% tariff on EU imports will impact on Irish exports, and this will likely have follow-on impacts in terms of employment. While the original reciprocal tariff of 20% has been postponed for a 90-day period until the 9th of July, the baseline tariff of 10% remains in place. The tariffs currently in place apply to 24% of Irish exports to the US. At present, the baseline and reciprocal rates *exclude* those pharmaceutical and semiconductor products imported by the US. The US has indicated its intention to attempt to reshore production in these areas back to the US in the coming decade. The proposed implementation of US tariffs coincides with the Tax Cuts and Jobs Act expiring in 2025[35]. Although the Corporation Tax cuts in the Act will not expire, the US Government has indicated that it may cut rates further from 21% to levels potentially as low as 15%. As the US is now seeking the coexistence of its own minimum taxation regime alongside the BEPS Pillar II tax agreement[36], this may pose a significant risk of profit-shifting (particularly as EU member-states are already implementing the Pillar II rules, under Council Directive (EU) 2022/2523)[37].

It is important to note that the pharmaceutical sector may ultimately be subject to a more punitive tariff rate. As pharmaceutical exports constituted the largest export transactions to America last year (at €44bn), this warrants particular concern. The approach to pharmaceutical imports into the US is currently uncertain with a Department of Commerce investigation underway[38]. Since the relocation of pharmaceutical and other manufacturing plants would take years to complete, it seems unlikely that production at facilities would reduce hugely in the short term. Added to this, Ireland remains a key (English speaking) access point to EU markets for non-EU firms. This is particularly the case for those American corporations using Ireland as a base from which to coordinate EMEA operations. Instead, there is the risk that some of these companies will rebalance towards investment opportunities in the US – rather than Ireland – particularly for US-directed manufacturing (i.e., for export to the US market) – presenting a considerable challenge for maintaining inward investment trends in Ireland. Alongside this there may be reductions in workforce numbers to adjust for declining demand and where production does shift to the US. Another potential risk of defensive trade strategies from the US could be the

[34] Enterprise Agency Client Companies based on Annual Business Survey of Economic Impact data
[35] Trump Tax Cuts 2025: Budget Reconciliation | Tax Foundation
[36] There are a number of differences between the OECD GloBE (Global Anti-Base Erosion Model Rules) Pillar II rules and the US GILTI (Global Intangible Low-Taxed Income), and CAMT (Corporate Alternative Minimum Tax) regimes
[37] A Global Tax View | Crowe UK
[38] The Department's Bureau of Industry and Security (BIS) is undertaking a Section 232 National Security Investigation of Imports of Pharmaceuticals and Pharmaceutical Ingredients.

repatriation of Intellectual Property from Ireland to the US. A consequence of this would be the shifting of taxable profits back to the US (posing a more immediate risk to Ireland's Corporation Tax receipts).

US officials have cited Ireland's trade surplus (US deficit) with the US as a priority area for the US to address. Ireland's goods trade surplus with the US reflects high value exports in areas of pharmaceuticals and ICT. Ireland does, however, have a substantial trade deficit in services of €134billion, which significantly outweighs Ireland's trade surplus in goods. The Central Bank of Ireland's analysis of IE-US trade linkages states that '*the extent of trade with the US in large part reflects the intra-company import of intellectual property and related services, supporting the production of high value-added pharmaceuticals, ICT services and some ICT manufactured goods in Ireland by those US MNEs in a way which maximises the net profits of those companies".* Recent modelling of the impact of tariffs estimated that the imposition of a 10% bilateral tariff by the US on imports from the rest of the world could cause a decline in Irish GDP and MDD of 3.2% and 1.7%, respectively (below the baseline)[39]. The impact of a25% bilateral tariff on EU-US trade could be a decline of 3.7% and 1.8% in Irish GDP and MDD, respectively.

The US and Irish economies are highly integrated and the extent of FDI by Irish companies in the American economy should not be overlooked. Ireland is the seventh largest investor in the US, with 500 Irish firms employing almost 100,000 people in the country. In 2023, FDI investments into the US were valued at $322 bn and are highly diversified, spanning a number of industries including financial services, building materials, building materials, food and retail [40]. The imposition of trade barriers would most likely have a material impact on the taxable revenues of Irish multinationals operating in the US as a consequence.

China's policy stance

China has also signalled its own focus on greater self-reliance. China applies a 'buy national' and 'indigenous innovation' policy under its Government Procurement Law which gives priority to local goods and services. This law applies a 20% discount on products that meet domestic production standards, meaning that bids by qualifying firms for public procurement contracts will be evaluated at 80% of total product cost for tendering purposes. As such, there is a strong incentive for foreign firms to localise their operations while discouraging local businesses from offshoring operations. Naturally, this presents challenges to exporters hoping to transact with Chinese authorities. As China is the largest market for Irish exports outside of the EU and North America (€763m in exports for 2023), the imposition of trade barriers undermines attempts to diversify trade outside of the EU and US.

2.1.4 Economic Security

Economic security has become an increasingly important facet of competitiveness in recent years – reflected in the Council's framework through the close connection between 'Macroeconomic Stability' and 'International Environment'. This focus stems from an emerging series of risks, such as our reliance on critical raw materials which are largely imported from outside the EU. Access to a steady supply of critical raw materials is essential for competition in high Gross Value Added sectors. It is also essential for a reliable and affordable energy supply (a key competitiveness issue for both Ireland and the EU). The EU's continued reliance on foreign-owned (and administered) on-line payment platforms also poses a risk (given to trade tensions and inconsistent

[39] Egan, P and Roche, F (2025) "The Impact of Deglobalisation and Protectionism on a Small Open Economy - The Case of Ireland", ESRI Working Paper No.798, March 2025

[40] How Ireland became a bigger investor in the US than China and India – The Irish Times

cybersecurity standards). For this reason, the launch of the European Payments Initiative in order to establish a digital payment service without foreign-owned intermediaries[41].

The European Commission Economic Security Strategy[42] focuses on the three P's: protect, promote and partner. The Strategy contains five elements: Outbound Investment Screening, Foreign Direct Investment Screening, a potential recast of Export Controls, enhancing research for dual-use technologies and enhancing research security. Export Control and Foreign Direct Investment Screening are already in place with the others coming on stream to fruition over the next 18-24 months. These elements will create additional regulations and enhanced due diligence for businesses but are a necessary reality of the new geopolitical context in which we operate.

The significant funding for research and development[43] in dual use and military programmes – such as the European Defence Fund and the European Defence Industrial Strategy[44] – could present an opportunity for Irish businesses, given Ireland's strengths in relevant technologies (i.e., semi-conductors, satellite, ICT and cybersecurity). Specifically, Ireland could focus on defensive – rather than offensive – products (with the latter typically centred on countries with already established heavy industry). The role that defence might play in the European economy has also been thrust into focus in the last number of months through the Ukraine-Russia war and the reduction in American support. EU officials have signalled a willingness to increase military aid to Ukraine but these plans have yet to be translated into action[45].

2.2 Actions for Adapting to a Changing Global Economy

2.2.1 Invest in Innovation

EU firms are not investing intensively enough in research, development and innovation. This has contributed to the innovation gap with the US. Ireland should seek to drive an increase in the level of innovation among domestic firms. The launch of the Competitiveness Compass points to a substantial increase in European funds aimed at enhancing innovation activity (most clearly in the case of the upcoming EU Competitiveness Fund). Alongside this there will be greater focus on enhancing scaling opportunities for innovative firms through improved access to finance.

Irish indigenous firms have lagged multinational firms active in Ireland in terms of investment in R&D and innovation activity. With the rise of supports at the EU-level for innovation activity – and the potential for weakness in future inward investment given geopolitical uncertainty – Ireland needs to ensure that its indigenous firms are prepared to utilise any available funding to increase the rate at which they invest in innovation. Ireland also needs to engage more proactively with the IPCEI (Important Projects of Common European Interest) process in order to ensure that Irish-resident firms are afforded an opportunity to participate in these large-scale, multi-country investments. This may require further adjustment to budgetary processes to facilitate this type of investment over a multi-year period. Separately, there are actions which the Government can take domestically – beyond EU initiatives – in order to drive innovation activity among Irish firms. These are set out in Chapter 6.

[41] EPI Company | Home
[42] Memo on European Economic Security January 2024.
[43] EU pushes emergency plan to send €150B in defense loans to governments – POLITICO March 2025.
[44] The European Defence Industrial Strategy
[45] Due to a lack of support from EU member states, with a recent package of €40 billion in military aid being voted down by European leaders. A scaled down aid plan of €5 bn is currently being considered.

Recommendation 2.1: In the face of deglobalisation trends, the Council recommends that Ireland:

(a) ensures that indigenous Irish enterprises are well placed to avail of increases in EU innovation and competitiveness funding. This should be complemented by measures which seek an ambitious expansion of innovation activity among Irish firms.
(b) enhances our engagement with the Important Projects of Common and European Interest (IPCEI) framework through active participation in – and funding for – new investments.

Responsibility: Department of Enterprise, Tourism and Employment, Department of Finance

The Clean Industrial Deal contains plans for a set of specific sectoral plans at the European level for 2025. These include the Industrial Action Plan for the Automotive Sector, a Steel and Metals Action Plan, a Chemicals Industry Package, a Sustainable Transport investment Plan, and a Bioeconomy Strategy. This also presents a shift towards a more focussed industrial strategy (and one led by engagement with the enterprise sector across the EU). Ireland has no significant presence across many of these sectors. Nonetheless, it is worth examining whether these strategies could be utilised to bolster Irish activity in these areas or in areas which supply in those these sectors.

A move towards a more sector-led policy would present a significant departure for Irish industrial policy. The latter has tended to provide 'horizontal supports' which are not sector focused. Although the Council is of the view that these type of supports should remain the principal form of grant-aid which Ireland utilises, it should also consider the degree to which sectoral supports and/or plans may present growth opportunities.

Recommendation 2.2: The Council recommends an examination of the growth opportunities arising from the EU's increasing focus on industrial strategy, and the degree to which this could drive and support new sectoral developments in Ireland.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Foreign Affairs and Trade

The Council is of the view that policy certainty can play as a competitive advantage for Ireland. Ireland's institutions have provided strong and steady policy certainty over past decades and this has fostered a positive environment for business growth and investment. In an increasingly uncertain global environment, Ireland should ensure that it continues to be recognised as a location where enterprise – both indigenous and foreign - can make secure investments and plan for future growth. As investment plays such a crucial role in promoting innovation, Ireland should continue to advocate for the implementation of the Savings and Investment Union initiative. This would facilitate investment in new technologies by eroding financial barriers to investment across the EU and by encouraging institutional and retail investors to look toward higher yielding capital market securities. The State should also push for the development of multiple financial centres across the EU, instead of centralising resources and capabilities within a single financial hub.

Recommendation 2.3: The Council recommends that Ireland should advocate at EU-level for progress on a polycentric Savings and Investment Union within the EU.

Responsibility: Department of Finance; Department of Foreign Affairs and Trade

2.2.2 Expand presence in European and other markets

Through the Single Market, Ireland has strong trade ties with the other EU member-states. In 2023, Ireland exported a total of €196 billion worth of goods, of which, €81 billion of goods was exported into other EU markets. This makes it the largest single export area for Ireland (while the US remains the single largest country in terms of exports at €54 billion). The growing uncertainty around US trade policy over recent months underscores the importance of diversification in Ireland's export markets (including where it sources imports and also in where it may seek inward investment from). While the US remains a significant and valuable trade partner for Ireland, it is critical that Ireland is able to adapt to any significant changes in trading and investment patterns that may emerge

Enterprise Ireland's recently launched new strategy recognises the importance of diversification of markets in highlighting 'Maximising Global Opportunity' as a key lever for the continued success of Irish firms. This includes both diversification of supply chains and accessing new export markets. While the EU is a significant export market for Ireland, there remains significant scope to expand our presence across multiple markets.

Recommendation 2.4: The Council recommends that in response to potential risks arising from concentration with trade partners, the Government should actively support Irish enterprise in diversifying export markets and supply chains.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Foreign Affairs and Trade

2.2.3 Economic Security

As deglobalisation continues to impact on global trading environments, Ireland and the EU need to be increasingly aware of their economic security. While there are actions that Ireland can take to enhance economic security domestically – particularly in relation to supply chain resilience - progress on many of the more significant areas of economic security will require action through the EU. One area of concern for the EU is payment platforms, as currently the EU is entirely reliant on non-European payment platforms. This contributes to vulnerability of disruption, a lack of strategic autonomy, and potentially higher costs through the lack of a strong European competitor as an alternative. Ireland should engage with its European partners towards the development of a pan-EU payment platform to enhance our economic security.

Recommendation 2.5: The Council recommends that Ireland advocate at EU-level for the development of a European online payment platform.

Responsibility: Department of Finance

Chapter 3: The Cost of Doing Business in Ireland

Key Messages

- The cost of doing business in Ireland continues to present significant competitiveness challenges, despite overall economic resilience.
- Labour costs in Ireland have risen sharply in recent years and are projected to continue increasing due to wage growth and public policy choices to improve working conditions (in recognition of the importance of good-quality employment). In recognition of these pressure on enterprise in Ireland, particularly SMEs, the Government recently decided to extend the transition period for the Living Wage and to cease planned changes to sick pay.
- Ireland continues to face some of the highest electricity prices in Europe, partially driven by market structure, infrastructure constraints, and global volatility. These elevated costs pose a significant competitiveness challenge for firms.
- Insurance costs are a significant cost burden for businesses. Litigation remains very slow and expensive, with legal fees often equalling or exceeding compensation. The lack of progress on implementing the Kelly Report's recommendations has entrenched long-standing inefficiencies in the system.
- The absence of a national security clearance framework restricts access for Irish experts, consultants and firms to substantial opportunities in defence, aerospace, and advanced technology sectors, potentially constraining competitiveness. Government should prioritise the establish of a new National Security Authority as soon as possible.

3.1 Current Situation

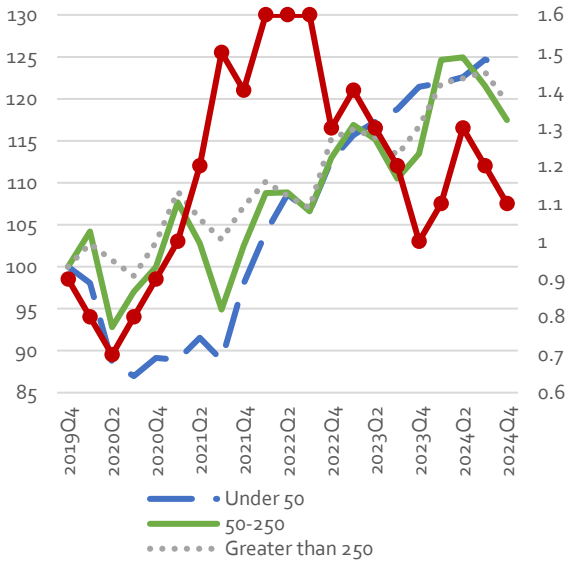
The Irish economy has shown resilience amid ongoing global uncertainty, with employment levels reaching record highs. This reflects many important underlying strengths, including the accumulation of human capital over time, an openness to global trade, public policy stability, and the maintenance of industrial peace. However, Ireland's cost base continues to present challenges for enterprise, particularly in the context of rising labour costs, regulatory burden, elevated energy prices, recent changes in non-domestic water usage, and persistent inefficiencies in the legal and insurance systems. High electricity prices, partially driven by market structure and infrastructure constraints, erode Ireland's attractiveness for investment. Meanwhile, slow progress on civil justice reform inflates litigation costs and the absence of a national security clearance framework limit access opportunities for economic development across a range of sectors. In addition, access to finance, and the costs of scaling, continue to be an issue for the Irish SME sector. The Council looks forward to forthcoming analysis by the ESRI and the Department of Enterprise, Tourism and Employment examining this issue. This Chapter focuses on costs and structural challenges across four key areas – labour, energy, insurance, and national security clearance. For details on regulatory burden and the European simplification agenda, see Chapter 2. For analysis on water infrastructure, see Chapter 4.

3.1.1 Labour Costs

In terms of the number of employees, Figure 3.1.1a looks at the size distribution effect, finding that firms which employ less than 50 staff have experienced a sharp increase in average hourly costs over recent years. As of Q1 2024, the scale of the cost increases sustained by these firms (relative to 2019 has been higher than that for firms with between 50 to 250, and over 250 employees. Figure 3.1.1b also demonstrates that the Job Vacancy Rate (JVR) increased during the COVID-19 period but has recently fallen back towards its pre-pandemic rate. The scale of changes in labour costs reflects the dynamic of labour shortages and competition for staff, with bigger firms having the capacity to offer employees more favourable employment packages, which has exerted upward pressure on wages, impacting all firms.

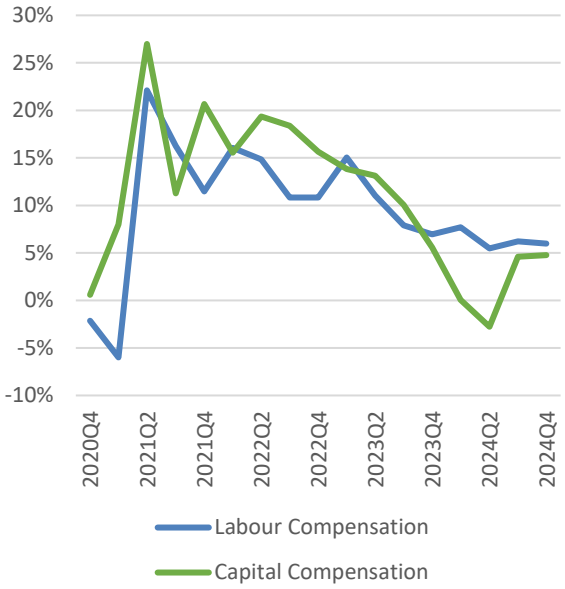
Figures 3.1.1b to 3.1.1d display the trajectory of gross value added (GVA) and the distribution of compensation between labour and capital in the aftermath of the COVID-19 pandemic. Both components experienced a pronounced surge in growth immediately following the pandemic. While this growth has since moderated, a divergence has emerged: labour compensation appears to be normalising towards pre-pandemic patterns, whereas capital compensation has increased. Figure 3.1.1b illustrates this trend within domestic-dominated sectors, which are predominantly composed of SMEs. In these sectors, both labour and capital compensation growth accelerated sharply post-COVID but have since decelerated. As of Q2 2024, labour compensation was increasing at an annual rate of approximately 6%, compared to 5% for capital compensation. In contrast, Figure 3.1.1c highlights developments in foreign-dominated sectors, largely comprised of multinational corporations (MNCs). Here, labour compensation growth has remained relatively stable, while capital compensation has exhibited greater volatility. Finally, Figure 3.1.1d points to a structural shift in the distribution of GVA within domestic-dominated sectors. The capital share of GVA rose from roughly 42% in Q4 2019 to approximately 47% in Q4 2024. This trend suggests a relative compression of labour income, coinciding with an expansion in profit margins over the same period.

Figure 3.1.1a Changes in average hourly total labour costs by size of employees per enterprise, and Job Vacancy Rate, between Q4 2019 and Q4 2024, (Indexed Q4 2019=100)



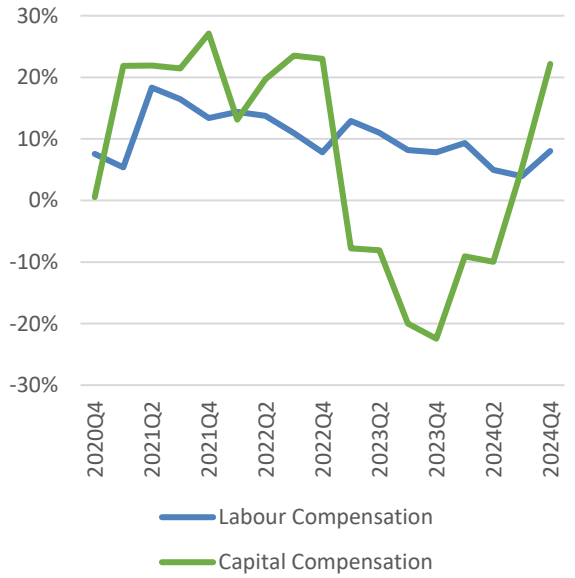
Source: CSO, NCPC calculations. Note: 'average hourly total labour costs' refers to hourly labour costs which are total labour costs divided by the total number of hours paid during the quarter.

Figure 3.1.1b Labour and Capital Compensation Growth (%), y-on-y, Domestic-Owned Dominated Sectors, 2020 Q4 – 2024 Q4



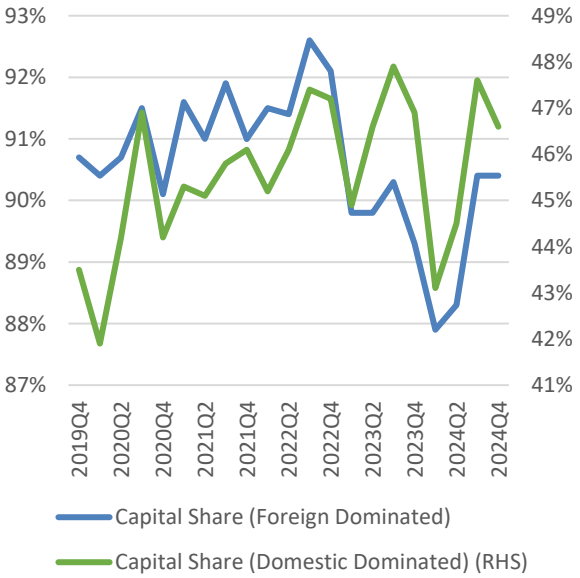
Source: CSO, NCPC Calculations

Figure 3.1.1d Labour and Capital Compensation Growth (%), y-on-y, Foreign-Owned Dominated Sectors, 2020 Q4 – 2024 Q4



Source: CSO, NCPC Calculations

Figure 3.1.1c Gross Valued Added, Capital Share (%), Foreign-Owned Dominated and Domestic-Owned Dominated Sectors, 2019 Q4 – 2024 Q4



Source: CSO

In a European context, Ireland's total hourly labour costs in 2024 (€42.5) were well above the EU-27 average (€33.5) and just behind Germany (€43.4) and France (€43.7), while remaining slightly below the Nordic and Benelux leaders like Luxembourg (€55.2) and Denmark (€50.1). Ireland's relatively high ranking reflects the contribution of high-wage sectors such as technology, pharmaceuticals, and internationally traded services. It also underscores the competitive wage pressures in a tight labour market with near-full employment and recent increases in the minimum wage – part of a broader plan to progress towards a living wage. Despite being in the top third of the EU in terms of hourly labour cost, Ireland remains below some of key comparators, suggesting it retains a degree of cost competitiveness relative to countries like Germany and the Netherlands. Nonetheless, Ireland's position indicates that it is firmly part of the high-cost cluster in Europe, which underlines the importance of maintaining productivity growth to sustain wage competitiveness.

In addition, the rate of increase in labour costs since the COVID-19 pandemic in Ireland is ahead of many peers, rising faster in the last three years after the pandemic than the 13 years previous. As of 2024 (see Table 3.1), Ireland ranked 8th in terms of total hourly labour costs[46] (€42.50). From 2021 to 2024, total hourly labour costs increased by over 22%, compared to a 20% increase from 2008 to 2021. This demonstrates that labour costs in Ireland have risen sharply since the pandemic but might also reflect a convergence with our peers following subdued growth in the aftermath of the 2007–2008 financial crisis.

Table 3.1 Hourly Labour Costs in the EU-27, 2024

Hourly Labour Cost	2024	Rank
EU-27	**€33.5**	-
Luxembourg	€55.2	1
Denmark	€50.1	2
Belgium	€48.2	3
Netherlands	€45.2	4
Austria	€44.5	5
France	€43.7	6
Germany	€43.4	7
Ireland	**€42.5**	**8**
Sweden	€40.3	9
Finland	€37.7	10
Italy	€30.9	11
Slovenia	€27.1	12
Spain	€25.5	13
Cyprus	€21.0	14
Estonia	€19.6	15
Malta	€19.1	16
Slovakia	€18.5	17
Czechia	€18.2	18
Portugal	€18.2	18
Poland	€17.3	20
Greece	€16.7	21
Croatia	€16.5	22
Lithuania	€16.3	23

[46] Eurostat

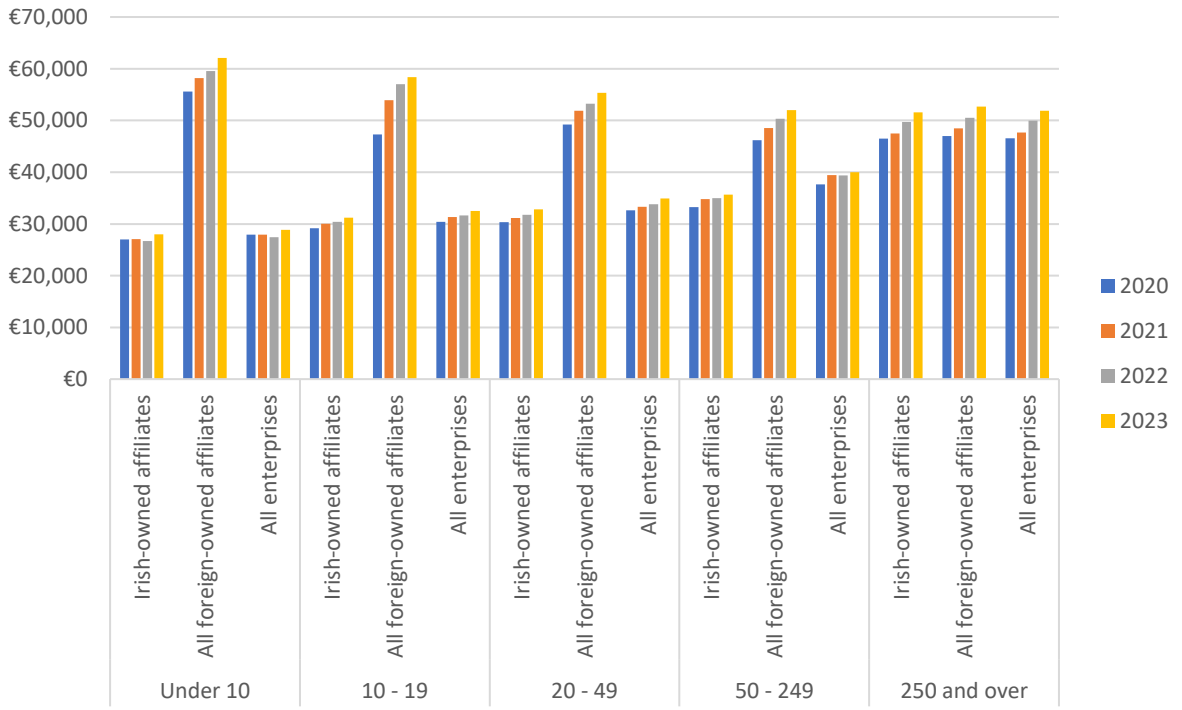
Latvia	€15.1	24
Hungary	€14.1	25
Romania	€12.5	26
Bulgaria	€10.6	27

Source: Eurostat

Labour costs comprise both wage and non-wage costs. Focusing on the wage component, Figure 3.2 examines the development of annual median earnings over recent years – using administrative payroll records – in Irish-owned and foreign-owned firms, broken-down by firm size. As shown, in every firm size category, foreign-owned affiliates pay significantly higher median annual earnings than their Irish-owned counterparts. For example, in firms with under 10 employees, median earnings in 2023 were €62,064 in foreign-owned firms and €28,000 in Irish-owned firms – a 121% premium for foreign-owned micro-firms. This trend is consistent across small, medium, and large firm categories.

While median earnings increase with firm size, the gap by firm nationality is more striking than the gap by firm size alone. For example, Irish-owned firms with 50-249 employees (SMEs) paid €37,097 in 2023, while foreign-owned firms of the same size paid €59,302 –representing a 60% difference within the same size band. In most size bands, Irish-owned firms saw only modest growth in median earnings over 2020-2023, typically below €1,000 per year. In contrast, foreign-owned firms generally show faster year-on-year earnings growth, reflecting stronger wage dynamics and concentration in high-value, high-wage sectors such as ICT and pharmaceuticals. Even large Irish-owned firms (250+ employees) reported median annual earnings of €49,228 in 2023, compared to €60,328 in similarly sized foreign-owned firms. This suggests that ownership and sectoral composition are more significant drivers of wage differentials than firm size alone.

Figure 3.2 Median Annual Earnings – nationality & firm size, administrative payroll data



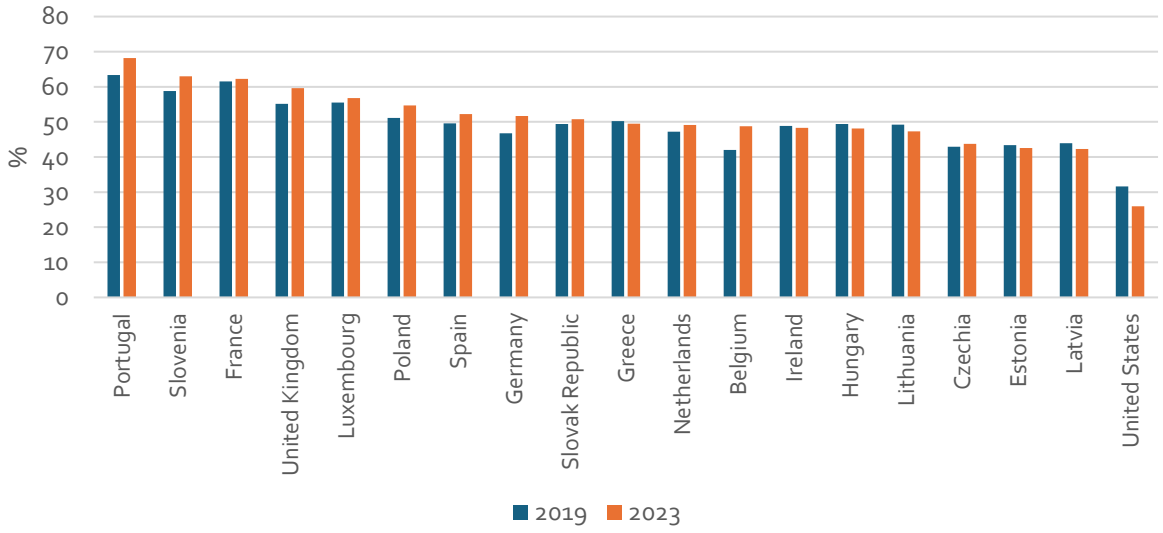
Source: CSO

Recent economic projections across a variety of sources suggest that wages will continue to grow at a rate between 3%-4% per annum over the next few years (albeit that these forecasts are highly sensitive to disruptions in economic activity and prices). The Department of Finance[47] anticipates per capita wage growth of 4% in 2025 and 2026. The European Commission[48] forecasts per capita wage growth of approximately 3.4% in 2025, declining to around 3.3% in 2026. The Central Bank of Ireland[49], expects per capita wage growth of 4.3% in 2025, dropping to 3.9% in 2026, declining marginally further to 3.8% in 2027.

In terms of national gross monthly minimum wages[50], Ireland ranked second highest in the EU in January 2025 at €2,282per month, maintaining the same rank it held in January 2024. When adjusted for purchasing power standards (PPS) – which takes account of price differences between countries – Ireland falls to fifth place. This puts Ireland at the lower end of the group of higher income countries (albeit that Ireland has moved up from sixth place in 2024). These dynamics underscore the intersection between prices and incomes – Ireland does have comparatively high wage rates, but these are matched by high prices levels.

Figure 3.1.2 presents a comparative analysis of the statutory minimum wage expressed as a percentage of the median wage for full-time employees across selected EU member-states, the UK, and the US, comparing data for 2019 and 2023. The analysis indicates significant variation in this ratio among the comparator countries, with several long-standing EU member-states ranking highly. Ranking 13th among the 19 displayed countries in 2023, Ireland was one of seven in the group where the ratio remained relatively stable or experienced a slight dip over the 2019-2023 period (decreasing from 49.83% to 48.83%).

Figure 3.1.2 Statutory minimum wage as % of median wage of full-time workers, EU Countries, UK and US



Source: OECD

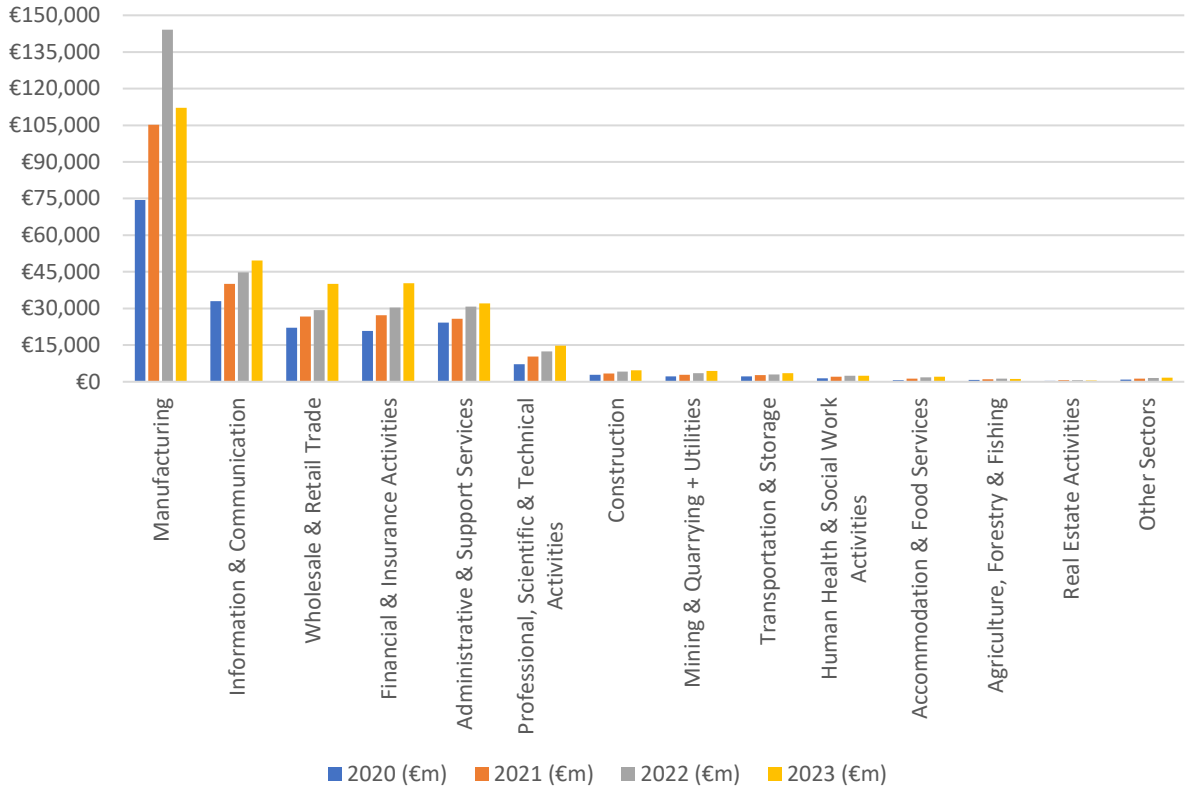
In terms of profitability Figure 3.1.2 shows trading profits – by sector – over 2020-2023. As shown, between 2020 and 2022, trading profits grew strongly across most sectors, with total adjusted profits rising from €193 billion to €310 billion. Manufacturing led this surge, more than doubling to €144 billion in 2022 before falling

[47] Annual Progress Report, Department of Finance, May 2025.
[48] European Economic Forecast: Spring 2025, The European Commission, May 2025.
[49] Quarterly Bulletin No. 1 2025, Central Bank of Ireland, March 2025.
[50] Minimum wages are generally presented as monthly wage rates for gross earnings, that is, before the deduction of income tax and social security contributions payable by the employee; these deductions vary from country to country.

back sharply to €112 billion in 2023. Information & Communication and Financial & Insurance Activities also recorded consistent growth, both reaching over €40 billion by 2023.

Wholesale & Retail Trade saw the most notable jump in 2023, rising from €29 billion to €40 billion, while professional and administrative services grew steadily over the period. Construction, Transport, and Mining showed sustained year-on-year growth, reflecting increased activity. The labour-intensive Accommodation & Food Services rebounded significantly from pandemic lows, tripling profits by 2023. In contrast, sectors like Agriculture and Real Estate saw declines in 2023 after earlier growth. Overall, while 2020–2022 saw broad-based profit expansion, 2023 marked a slowdown, or reversal, in some key sectors, particularly manufacturing.

Figure 3.1.2 Trading Profits by Sector, 2020-2023



Source: Revenue

Public policy measures to improve working conditions

In November 2022, the Government introduced a suite of policy measures to improve working conditions[51]. These included the planned introduction of a national Living Wage for employees, to be progressed *via* incremental increases in the NMW[52] to meet its obligations under the Adequate Minimum Wage Directive. In light of heightened international economic uncertainty, the Government adopted a series changes in April 2025. These included the extension of the implementation timeline for several working conditions measures. The introduction of the Living Wage will be deferred from 2026 to 2029. Further changes to the Statutory Sick Leave scheme have been halted. These adjustments are intended to ensure that labour market reforms proceed

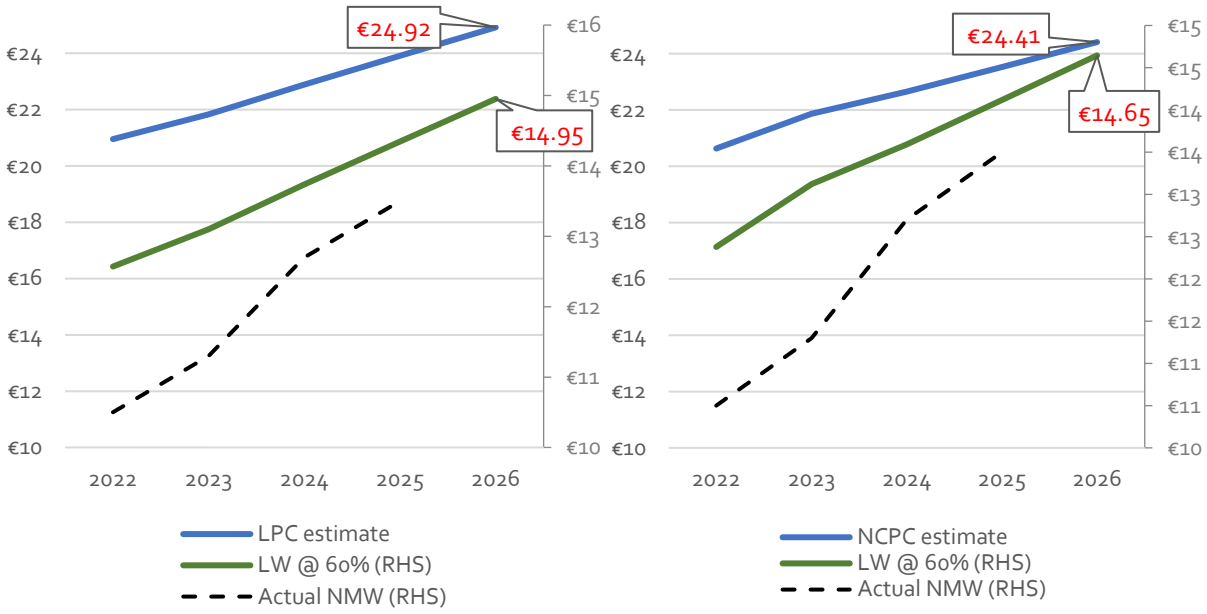
[51] For a comparison of relevant measures in place in Ireland and comparator countries, *Ireland's Competitiveness Challenge 2024* (Table 3.2.2)

[52] In terms of the National Minimum Wage (NMW), the Low Pay Commission Report 2024 estimates that 8.1% of employees in Ireland were earning the NMW, or less, in 2023 (amounting to 179,950 employees).

in a sustainable manner, balancing the objective of improved working conditions with the imperative to protect employment and enterprise viability.

Figure 3.1.4 shows the projected path of the median wage as estimated by the Low Pay Commission (LPC)[53]. In 2023, the LPC had forecast that the median wage in Ireland would reach €25 per hour by 2026. This would have implied a Living Wage of €15 per hour. In 2024, the LPC produced two forecasts for the 2026 median wage: €24.92 (based on the Labour Force Survey) and €23.26 (based on the Structure of Earnings Survey). These forecasts imply a corresponding Living Wage of €14.95 or €13.95, respectively. Wage growth forecasts by the Department of Finance, the European Commission, and the Central Bank of Ireland (from 2024 and 2025) covering the period out to 2026 show wage growth has slowed as inflation has moderated. In line with these more recent wage growth forecasts, the trajectory for Ireland's median wage – and therefore the Living Wage – is lower than anticipated at the time of the LPC's reports (from 2023 and 2024).

Figure 3.1.4 Projected path of the median wage (hourly) and implied Living Wage, LPC and NCPC estimates



Source: NCPC own calculations and Living Wage Report by the Low Wage Commission (2024). LPC estimate refers to the LFS-based figure.

Enhanced reporting requirements

Another source of additional labour-related costs arises from compliance with the recent introduction by the Office of the Revenue Commissioners of *Enhanced Reporting Requirements*. In line with the Finance Act 2022, employers must provide detailed reporting on expenses (or benefits) paid without the deduction of tax to employees or directors from January 2024. For those employers making relevant returns – outside of their regular payroll filings – this presents a new compliance (or administrative) cost. In particular, this will be the case for smaller firms (with employees regularly travelling for work, etc.). The new information required is outlined in Table 3.2.

[53] Recommendations for the National Minimum Wage, Low Pay Commission, 2024.

Table 3.2 Enhanced Reporting Requirements

Benefit	Reporting Requirement
Small Benefit Exemption	• Date paid and value of the benefit
Remote Working Daily Allowance	• Total number of days • Amount paid and date paid
Travel and Subsistence	• Date paid and amount of each payment, for: ○ Travel (un)vouched ○ Subsistence (un)vouched ○ Site-based employees ○ Emergency travel ○ Eating on site and advance payment

Source: Revenue

In addition to being a legal reporting requirement, the Revenue Commissioners have set out the benefits associated with the collection of this type – and level – of data, as follows:

- Enhancing the Revenue Commissioners' Compliance Intervention Framework by directing resources away from compliant employers
- Providing quality high level data in support of effective and informed policy decisions by the Department of Finance
- Increasing the visibility and assurance for employees in relation to non-taxable payments.

This notwithstanding, the Council does have concerns as to the proportionality of requiring all employers – regardless of turnover and/or the number of employees – to provide such information at the same level of both granularity and frequency. In the first year of reporting (2024) under the *Enhanced Reporting Requirements*, a total of almost €1.9 billion[54] was reported in benefits to Revenue, corresponding to 37% of all employers (or over 1.24 million employees). This is a facility used by a sizeable proportion of employers and it is certainly appropriate that that up-to-date and accurate information be collected by the State and yet, nonetheless, the Council is concerned that the cost of compliance with these new requirements could prove to be disproportionate – and costly – for many smaller firms.

[54] Income Tax 2024: Insights on PAYE Taxpayers, Revenue, 2024.

Box 3.A Labour costs increases scheduled over the next six months

In addition to the projected rise in nominal wages for 2025, there are a series of other labour-related cost increases currently scheduled to come into effect over the coming months. Firstly, the rate of Employer PRSI contributions increased by 0.1% from October 2024. A further 0.1% will be added **from October 2025** such that an employer will pay 9% in the case of an employee with weekly earnings up to €527 and 11.25% for an employee earning above this threshold. As it stands, Employer PRSI will increase further by a total of 0.7% by 2028, bringing the two bands to 9.5% and 11.75%, respectively.

Furthermore, the automatic enrolment retirement savings scheme – *My Future Fund* – is due to come into effect **from early-2026** (and will end the practice of Ireland being the only OECD country without a mandatory pension savings scheme). In the first full year of operation, an employer will make contributions equal to 1.5% of the total annual salary for each employee enrolled. This rate will increase over time and by Year 10 (or from 2035), the employer contribution will rise to 6% of salary.

When taken together, we can see the overall impact on the cost of employment. In the case of an employee working full-time at the NMW, the labour costs payable by the employer will increase by €443 over a full-year. In the case of an employee in receipt of the average weekly earnings, these same labour costs will increase by €815 over a full-year. It is important to note, however, that where an employer already operates an occupational pension scheme, these increases would be far lower.

	Example A	Example B
Annual Earnings	€27,738	€50,945
Weekly Earnings	€526.5	€979.71
Employer PRSI (p.a.)		
Mid-2025	€2468.68	€5682.04
Early-2026	€2496.42	€5733.00
Annual Change (A)	€27.74	€50.96
Employer Pension Costs (p.a.)		
Mid-2025	n/a	n/a
Early-2026	€416.05	€764.40
Annual Change (B)	€416.05	€764.40
Total Annual Change (A+B)	**€443.09**	**€815.36**

Note: (i) For illustrative purposes, we set out two examples here: Employee A earns the current hourly NMW of €13.50 for a 39-hour week whilst Employee B has average weekly earnings of close to €980 (per the most recent CSO estimate: Earnings and Labour Costs Q3 2024 (Final) Q4 2024 (Preliminary Estimates) - Central Statistics Office).
(ii) The calculations for the retirement savings above assume that, in each case, the employee is aged between 23 and 60 years; and that the employee is not already part of a pension plan.
(iii) Employer and Government contributions are capped at an annual salary of €80,000 (i.e., in Year 1 an employer's annual contributions cannot exceed €1,200 per employee).

3.1.2 Energy Supply and Costs

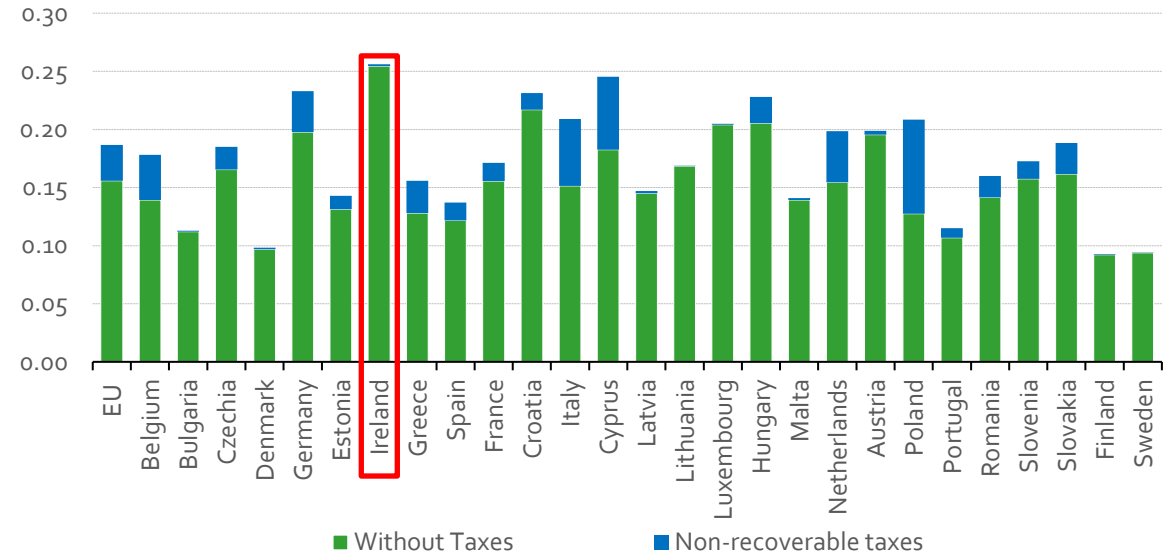
Energy costs are a critical factor in business competitiveness, influencing both operational expenses and investment decisions. In recent years, Ireland has experienced a sharp rise in electricity prices, driven by global fossil fuel price fluctuations and supply chain disruptions. As energy-intensive industries face mounting financial strain, policies need to align increased cost competitiveness with security of supply and sustainability.

Rising energy costs

Rising global energy prices and supply chain disruptions have significantly driven up electricity costs in Ireland, placing immense pressure on businesses. Ireland now faces the highest electricity costs in Europe for non-household consumers and considerably higher rates compared to the US and China, which erodes cost competitiveness for energy-intensive industries and undermines Ireland's attractiveness to investors[55]. These elevated costs not only increase operational expenses but also contribute to uncertainty in long-term planning for companies that rely heavily on predictable energy pricing.

Analysis of electricity prices for non-household users in the first half of 2024 indicates significantly higher costs in Ireland compared to the EU average (€0.25 per kWh versus €0.16 per kWh, respectively), as illustrated in Figure 3.1.5a. While the data also shows that the non-recoverable tax component of these prices is substantially lower in Ireland (€0.0017 per kWh) than the EU average (€0.039 per kWh), the overall high price level, over 56% above the EU average, presents a real competitiveness challenge.

Figure 3.1.5a Electricity prices for non-household consumers, First half of 2024 (€ per kWh)[56]



Source: Eurostat

As explored further in Chapter 4, underinvestment in essential energy infrastructure[57] is a key factor contributing to the elevated cost base for enterprises operating in Ireland. A component of electricity pricing

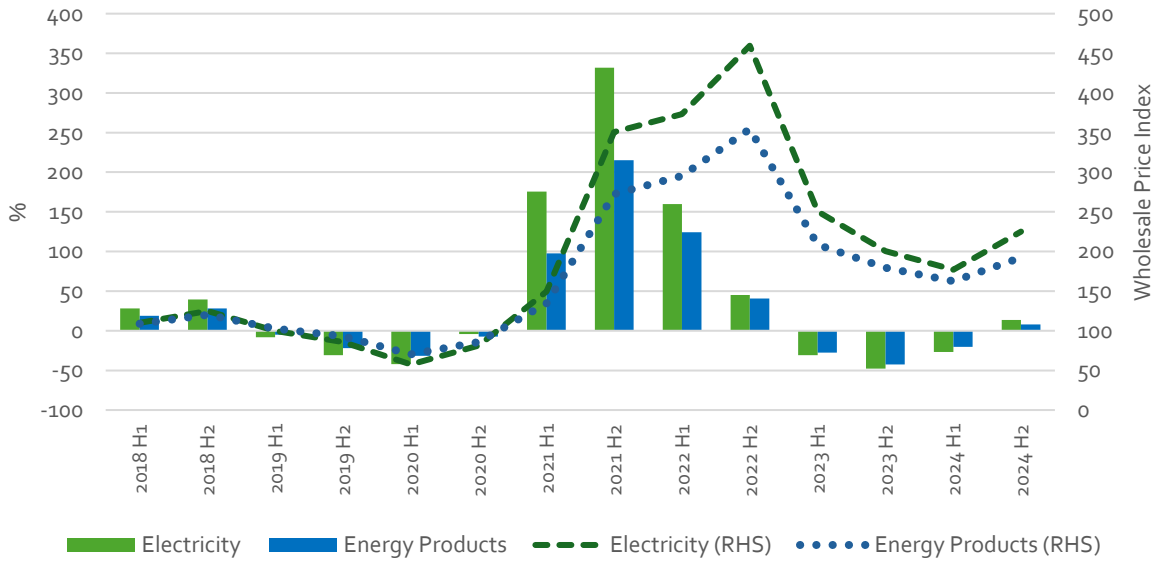
[56] Note non-recoverable taxes are all taxes and levies that are part of the electricity price, but which cannot be recovered by the consumer.
[57] It should be noted that while energy infrastructure in Ireland has experienced historical underinvestment, it is currently undergoing an unprecedented transformation into an electricity and renewable first system. This entails significant costs that are sociable across all consumers. In respect of this, the Council welcomes the soon-to-be established National Energy Affordability Taskforce to tackle the price implications of such a transformation.

structures relates to cost recovery for necessary infrastructure investment, maintenance, and operation. In Ireland, the Public Service Obligation (PSO) Levy is a key mechanism employed to support specific policy objectives, currently focused on supporting the development of renewable electricity generation through the price mechanism. Reflecting this, on the 31st of July 2024, the Commission for Regulation of Utilities (CRU) approved increases in the PSO Levy for the 2025 period (up to the 30th of September), amounting to €38.76 annually for domestic users and €154.92 for small commercial users.

In addition to considerable costs associated with electricity grid maintenance, investment and operation, these approved increases in the PSO Levy contribute further upward pressure on final electricity prices faced by consumers and businesses. While future developments, such as enhanced interconnection (discussed in Chapter 4), may offer potential pathways to mitigate overall system costs in the longer term, the reliance on levies places the immediate funding burden directly onto consumers. Consideration could be given to alternative funding models, such as allocating resources from the capital infrastructure budget for certain network development and operation expenses, to potentially alleviate direct pricing pressures on electricity users.

Ireland's Wholesale Price Index (Figure 3.1.5b), which tracks price changes in wholesale prices charged to businesses, indicates that, while there were significant improvements throughout 2023, energy costs have been increasing since September 2024 and are still elevated when comparing the index in January 2019 which was 145.9 for electricity, and 132.6 for energy products. The latest CSO data indicates that wholesale electricity prices are 67.7% (now at 310.2) higher in the 12 months to January 2025 while the overall energy products index is up by 48% (now at 248.1) for the same time period.

Figure 3.1.5b Wholesale electricity and energy products prices, as a % and indexed 2015=100, between 2019 H1 and 2024 H2



Source: CSO

Electricity prices in Ireland are primarily determined through market-based mechanisms within the all-island Single Electricity Market (SEM), combined with regulated network charges, taxes, and environmental levies[58].

[58] The role of market design has been further developed by the Electricity Market Design Directive (Directive (EU) 2024/1711).

This model is designed to foster competition, incentivize investment in sustainable energy infrastructure, and ensure a reliable supply. However, the current model's susceptibility to global price volatility and supply chain issues means that any disruption on the international stage is rapidly reflected in domestic electricity costs. Consequently, the combination of market dynamics and regulatory structures, while beneficial in promoting long-term efficiency and sustainability, currently amplifies cost pressures on Irish businesses.

Box 3.B How are Ireland's energy prices set?

Electricity pricing in Ireland is shaped by the Single Electricity Market (SEM). This is a wholesale and all-island, gross mandatory pool. All large-scale generators must offer electricity into the SEM, and suppliers must purchase from it. Private contracts outside the market are not allowed. The SEM operates on a single marginal price model: generators bid based on short-run marginal costs, and supply is dispatched from the least expensive to the most expensive until demand is met. The last – typically gas-fired – generator thus sets the market-clearing price. All dispatched generators – regardless of fuel source or their own actual cost of energy generation – receive this price, with the exception of new renewable energy projects, which typically receive a competitively determined 'strike price' under Ireland's Renewable Electricity Support Scheme (RESS).

This benefits low-cost producers such as wind farms (aiding capital recovery and renewable investment). High-cost generators may earn less, or be excluded, if their bids exceed the clearing price. Wholesale prices vary with supply and demand. Low wind, or high demand, raises prices whereas abundant wind, or low demand, lowers them. In 2023, wind supplied over a third of electricity. Given Ireland's target of 80% renewables by 2030, wind-based energy could potentially become a source of price volatility over time (and may become independent of global gas prices). Increased electricity demand associated with heavy data usage and developments in AI also have potential to affect prices.

Retail suppliers buy at wholesale prices before reselling to consumers (but retail prices tend to be more stable). Hedging through forward contracts buffers wholesale fluctuations, creating a delay in price impacts for consumers. Furthermore, as retail prices also include network charges, levies, and taxes, wholesale costs are not the sole component to consider.

Ireland's high electricity prices are also influenced by structural factors, including its small market size, peripheral location, high dependence on imported fossil fuels, and low population density (which increases network infrastructure costs). This was covered in last year's Competitiveness Challenge report. Deficits in electricity infrastructure and their contributions to these elevated prices are discussed in further detail in Chapter 4. Whilst the elevated cost of energy does pose a challenge for Ireland's enterprise sector, it is not the only public utility to do so. Specifically, the cost of water and waste-water services have also continued to rise. Investment in Ireland's water infrastructure is most certainly necessary, but this has had implications for the operating costs of firms (whether small or large). For instance, the Non-Domestic Tariff Framework provided for new water and wastewater tariffs to apply on 1st October 2024[59] (and at the time of writing, the CRU is proposing to apply a 9.8% increase to these rates, effective from October 2025[60]).

[59] To mitigate the impact of a significant cost increase for the 2024/2025 tariff year, a 75% cap was applied on the maximum annual increase allowed for non-domestic customers facing a bill increase of €750 or more.
[60] Uisce Éireann's Non-Domestic Tariff Framework | The Commission for Regulation of Utilities (CRU)'s Consultation Portal

3. 1.3 Insurance Costs

Personal injury claims are emerging as a major cost driver for businesses in Ireland through their significant influence on insurance premiums and risk assessments. Recent data from the Central Bank of Ireland[61] reveal that gross claims-related costs—including claims incurred and management expenses—account for about 67% of insurers' gross earned premiums over the past decade. In 2023, injury claims represented 59% of all settled claims and accounted for 92% of total settled costs, amplifying the liability exposure for insurers and directly driving up premiums for businesses. The financial burden is further intensified by rising average costs of injury claims and the high expenses associated with litigation. In 2023, litigated claims took an average of 5.8 years to settle (over three years longer than those resolved through the Personal Injuries Resolution Board (PIRB), which averaged 2.3 years). Despite this delay, compensation levels for claims under €150,000 – comprising 94% of litigated public liability cases – were nearly identical across both channels (€23,803 in litigation vs. €23,794 via PIRB).

Furthermore, legal costs in litigation were disproportionately high, averaging €23,261 per claim compared to just €966 through PIRB. In some cases, legal fees equalled or exceeded the claimant's compensation. These inefficiencies are contributing to broader cost inflation: between 2009 and 2023, average costs for Employers' Liability (EL) and Public Liability (PL) claims rose by 55% and 69% respectively. Although only 70% of injury claims were settled through litigation in 2023, these accounted for 89% of total settlement costs. For litigated EL claims, average compensation has reached €65,120 (with legal costs averaging €42,661). This escalation in claim and litigation costs feeds through to increased costs for businesses as well as discouraging investment in high-risk sectors. Under the current Programme for Government, there is a commitment to publish a new Action Plan for Insurance Reform with a focus on encouraging further competition in the market and working with stakeholders to enhance transparency and affordability across all types of insurance. The Department of Finance is leading on the development and rollout of this new Action Plan.

Judicial Council Decision on Personal Injuries Awards Guidelines

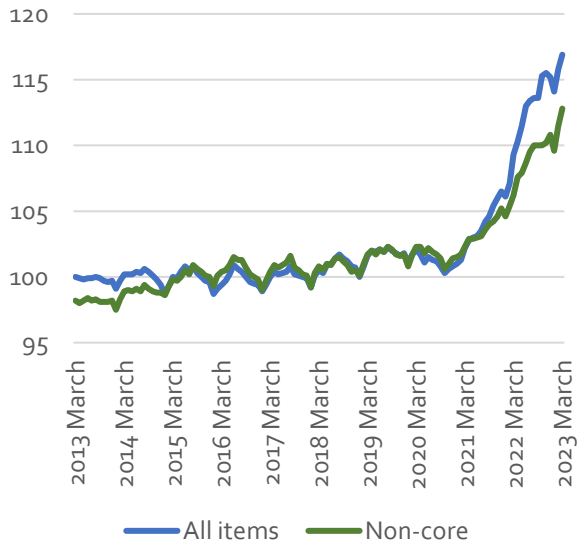
The Personal Injuries Guidelines were originally adopted by the Judicial Council in 2021. This was informed by comprehensive analysis by the Personal Injuries Commission which undertook a benchmarking of personal injury (soft tissue) award levels in Ireland relative to other comparable jurisdictions[62]. The first iteration of the Personal Injuries Guidelines had the effect of reducing the average value of personal injury awards by approximately 35%[63]. Under the Judicial Council Act 2019, there is a requirement that the guidelines would be reviewed within three years using methodology as set out in Section 18 of the Act[64]. This work was undertaken by the Personal Injuries Guidelines Committee[65] and the outcome of the review was submitted to the Board of the Judicial Council in March 2024. The Committee[66] did not find it "*possible to carry out any meaningful analysis of the quantum of court awards given under the Guidelines to date that might inform this review. This is because the inevitable delay between the commencement of proceedings to which the then new Guidelines applied and their trial has meant that there are very few decisions and certainly not enough to be statistically significant"*. It also did not engage with the Personal Injuries Resolution Board.

[61] Employers' Liability, Public Liability and Commercial Property Insurance Report 4, Central Bank of Ireland.
[62] Second and Final Report of the Personal Injuries Commission - DETE
[63] piab-average-awards-report-2022.pdf
[64] This includes a provision that the Judicial Council may seek consultation with relevant bodies and experts, including the Personal Injuries Resolution Board, in conducting research based on award levels in Ireland and other jurisdictions and organising conferences/seminars but crucially, it does not require them to do so.
[65] A committee of the Judicial Council
[66] Personal Injuries Guidelines - Draft Amendments as modified by the Board.pdf

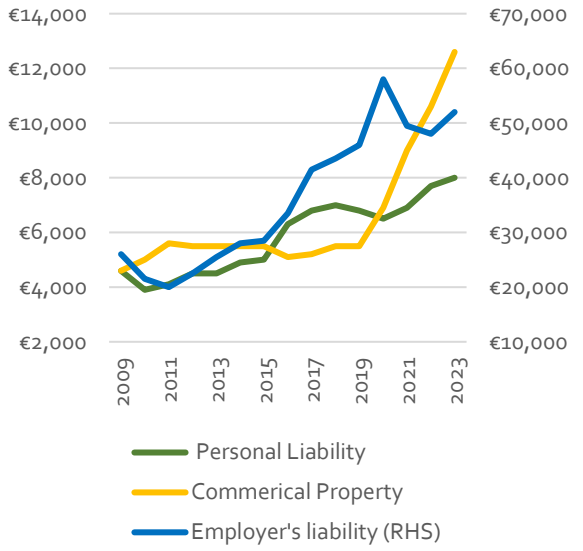
The Committee determined, in those circumstances, that the appropriate approach was to modify the level of awards for damages in line with inflation[67] (in this case using the HICP). Given that the HICP had risen by 15.6% over the intervening three years, the Committee recommended that the original award values by increased by the same amount. The Board decided to modify the guidelines in order to reflect the HICP rate applicable at the time of its own consideration of the draft amendments (October 2024) and revised the change to the value of the awards upwards (to 16.7%).

Of perhaps even greater significance in the draft Personal Injuries Guidelines is the proposed amendment to the methodology for calculating award levels for multiple personal injuries. It remains unclear as to how this methodology would operate in practice and whether it can be applied in a consistent manner between the Injuries Resolution Board process and through litigation. The introduction of the Personal Injuries Assessment Board in 2004 was designed to facilitate a low-cost, quick and non-adversarial resolution process for personal injuries where both claimants and respondents would have confidence the level of award achieved through the Injuries Board process would be in line with those achieved through litigation.

Figure 3.1.6 HICP (Base 2015=100) versus average earned premium for standalone policies, 2013 - 2023



Source: CSO



Source: Central Bank of Ireland

Legal Costs and the Kelly Report

Legal costs in Ireland remain a significant concern for enterprise, with litigation expenses among the highest in the EU. This a concern that has been previously highlighted by the NCPC[68] (2023) and has been brought to public attention again most recently by the OECD in their Economic Survey of Ireland[69] (2025). The OECD report highlights that while nearly 80% of firms report confidence in the legal system—well above the EU average of 53%—court proceedings are lengthy and costly. In 2022, the average High Court case took 871 days to resolve, with personal injury cases averaging 1,325 days. Ireland has the lowest number of judges per capita in the EU (3.5 per 100,000), contributing to delays, though recent appointments aim to increase judicial capacity by 25%. Litigation significantly inflates legal costs: in personal injury cases, legal fees in litigated claims were 2.5 to 4 times higher than in directly settled cases, accounting for roughly one-third of total settlement costs.

[67] This is line with approach used in Northern Ireland, England and Wales.
[68] Ireland's Competitiveness Challenge 2023, National Competitiveness and Productivity Council, September 2023
[69] OECD Economic Surveys: Ireland 2025, OECD, February 2025

Despite high spending on law courts per inhabitant, budget allocations for the functioning of courts per capita (€31 in 2022) remain well below peers such as the UK and France (€50). Additionally, fragmented data systems and inconsistent case tracking hinder performance monitoring and cost transparency, which constrains evidence-based policy reforms. Urgent action is needed to modernise the operation of Ireland's Courts, improve data integration, and strengthen competition in legal service provision.

The Kelly Report[70] (2020) highlighted these deficiencies in the legal system and provided recommendations for their remedy. A key recommendation on civil justice reform was the introduction of measures to reduce Ireland's high litigation costs. Central to this was the question of whether to introduce binding caps on legal costs or adopt non-binding guidelines. While a majority of the Kelly Review Group supported non-binding guidelines to improve transparency, a minority advocated for binding caps, overseen by a dedicated litigation costs committee. In 2024, an economic evaluation by Indecon for the Department of Justice, concluded that non-binding guidelines were the more practical option, warning that binding caps—if based on average costs—could inadvertently raise expenses for most litigants. Despite this, no formal decision has been made, and implementation has stalled. In the absence of reform, legal service providers continue to benefit from high and often disproportionate litigation costs, while claimants face lengthy court processes with limited financial gain, and businesses absorb the resulting cost pressures through higher insurance premia. The lack of progress on this recommendation and many others within the report risks undermine that Government's stated commitment to improve the cost competitiveness of enterprises in Ireland.

3.1.4 National Security Clearance

Security clearance constitutes formal authorisation, granted by governments or organisations, permitting individuals access to classified information, facilities, or projects. This process aims to evaluate trustworthiness and prevent unauthorised disclosures harmful to national security. Under European Union regulations, member states require a competent National Security Authority (NSA) to issue Personal Security Clearances for access to EU classified information., Ireland currently lacks such a statutory framework and designated NSA.

Ireland's absence of a statutory national security clearance framework continues to limit participation in a growing number of strategically important European initiatives. While the defence and aerospace sectors are directly affected, the implications extend more broadly to emerging areas such as artificial intelligence, cybersecurity, and advanced digital technologies. Many EU programmes — such as the Digital Europe Programme (DEP)[71], which is allocating €7.9 billion between 2021 and 2027 — support the development and deployment of AI and digital capabilities across sectors including health, energy, robotics, manufacturing, and public administration. However, Irish engagement in these initiatives remains limited, despite Ireland's status as a net contributor to the EU budget. One key barrier is the lack of a national security clearance system, which precludes access to projects requiring high-assurance vetting. Consequently, potential economic opportunities requiring security clearance, including associated research and development, remain largely inaccessible, thereby constraining growth prospects in high-value, knowledge-intensive economic activities.

The impact extends to sectors where Ireland possesses established strengths, such as global technology. At present, limitations on the ability of domestic firms and professionals to engage in projects requiring high-assurance security clearance limits the development of deep expertise in critical areas, such as cybersecurity, potentially impacting skills availability. Similarly, participation in European defence initiatives is constrained.

[70] Review of the Administration of Civil Justice, October 2020
[71] Digital Europe Programme, European Commission

Establishing a national security clearance framework offers clear potential economic advantages. Failing to establish a security clearance framework in a timely manner precludes enterprises in Ireland from opportunities available in the present. Immediate benefits include enabling Irish firms and institutions to compete for contracts and funding currently inaccessible due to clearance requirements. In the medium-to-long term, such a system could enhance Ireland's attractiveness for investment in defence and related high-technology industries, potentially generating positive knowledge spillovers to domestic firms, stimulating innovation, and supporting the creation of high-value employment.

3.2 Actions Crucial to Support Business in Ireland

3.2.1 Controlling costs

At a time of increased global economic uncertainty – and against a backdrop of Ireland's international competitiveness trending downwards whilst the rate of insolvencies moves in the other direction – it is not enough to simply take comfort from our record tax receipts and/or the historically high number of persons at work. We must be wary of complacency and take those steps necessary to protect the health of the economy. In the same way that the Government has recently revisited public policy measures to improve working conditions, the Government should also continue to monitor changes in non-labour costs. This includes a consideration of the appropriateness of introducing a near 17% increase to the level of awards for personal injuries. This also applies to the introduction of new reporting and compliance requirements (i.e., whether the reporting burden is disproportionately costly and/or time-consuming for SMEs) and to whether investment in the upgrading of public utilities can, or should, be funded through increased charges to the end-user.

Recommendation 3.1: In advance of the next review of the Personal Injuries Awards Guidelines, the Council recommends a re-examination (and re-consideration) of the appropriateness of the methodology used to benchmark the level of awards

Responsibility: Department of Justice; Department of Enterprise, Tourism, and Employment

Recommendation 3.2: The Council recommends that a review is undertaken of the proportionality of the current Enhanced Reporting Requirements and consider amendments for SMEs below a certain threshold (i.e., below 20 staff and/or below €1m in annual turnover) to lower the relative administrative burden.

Responsibility: Department of Finance; Office of the Revenue Commissioners

Recommendation 3.3: The Council recommends that the Government should:

(a) Advocate at EU-level for steps to ensure that the pricing mechanism for the Single Electricity Market (SEM) does not lock-in unnecessarily high prices for European consumers

(b) Consider the feasibility of taking steps to ensure that infrastructural investment in the energy, water, and waste-water systems is not solely funded by charges on the end-user (with the Exchequer to co-fund this work)

Responsibility: Department of Foreign Affairs and Trade; Department of Climate, Energy and Environment

Chapter 4: Infrastructural Deficits and Ireland's Competitiveness Offering

Key Messages

- Despite an increase in output, limited capacity in the construction sector in combination with significant infrastructural demand, have contributed to infrastructural deficits continuing to widen.
- Two critical paths to addressing the constraints on infrastructure supply are to significantly increasing the stock of labour in the construction sector and increasing productivity in the sector. Unless these are resolved, the construction sector will be unable to respond to planning developments.
- Productivity in the Irish construction sector ranks low compared with competitor countries. With clear infrastructure deficits, addressing lower productivity levels is critical. Increased utilisation of modern methods of construction presents a possible path to achieve this.
- In this constrained environment, there is also a clear need for the Government to prioritise those areas of infrastructure which provide the strongest economic and social benefit.
- Enhanced delivery of infrastructure is one of the key commitments in the Programme for Government. Planning, regulations and licensing delays continue to hinder delivery and impinge progress. Government must improve delivery in these areas if it is to unlock broader delivery.

4.1 Current Situation

4.1.1 Infrastructural demand and capital stock

Ireland continues to fall short on its delivery of key infrastructure, including housing, energy, water and transport. This is particularly pressing given recent population growth – which is expected to continue – and uncertainty as to the actual current population. As part of the development of the revised National Planning Framework (NPF), the ESRI undertook detailed work with regard to population projections and housing demand over the several decades[72]. This work was published in July 2024 and was funded by the Department of Housing, Local Government and Heritage (as part of a joint research framework). The ESRI's baseline forecasts put the population at 6.1m persons by 2040. Under a high migration scenario, this rises to more than 6.3 million (a figure over 400,000 in excess of its low-migration scenario at 5.9m persons). Population projections – using differing assumptions and scenarios – will necessarily differ but this scale of variance can create difficulties for the long-term planning needed to drive living standard improvements in Ireland. In terms of housing demand, the ESRI has estimated that Ireland will require 44,000 additional units per annum between 2023 and 2030[73] (falling to 40,000 per annum between 2030 and 2040).

The population of Ireland rose by 98,700 people in the 12 months to April 2024. This equates to an expansion of the population of close to 2% in one year and was the largest 12-month increase since 2008[74]. The degree to which the rate of inward migration continues will have a significant bearing on Ireland's population projections and ultimately, the demand for additional infrastructure. The current level of migration, however, makes long-term projections difficult and also makes them sensitive to data availability at their time of publication. For example, the actual level of migration at present exceeds the figure utilised in the 2024 CSO 'high-migration' population projection scenario which assumed a net migration figure of 75,000 in 2022 (declining steadily to 45,000 per annum by 2027). This high-level scenario estimated a population of 5.76 million in Ireland by 2030, rising to up to 6.29m by 2040 (Figure 4.1 (M1)). The former would equate to an increase of over 400,000 from the estimated population in 2024 (or 5.38m persons)[75].

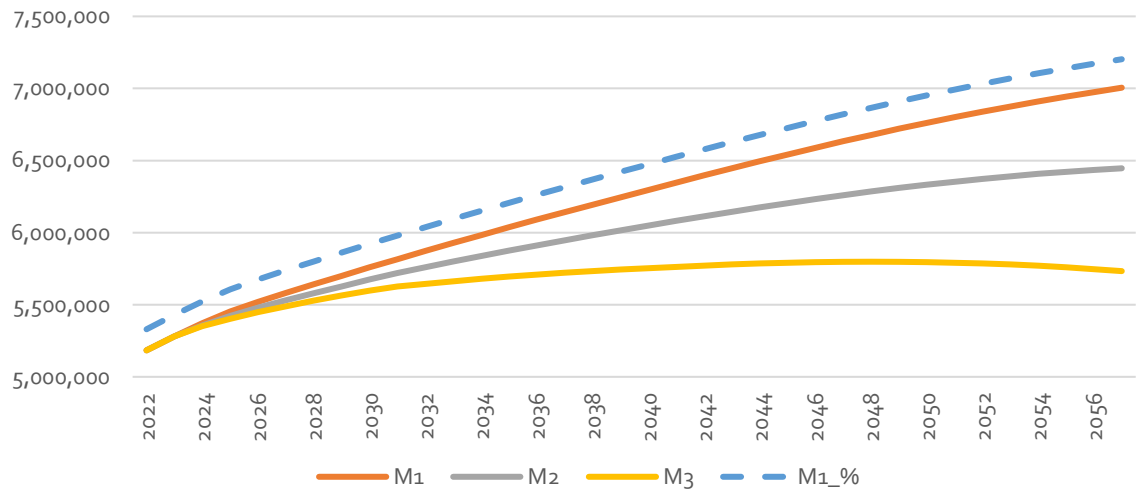
The ESRI's projections took the CSO's Census 2022 as a starting point (or an initial population of 5.18m usually resident persons). Given that the periodic Census of Population is generally considered to be the most accurate available measure of Ireland's demography, this is entirely understandable. That said, however, even a relatively small variance at the outset will have an impact on the trajectory of these population projections (and what these suggest in terms of future housing demand). Indeed, prior to the publication of these projections, there was at least reason to consider the merit of an alternate scenario based on a higher initial population. Specifically, in June 2024 the CSO published a Frontier Series output[76] which put the population at 5.33m persons in 2022[77]. Whilst this differential – 150,000 more persons than previously thought – may seem relatively small, it is roughly equivalent to the population of Co. Wicklow. Put differently, this equates to a requirement for an extra 55,000 dwellings[78] (or close to two years' worth of total output (based on 2024 levels)). This differential also feeds through across the timeframe examined. For instance, this would imply a population of

[72] Population projections, the flow of new households and structural housing demand | ESRI
[73] Based on an average across all assumptions
[74] Key Findings Population and Migration Estimates, April 2024 - Central Statistics Office
[75] With the initial population based on Census figures of 5.18m (in 2022).
[76] The CSO – like many National Statistical Institutes – has been investigating new approaches to generating population estimates using administrative data: To count or to estimate: A note on compiling population estimates from administrative data 2023
[77] Key Findings Irish Population Estimates from Administrative Data Sources, 2022 - Central Statistics Office
[78] Assuming an average occupancy rate of 2.74 persons per dwelling

6.3m persons by 2040[79] compared to the ESRI's baseline forecast of 6.1m persons (and potentially even higher where inward migration remains elevated).

On a related point, this work sets out estimates of structural (or demographic) housing demand at the regional level (i.e., by local authority administrative area). These estimates are based on assumptions around population growth, household size, and the rate of obsolescence of the housing stock. Any divergence – relative to some of the assumptions made – could have significant implications for the actual level of housing demand over time. For instance, these projections assume the overall total fertility rate[80] will remain unchanged out to 2040 (from 1.63 in 2020) but this is unlikely to be the case[81]. Furthermore, this work does not adjust its overall projections to account for regional variance in the availability of employment over time (and/or the fact that people can and will relocate in search of work, particularly in the event of economic turbulence). It is the view of the Council that the Department of Housing, Local Government and Heritage should be cognisant of this when planning future analyses. Finally, the PfG commitment to establish a new Unit for Future Planning to forecast demographic changes and ensure accurate estimates of the demand for essential services and employment is welcome in this context.

Figure 4.1 Population Projections[82]



Source: CSO

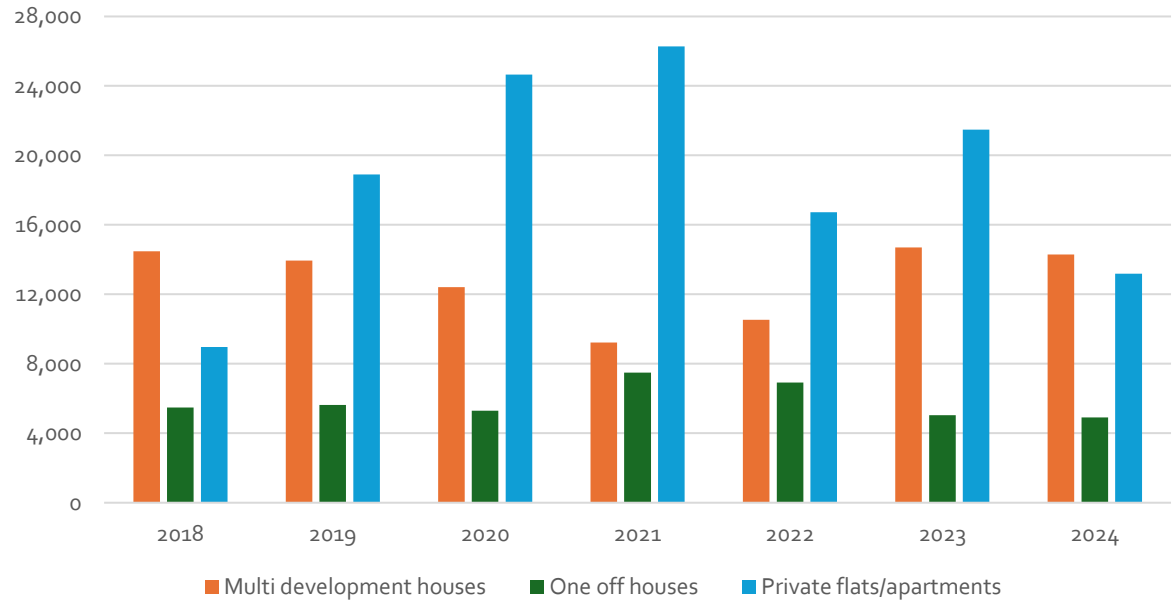
Even at the lower projected estimate of population growth, it is clear that a substantial increase in infrastructure provision is required. Additional infrastructure is essential to prevent widening deficits across housing, energy and water. As has been previously reported on by the Council, this deficit is most clear in the area of housing. The significant expansion in the population contrasts with a 6.7% decline in housing output in 2024[83]. Given the already sizable housing deficit, these statistics have direct implications for the sustainable growth of Ireland. This also puts pressure on Ireland's ability to attract and retain talent and negatively impacts labour costs more generally. The Central Bank of Ireland (CBI) recently estimated that 35,000 units will be completed

[79] Based upon an initial population of 5.18m persons in 2022, the ESRI projections imply a 17.8% increase by 2040 (to 6.1m persons).
[80] The ESRI have assumed that the overall total fertility rate will remain constant over time and the report states that '*The overall fertility rate has been broadly constant in recent years, and we assume it will remain at that level over the projection horizon*'. Any changes in this rate over the next 15 years will influence the level of housing demand and this is, in fact, recognised in the ESRI's publication.
[81] By contrast, the CSO's Expert Group on Population Projections assumes a Total Fertility Rate of 1.55 in 2023 which decreases incrementally to 1.3 by 2038 (and remains constant thereafter).
[82] M1_% utilises the percentage difference from the CSO experimental series estimates and holds this percentage difference constant across the established M1 projection.
[83] 30,330 new dwelling completions across the whole of 2024: New Dwelling Completions Q4 2024 - Central Statistics Office

in 2025, rising to 40,000 in 2026[84]. This level of output falls significantly short of meeting housing needs and addressing the housing deficit.

The recent slowdown in planning applications for housing, and particularly apartments, is concerning given the above context which sets out the substantial unmet demand for housing. In 2024, the actual number of apartments granted planning permission fell by almost 39% when compared with 2023. House approvals were down by 2.7%, with a particularly sharp drop in the last quarter of the year[85] (Figure 4.2). The CBI has previously highlighted the gap between the number of planning permissions granted and the lower number of subsequent commencements of construction, and the weakening of this relationship in recent year. That the reduction in planning permissions may further compress the number of future commencements with negative implications for future housing supply[86]. Given the recently reported difficulties in recruiting planners to the planning system it is also not clear if the system is currently capable of catering for an uplift in planning permissions or indeed integrating the National Planning Framework into local plans.

Figure 4.2 Unit for which Planning Permission was granted, by type and year



Source: CSO

Analysis of Ireland's infrastructure by the Irish Fiscal Advisory Council finds that while some progress has been made, Ireland's infrastructure remains 25% lower (Real Net Capital Stock per Person) than comparable high-income European countries[87]. Unless there is a substantial shift in the delivery of infrastructure[88], Ireland will struggle to make any progress in meeting this growing deficit.

4.1.2 Planning and future infrastructure

The publication of the revised National Planning Framework (NPF), which was recently progressed through the Oireachtas is welcome. The Framework sets out how the State will plan for Ireland's sustainable development

[84] Quarterly Bulletin Q1 2025 | Central Bank of Ireland
[85] Key Findings Planning Permissions Quarter 4 and Year 2024 - Central Statistics Office
[86] Box D Housing supply uncertainty in the delivery cycle
[87] Ireland's Infrastructure Demands – Irish Fiscal Advisory Council
[88] The Council does, however, recognise where public capital expenditure is increased there can also be associated current expenditure implications

– one which will need to prioritise the delivery of housing, energy and transport infrastructure if our growth is to be sustainable[89]. The revised Framework places increased emphasis on addressing housing shortages, climate action and infrastructure which will support economic growth, along with investment in public transport and digital connectivity. In work published in May 2025 on compact growth and its benefits for Ireland the National Economic and Social Council welcomed the advancement of compact growth goals in the framework. The report highlights concerns in relation to sprawl across multiple urban areas of Ireland and the impact of reductions in the share of housing in the built-up footprint of towns. If the NPF can promote compact growth across local authorities it will greatly support Ireland's sustainable development[90].

The current Programme for Government (PfG) – '*Shaping Ireland's Future*' – stresses the importance of infrastructure to Ireland's sustainable growth[91]. It makes a range of commitments on infrastructure, a number of which are focused on enhancing the delivery of infrastructure, such as: completing a review of the National Development Plan by July 2025. These include establishing an Infrastructure division in a re-named Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, reviewing and reforming the prioritisation of major capital projects in key agencies, and establishing a Cabinet Committee on Infrastructure to be chaired by the Taoiseach.

The PfG sets out a broad range of actions across housing, electricity, transport and water infrastructure. These include utilisation of modern methods of construction, resourcing the Planning and Environment Court to deal more swiftly with planning litigation; continued work towards reaching the target of 12,500 apprentices per annum (with two-thirds of these in construction), together with reduction of red tape and delays. The Government also plans to introduce statutory timelines for pre-connections, water and waste-water and energy connection agreements, to ensure large developments can proceed without delay. It also commits to making the necessary investments across each infrastructural area; for example, in the case of at water and energy, it commits to providing additional capital to Uisce Éireann to facilitate delivery on its housing targets (by preventing onward delays), and it commits to making the necessary investment in the country's electricity grid to align with the goals of a green and knowledge-based economy. These interventions will provide increased certainty for industries making investments. These actions will also relieve some of the constraints which have been impeding the delivery of housing. A key challenge which remains is that all of these actions are sourcing labour from the same pool. Because of its economic and social impact, Government should seek, to a greater extent, to prioritise infrastructure expenditures that increase the supply of new housing units.

Delivering on these commitments is critical to Ireland's competitiveness and sustainable growth. The slow pace of Ireland's planning process continues to hamper the delivery of infrastructure, impacting timelines and adding costs. The Planning and Development Act 2024 was signed into law in October 2024.[92] In March 2025, the Department of Housing, Local Government and Heritage (DHLGH) published the *Implementation Plan for the Planning and Development Act 2024*.[93] At present, the Act is scheduled to be commenced on a phased basis and therefore, these provisions will only come into effect over time. The degree to which the Act enhances the planning process in Ireland, however, remains to be seen.

One area of planning which has been significantly delaying key infrastructure delivery – and which the Act may positively influence – is the process for Judicial Reviews. At present, this process mitigates against the acceleration in the delivery of green infrastructure. Judicial reviews particularly impacted on delivery in the last

[89] https://cdn.npf.ie/wp-content/uploads/Final-Draft-Revised-National-Planning-Framework.pdf
[90] Deepening Compact Growth in Ireland | The National Economic and Social Council - Ireland
[91] www.gov.ie/pdf/?file=https://assets.gov.ie/318303/2cc6ac77-8487-45dd-9ffe-c08df9f54269.pdf#page=null
[92] Planning and Development Act 2024 – No. 34 of 2024 – Houses of the Oireachtas
[93] gov.ie - Implementation Plan for the Planning and Development Act 2024

year – with 18 Judicial Reviews of green energy infrastructure in 2024 (compared to five in 2023)[94]. The new Act will ensure that only those with a relevant interest in a project may seek a Judicial Review. As the pace of green energy infrastructure planning and delivery improves, it is important that the State has clear sight of upcoming installations and is confident on their delivery. In this context, it should be noted that Ireland continues to fall behind profile towards its own 2030 targets on wind energy delivery[95].

4.1.3 Project delivery and utilities constraints

Whilst the Council has drawn attention to infrastructural bottlenecks capacity constraints on many occasions over recent years, the pace at which we are resolving these issues remains insufficient and it is unclear to the Council as to whether policymakers are adequately prioritising 'enabling' works (e.g., water, waste-water and energy) over other infrastructure as and when is required, with the delivery of the former ultimately unlocking the potential delivery of the latter.

Water and waste-water

Despite recent investments (€1.3 billion in 2024[96]), Ireland's water and waste-water systems remain a major constraint on the delivery of housing and industrial facilities. Urban areas have seen plans for housing development put on hold due to a lack of capacity in the water and waste-water network[97]. The recent halting of construction for a 126-house development in Cork illustrates the impact of inadequate water infrastructure[98]. Although the stock of capital in Ireland's water sector has increased and now aligns with the average for a high-income European country, there are still clear signs that the system is under pressure.

In October 2024, Government announced approval in principle for a major project which will involve the extraction of drinking water from the River Shannon at Parteen Basin and a pipe connection to Peamount in Dublin, with the intended capacity to ensure secure sustainable water supplies for up to 50% of Ireland's population. The preliminary cost of the project will be between €4.6bn and €6bn, with construction estimated to take up to five years[99]. To effectively delivery on this, there is a need for the wider regulatory and planning environment to ensure there are no constraints on Uisce Éireann investments. Uisce Éireann has pointed to this in recent communications, highlighting the impact that slow licensing takes on its ability to fulfil its mandate[100]. Uisce Éireann has set out plans for €10.1 billion in investment in the Irish water system from 2025 to 2029[101] and there is a clear need to implement this planned investment in order to improve water. The Chair of Uisce Éireann has called out significant pressures in the Dublin area – characterised as being 'at the limit of sustainability' – and has emphasised the need to quickly progress the planned pipeline connection from the River Shannon[102]. Other senior officials have been clear that our water services infrastructure continues to struggle in keeping pace with population, housing and commercial growth and furthermore, that this will have serious implications for Ireland's competitiveness[103].

[94] 'The industry is on ice': Why Ireland risks losing energy investors just as demand for power soars | Business Post
[95] Only one new wind farm approved by An Bord Pleanála in Q3 2024
[96] Uisce Éireann: Statements – Dáil Éireann (34th Dáil) – Thursday, 10 Apr 2025 – Houses of the Oireachtas
[97] https://lisney.com/housing-infrastructural-deficits-in-ireland/
[98] Dead in the water: Plan for 126 homes in Cork town halted by over-capacity wastewater plant
[99] Draft-First-Revision-to-the-National-Planning-Framework-July-2024.pdf
[100] https://www.irishtimes.com/ireland/housing-planning/2025/05/22/uisce-eireann-warns-of-critical-need-for-regulatory-reforms-to-enable-housing-targets/
[101] Uisce Éireann Strategic Funding Plan 2025 - 2029
[102] Water system 'in a desperate state', says Uisce Éireann chair – The Irish Times
[103] 2025-05-28_opening-statement-niall-gleeson-chief-executive-officer-uisce-eireann_en.pdf

Energy delivery and energy security

Slow delivery on energy goals, and on investment to enhance the electricity grid (transmission and distribution) also presents a concern to Ireland's competitiveness, across both residential and enterprise sectors. There is considerable demand for an expanded electricity supply in Ireland with EirGrid forecasting that electricity demand will increase by 43% over the next 10 years. A large share of this is expected to arise from the development of data centres. In 2021, the Commission for Regulation of Utilities (CRU) issued a decision which meant that new data centres would need to be assessed on a case-by-case basis, while in 2022 EirGrid issued a decision that no new data centres – beyond those already approved – would be approved in the Dublin area due to capacity issues. The Council notes that the 2025 Programme for Government '*recognises the central role data centres play in contributing to economic growth and the enterprise economy*'. The Commission for Regulation of Utilities has also published a Proposed Decision Paper on Large Energy Users connection policy which, if finalised, would support gird connections [104].

In order to meet this additional demand while also achieving its climate-related goals, Ireland will need to continue to deliver additional green energy at pace, while also enhancing energy transmission and distribution. Absent sufficient investment in the grid, Ireland will be unable to capitalise on increased generation capacity and thereby support its competitiveness through the effective delivery of reliant infrastructure across housing and enterprise. Energy infrastructure, energy security and availability for renewable electricity have become key competitiveness factors for strategic sectors including semi-conductors and advanced manufacturing. Steps to enhance our electricity supply and delivery on investments in Ireland's grid and ensure that future large energy users can invest in Ireland confidently will in turn enhance our competitiveness. In 2023, Ireland had the highest figure to date in relation to renewable energy as the primary energy use at 14.1%[105]. The recent connection of the Greenlink Interconnector, a 500 MW high-voltage direct current (HVDC) submarine power cable between County Wexford and Wales is welcome.[106] It carries sufficient power to run 380,000 homes and aims to enhance energy security, allowing surplus energy to be traded between Britain and Ireland.[107] Construction on the Celtic Interconnector, between Ireland and France, is now underway, and is expected to be completed in 2027. This 700 MW HVDC submarine power cable will have the capacity to supply electricity to 450,000 homes[108].

Both projects will help Ireland better manage growing wind energy output and increasing wholesale market competition through electricity imports from other jurisdictions. The variability associated with wind energy production has resulted in wind energy producers being instructed, at times, to produce less power than they would otherwise as the system is not capable of handling it – this figure reached 10% of generated wind energy in 2024[109]. Costs associated with this curtailment of renewable energy, in part due to inadequate electricity grid infrastructure, serve to increase consumers costs. This is highlighted through increased connection charges, which amount to €567.21 million in the SEM for tariff year 2024-25, and are ultimately paid for by final electricity customers.[110] In this regard, the further delay to the development of the North-South Interconnector is a cause for considerable concern. The recent decision to develop a Liquified Natural Gas (LNG) strategic gas emergency reserve is a positive step towards enhanced energy security for Ireland. While this should only be used in

[104] CRU202504 LEU connection policy proposed decision.pdf
[105] energy-in-ireland-2024.pdf
[106] Greenlink Interconnector | energy infrastructure | Ireland and Wales
[107] https://www.rte.ie/news/business/2025/0317/1502500-interconnector-wexford-wales/
[108] https://www.eirgrid.ie/celticinterconnector
[109] Wind_DD_Historical.pdf
[110] SEM-24-064_Imperfections Charges Decision Paper.pdf

emergency scenarios, the turbulence of energy – particularly gas – supply over the last four years demonstrates the necessity of this infrastructure.

Another route to enhanced energy security – alongside decarbonisation – for enterprises is through investment in private wires. Private wires refer to privately owned electricity infrastructure that can connect electricity generation directly to demand sites, bypassing the national grid. The current legal position in Ireland is that only the ESB can own an electricity distribution or transmission system, and as such the supply of electricity from generation site to demand user takes place on the State-owned grid, with a small number of exceptions.[111] The Climate Action Plan 2024 includes a commitment to develop a Private Wires Policy Framework by the end of 2024. However, this framework has not been published as of yet, but there is a commitment to publishing it in the 2025 Programme for Government[112]. Progress in this space would be help contribute to easing energy demands on the grid while facilitating increased decarbonisation opportunities, in particular for energy-intensive industrial developments.

Transport-Oriented Development

Infrastructure deficits in transport have been highlighted in previous NCPC reports. While public investment in transport has been increasing significantly over the course of the current National Development Plan, transport specific deficits have been shown to be quite acute, with Ireland's net capital transport stock 41% below average levels of high-income European countries[113]. While new housing development is driver of demand for local transport services, transport infrastructure is also an essential enabler of housing infrastructure. A lack of transport infrastructure in areas with acute housing demand can have a tangible impact on the ability to deliver new supply. Transport Orientated Development (TOD) is a form of urban development that seeks to maximise the provision of housing, employment, public services, and leisure space near frequent, high quality transport services.

Recent joint work by the Departments of Housing, Local Government, and Heritage; and Transport has included a review of lands in the administrative areas of the four Dublin local authorities that are located close to existing or proposed high-capacity public transport nodes. The Working Group identified multiple locations that are at an early stage in the planning process and/or where future development will be dependent on the delivery of a major public transport project. Furthermore, the Department of Transport has informed the Council that further opportunities have been identified in a series of further – as yet to be published – for other Irish cities.

4.1.4 Capacity constraints

Capacity constraints continue to limit the output of the Irish construction sector, and its ability to meet demand. The impact of capacity constraints can also be clearly seen in a comparison of the planned NDP capital envelope against actual public expenditure, with capital expenditure in 2023 actually coming in below that which was planned in the National Development Plan (2021) – at 4% of GNI* compared to 5.2% as planned. Resolving construction capacity constraints is the primary path to addressing Ireland's infrastructural deficits. The most direct route to easing this constraint is through significantly increasing the supply of labour flowing into the construction sector.

The number of people employed in the Irish construction labour market increased by 14,700 (9.1%) in 2024, with a total of 176,000 people currently employed in construction. This significant rate of increase follows a

[111] https://assets.gov.ie/297829/cca61c23-24fb-4af3-8117-408fed5a5772.pdf
[112] programme-for-government-securing-irelands-future.pdf
[113]Conroy & Timoney, 2024

decline in the size of the construction labour market in 2023. The degree to which this increase can be maintained is unclear, particularly with the wider labour market at full employment. Most of this increase comes from a mix of reallocation of labour from other sectors and new domestic (and EEA) entrants to the sectors, rather than from economic migration from non-EEA countries. The construction sector continues to represent only a small portion of the employment permits issued annually, with only 1,523 construction sector employment permits (out of a total of 39,390 permits) issued in 2024[114]. Given the substantial population growth of the country, IFAC have recently estimated that Ireland requires an additional 80,000 construction workers if it is to address infrastructural deficits. A lower number would be needed if productivity improvements can be achieved[115]. This equates to approximately a 50% uplift in the number of workers currently in this sector. New CSO data provides a breakdown of construction employment by broad activity area – those employed in the construction of new housing and/or the renovation of housing, and those construction workers not employed in that activity. Of the 176,000 employed in the construction sector, 104,100 mainly work on new/renovating housing, while 71,900 construction workers are mainly employed in other construction activity[116]. The potential over-supply of commercial property has previously been called out by the Council, with a Recommendation made in *Challenge 2024* (Recommendation 1.2) urging '*careful consideration be given to vacancy rates in the commercial property sector, the labour input required to complete these developments, and the excess demand for residential property*'. As of Q4 2024, GeoDirectory reports a commercial vacancy rate of 14.5% - the highest level recorded by GeoDirectory to date[117]. Investment in dwellings represented 49% of gross fixed physical capital formation in 2023.

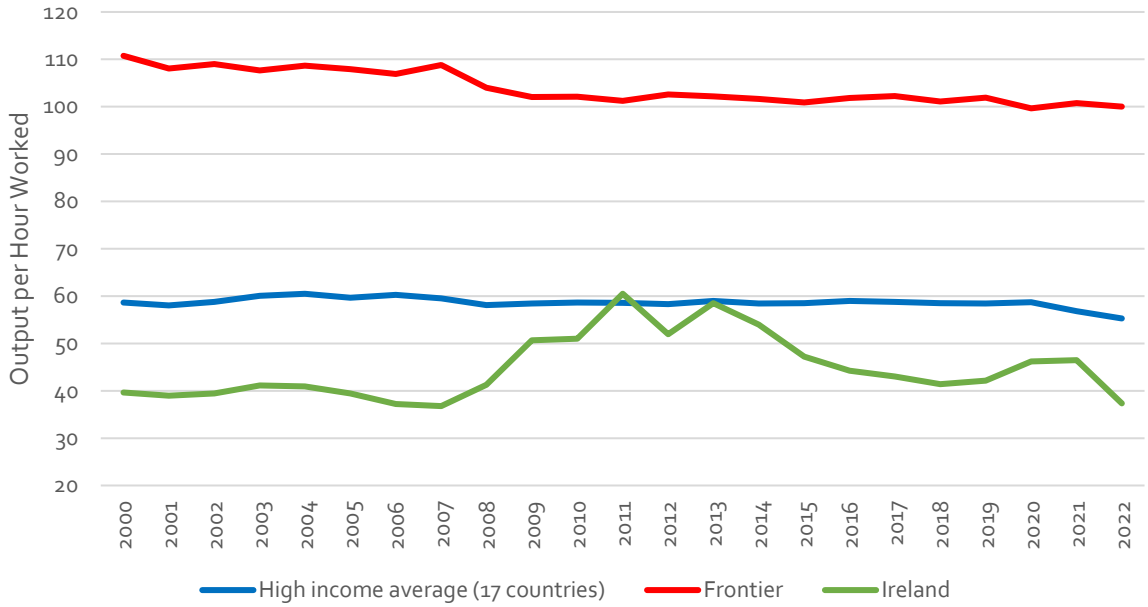
As Ireland continues to balance multiple priorities – housing delivery, alongside energy, water and transport infrastructure – a strong supply of labour across all streams will be required. Critically, however, unless there is a significant upshift in the capacity of the construction sector, Ireland will continue to under-deliver on the Government's key priorities. Increased utilisation of technology is one of the clearest paths to increasing capacity. At the time of writing, D/FHERIS is currently overseeing an assessment of the totality of construction workforce demands across Government priority areas. This is due to be available from July and will inform policy and funding prioritisation decisions.

4.1.5 Construction Sector Productivity

In 2022, Irish construction sector productivity remained below that of 2008 levels. IFAC analysis of Eurostat construction productivity data (Gross Value Added per hour worked) shows that Ireland lags both the frontier and other high-income countries (see Figure 4.3). In the absence of a significant increase in the availability of workers in the Irish construction sector, the only route to increasing the output of the sector, is to boost productivity levels. This is an area where progress can be made, and one which can serve to effectively relieve capacity constraints. The recent *Competitiveness Bulletin* 25-1 on Developments in Ireland's National Productivity Statistics[118] has also shown that the domestic Irish construction sector tends to lag other advanced European countries – though productivity is in excess of the EU-27 average[119].

[114] Employment Permit Statistics 2024 - DETE
[115] Irelands-Infrastructure-Demands.pdf
[116] Construction Employment Home Building Housing Hub - Central Statistics Office
[117] GeoDirectory - Your address and location data specialists for Ireland
[118] Bulletin 25-1 Developments in Ireland's National Productivity Statistics - Competitiveness April 2025
[119] https://www.competitiveness.ie/media/ovcemzfw/bulletin-25-1-developments-in-irelands-national-productivity-statistics.pdf

Figure 4.3 Productivity in the Irish construction sector vs other economies – Output per Hour Worked



Source: IFAC analysis of Eurostat data on Ireland and 17 high income countries[120]

4.2 Actions Crucial to Addressing Infrastructural Deficits

Addressing capacity constraints is the clear challenge for improving the delivery of infrastructure and to reduce its drag on Ireland's competitiveness. The Council suggests a number of actions aimed at directly and indirectly resolving this constraint.

4.2.1 Strategic prioritisation

The Irish labour market, including the Irish construction labour market, are operating at capacity, with demand substantially exceeding available supply. Alongside this, the Government has set out two ambitious goals (among others): (i) that of increasing the supply of new housing and new infrastructure; and (ii) that of increasing the energy efficiency of the existing building stock through retrofit and energy upgrades. While there is strong merit in both these goals, it should be recognised that on a whole-of-system level they are in direct competition with one another.

The Government's support for retrofit and energy upgrades (across both residential and commercial sectors) gives rise to further demand on an already limited pool of construction labour. Continued expansion of these supports impacts future investment decisions by employers in the construction sector. The balance of investment between dwellings, improvements and other building and construction points to a continued need to emphasise new infrastructure (in housing, energy and water) over retrofit and energy upgrades (at least over the medium-term)[121].

[120] https://www.fiscalcouncil.ie/wp-content/uploads/2024/10/Data-Pack-Irelands-infrastructure-needs.xlsx
[121] The use of the DFHERIS research will inform strategic prioritisation across different and, at times competing, agendas.

Recommendation 4.1: The Council recommends that:

(a) Drawing on available data and analyses, Government should provide clear guidance on the prioritisation of infrastructure and should ensure this prioritisation is reflected in consistent policy signals, including grant schemes.

(b) That future projections for population growth are updated and used systematically to inform housing targets. Furthermore, these projections should be used to develop regional employment targets, which in turn should be used to inform housing targets (and for infrastructure more generally).[122]

Responsibility: Department of Housing, Local Government and Heritage; Central Statistics Office; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Enterprise, Tourism and Employment; Department of Climate, Energy and Environment

There are approximately 900 EPA licences in operation in Ireland which regulate large installations in sectors such as waste, pharmaceuticals, chemicals, intensive agriculture (poultry and pigs), energy, food and drink production and cement production. Installations carrying out the above activities are required to have an EPA licence (Industrial Emissions, Integrated Pollution Control or Waste licence) in place before they operate. In addition, before changes that affect emissions to an existing site are made, the operator is required to apply to amend (review) an existing EPA licence before such changes are made.

While a strong licensing procedure are critical to ensure appropriate development, decisions on such licenses should also be made in a timely manner. Delays in relation to licensing contributes to uncertainty in relation to investment in infrastructure. Uiscé Éireann, for example, has noted issues arising from delayed licensing. Improving performance in this area will allow for more efficient infrastructure delivery more broadly by facilitating delivery of infrastructure contingent on water supply and thereby enhance Ireland's competitiveness.

Recommendation 4.2: The Council recommends that Government should:

(a) consider the introduction of mandatory timelines in relation to licensing, including for environmental licenses issued by the Environmental Protection Agency, in order to expedite decision-making and delivery of infrastructure.

(b) consider steps to provide for parallel decision making, alongside greater consultation between bodies, to enhance delivery of infrastructure across housing, energy and water.

Responsibility: Department of Climate, Energy and Environment

4.2.2 Construction Sector Productivity

Increasing the productivity of the construction sector offers a path to enhancing its output and relieving capacity constraints in the sector. There is a clear case to be made for a significant improvement in the construction sector's productivity – a point which needs to feature more strongly in the policy discourse. As set out above, the productivity of the Irish construction sector declined post-2008 and has not recovered nor has it

[122] Specifically, the demand for housing in a given locale will reflect locational decisions (as households – whether indigenous or foreign-born – relocate in search of employment opportunities).

kept pace with productivity levels in high performing countries. This has contributed to a significant gap in that sector's ability to deliver key infrastructural output when compared to the construction sectors in other high-income countries. Productivity in Ireland's construction sector is only 50% that of Norway's[123]. Improving productivity would also help reduce costs of delivery –addressing what has been a drag on Irish competitiveness. It is not only housing which would benefit from higher productivity, other areas of infrastructure delivery with ambitious output targets would also benefit.

Productivity challenges for Irish construction firms include: the fragmented nature of the construction sector with subcontractors playing a significant role, under investment in innovation and technology including off-site production, and limited upskilling. The planning system is also identified as a barrier to improving productivity due to it acting as an impediment on firms' ability to forecast the timing of its labour needs[124]. More recent research identifies the implementation of lean methodologies in the Irish construction sector as a means of improving productivity[125] It is important to have a greater understanding of productivity challenges in particular as they relate to residential construction. A detailed study, considering the fragmented nature of the sector, would be of benefit.

A recent report from the National Economic and Social Council (NESC) sets out the current position on Modern Methods of Construction (MMC) in Ireland, and the impact that greater uptake of such methods might have for construction sector output[126]. This builds on two 2024 reports: by the Expert Group on Future Skills Needs, *Skills for Modern Methods of Construction: An Assessment of the Current and Future Skills Requirements for the Transition to Modern Methods of Construction*[127], and by DFHERIS which assessed the productivity dividend realisable through greater MMC adoption, *Update to the Report on the Analysis of Skills for Residential Construction & - Retrofitting 2023-2030*[128]. It is expected that DFHERIS will shortly bring a responding action plan to Cabinet, with implementation to begin thereafter.

The Irish public sector has played a leading role in driving demand for utilisation of modern methods of construction, including the development of a demonstrator park and directly procuring for housing delivered through modern methods of construction. NESC outline three developmental opportunities for MMC in Irish housing: further adoption of MMC in the traditional construction sector, increased inward investment in MMC and supporting entrepreneurial growth for domestic and export markets. An action from the NESC paper relates to the targets and funding for new public housing using MMC under an expanded Social Housing Accelerated Delivery Programme. The Council believes that a strong role for MMC in public housing delivery is critical in order to continue to stimulate demand for this delivery mechanism and grow the sector.

Recommendation 4.3: To promote further use of Modern Methods of Construction (MMC), the Council recommends that there should be:

(a) an urgent review undertaken of available data on productivity levels in the Irish construction sector, with a focus on patterns of residential construction (with reference to international comparators), and including the identification of drivers for productivity improvements, while continuing to prioritise and embed MMC.

[123] Irelands-Infrastructure-Demands.pdf
[124] Economic analysis of productivity in the Irish Construction sector
[125] How Can the Irish Construction Industry Become Less Fragmented and More Productive? - ProQuest
[126] 166_modern_methods_of_construction.pdf
[127] https://www.egfsn.ie/media/bjqdgjqo/mmc-report-final.pdf
[128] https://assets.gov.ie/static/documents/an-update-to-the-report-on-the-analysis-of-skills-for-residential-construction-and-ret.pdf

Responsibility: Central Statistics; Department of Housing, Local Government and Heritage; Department of Enterprise, Tourism and Employment

(b) ensure a coordinated approach and shared learnings across all public housing delivery bodies in the deployment of MMC in public housing delivery.

(c) regular reporting and monitoring undertaken by The Housing Agency to report on the profile of Local Authority housing delivered through MMC (as part of the development of new data collection protocols).

Responsibility: Department of Housing, Local Government and Heritage

4.2.3 Enhance electricity supply

A reliable, clean and affordable energy supply is a critical component of a country's competitiveness. Ireland's bid to become a leader in terms of the digital economy and artificial intelligence will necessitate improvements in energy security. A clear way to improve investment in energy infrastructure is through the advancement of a Private Wires Policy Framework. A policy on Private Wires will help to unlock private sector resources to build new electricity infrastructure (by expanding the right of private undertakings to connect supply directly with demand). Allowing this investment will in turn accelerate further investment in new electricity infrastructure to include renewable generation and storage, which will ultimately benefit the whole electricity system.

This will provide more certainty for investors in future strategic sites and will also help facilitate investment in data centres in a more sustainable manner. The prioritisation of the Private Wires Policy Framework alongside the publication of the final CRU decision in relation to large energy users presents an opportunity for Ireland to signal that it will continue to be a destination for investment in high-productivity and digital sectors.

Recommendation 4.4: The Council recommends publishing the final CRU decision in relation to Large Energy Users; and a Private Wires Policy Framework, in order to provide greater certainty on energy-intensive and digital focused investment in Ireland.

Responsibility: Department of Climate, Energy and Environment

Chapter 5: Preparing the Workforce of the Future

Key messages:

- In an increasingly competitive global and technology-driven economy, education and skills developments are particularly crucial drivers of competitiveness and productivity. By fostering a stronger culture of continuous learning, Ireland can maintain a competitive advantage, further enhance productivity and economic growth, as well as build a thriving workforce of the future.

- Education & skills is an area in which Ireland has performed well over the last decade. However, in the context of increasing advancements in technology and changing labour force demands, Ireland must ensure access to high-quality lifelong learning and upskilling/reskilling which are essential to growth.

- The recently published *Retrospective Review* showed that the Council has made twelve recommendations – or 15% of the total – between 2020 and 2023 in relation to Education and Skills covering variety of topics. Action has been taken in relation to most of the recommendations (eight recommendations in total), while four recommendations are still considered 'in progress'. Those recommendations 'in progress' relate to skills for decarbonisation, apprenticeships and the National Training Fund.

- This year, the Council explores employment and participation, higher and further education including lifelong learning and apprenticeships, as well as focusing on skills needs for advanced technology and challenges in the workforce that could potentially arise in the future.

5.1 Current Situation in Ireland

Education and skills is an area in which Ireland has performed well over the last decade, however, we must ensure access to high quality lifelong learning and upskilling/reskilling which are essential to growth. Education and skills developments are important drivers of competitiveness and productivity in an increasingly competitive global and technology-driven economy. By embedding a culture of continuous learning, Ireland can maintain its competitive edge, drive innovation, enhance economic growth, as well as build a thriving workforce of the future. The recently published *Retrospective Review* by the Council highlights this priority, with 15% of its 79 recommendations from 2020 to 2023 addressed towards education and skills across a broad range of topics. This year, the Council will consider topics such as employment trends, workforce participation and developments of higher and further education. This Chapter also will assess apprenticeships and lifelong learning, highlighting the importance of enhancing both to support future workforce. This section concludes by discussing skills required for advanced technologies which are becoming more important not only in Ireland, but also globally.

5.1.1 Employment and Participation

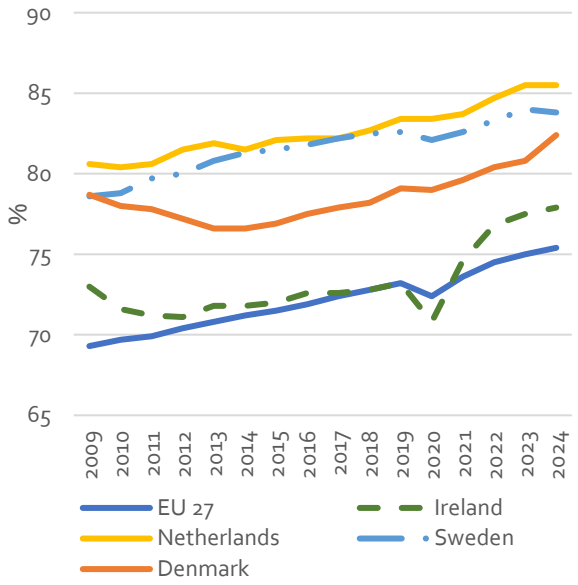
It is estimated that the number of people in employment stood at 2,794,100 in Q1 2025, up by 3.3% (+89,900 workers) compared with a year earlier[129]. The largest increase in employment was in Education, which increased by 21,500 people (+9.3%) while the largest decrease in employment was in Wholesale and Retail Trade sector which was down by 8,200 (-2.5%). The highest employment rate was in the 35-44 years age group (86.1%) while the largest annual increase in employment rate was observed in the 35-44 years age group (up by 2.2 percentage points) and the 55-59-year-old age group (up by 2.1 percentage points to 76.7%). This data states that the labour market continues to expand while highlighting that certain sectors and age groups may face challenges in relation to employment.

In terms of the labour force participation rate, Figure 5.1.1a below shows change in selected EU countries, including Ireland, between 2009 and 2024. Ireland has remained close to the EU average since 2010; however, the participation rate has increased significantly from 70.8% in 2020. In 2024, the EU-27 participation rate was 75.4%, with Ireland slightly above this figure at 77.9%. In 2009, the Netherlands (80.6%), Denmark (78.7%) and Sweden (78.6%) were the top performing countries while Ireland was in 10th position with the labour force participation rate of 73%. Fifteen years later, the Netherlands (85.5%), Sweden (83.8%) and Denmark (82.4%) all have higher participation rates and remain the top performing countries while Ireland's (77.9%) ranking has fallen to 13th among the EU member-states. This indicates that whilst Ireland has a strong labour market, there are still opportunities for improvement in participation rates.

Figure 5.1.1b below also examines Ireland's participation rate using standard International Labour Organisation (ILO) criteria, showing a strong link between education and workforce participation. The figure shows that the third level (both honours and non-honours degree) and the post-secondary education had the highest participation rates in the last five years. While higher secondary education also shows significant levels of participation rate (above 65%), people with lower secondary and primary (or below) have lower than 50% participation rate in the workforce. This demonstrates the value for people to seek higher and further education to ensure that they are skilled and able to participate in the labour market.

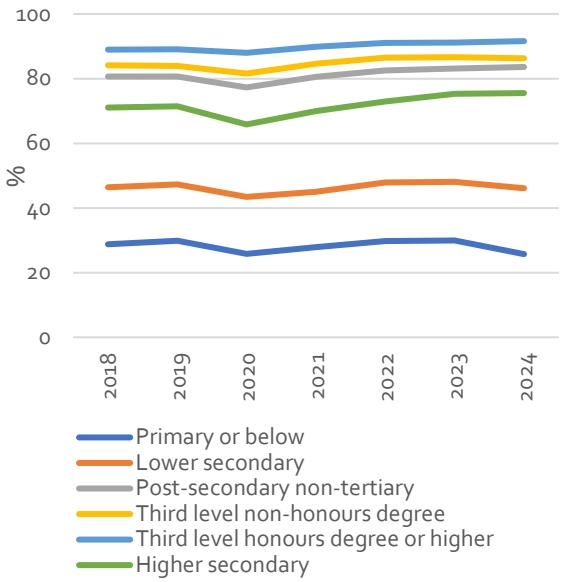
[129] Labour Force Survey Quarter 1 2025 - Central Statistics Office

Figure 5.1.1a Labour Force Participation Rate, selected EU countries, 2009-2024



Source: Eurostat

Figure 5.1.1b International Labour Organisation (ILO) Participation Rate by level of education, 2018 – 2024, Ireland



Source: LFS, CSO

Interestingly, the female participation rate in Ireland has increased more significantly than the male one. The latest data demonstrates that the rate for females is still below that for males (by ten percentage points). When comparing this to data for 2019, it is clear that the gap has narrowed as the female rate has increased by 4.2 percentage points while male rate has increased only by 1.9 percentage points. This is important to consider in light of the latest OECD *Economic Surveys: Ireland 2025*[130] which points out that further improvements in women's labour participation could help ease labour shortages. The report also suggests that Ireland should increase childcare subsidies and access to childcare to improve the participation rates among women, which is in line with a previous recommendation by the Council. Cohorts that are underrepresented within the labour market, such as people with disabilities and from minority communities, might be potential sources of labour supply which could reduce labour market pressure.

Mobilising human capital is crucial for enhancing productivity and innovation. This may involve incorporating employees' insight, skills, and knowledge in decision-making at various levels. Collective bargaining and workers' voice are key tools for achieving this, as highlighted by both the OECD[131] and the EU Directive on Adequate Minimum Wages. The Department of Enterprise, Tourism and Employment (D/ETE) has established a technical group with the social partners to examine how the collective bargaining elements of the Directive can best be implemented in Ireland. One of the aspects which the technical group has considered is what capacity building is required in collective bargaining to fulfil the requirements of the Directive. As part of this work, the social partners have submitted their capacity building and training proposals for consideration.

The next sub-section looks more closely into higher and further education and whether people have adequate access to learning. It will also assess the current situation of apprenticeships and lifelong learning which are essential for workers to be able to thrive within the workforce and as a result, to improve Ireland's competitiveness and productivity positions.

[130] OECD Economic Surveys: Ireland 2025 | OECD
[131] Negotiating Our Way Up 2019 | OECD

5.1.2 Higher and Further Education

Recently published OECD report titled *Skills Strategy Ireland: Assessment and Recommendations*[132] notes the high participation of young people in higher education in Ireland. It points out that the share of young adults with a tertiary degree has increased considerably in recent decades and is now significantly above the OECD average with Ireland ranking 5th out of the 38 countries for which data is available (or 63% of 25-34-year-olds progressed to tertiary education in 2021, compared to the OECD average of 47%) Given this expansion, the report suggests that it will be important for Ireland to maintain the quality of learning in both further education and training (FET) as well as higher education. Countries are more productive and innovative when the workforce is equipped with strong skills, engage in lifelong learning (see Ireland's current position in a sub-section below), and apply their skills effectively at work and in society. With higher levels of skills, people are also better positioned to access good quality jobs in the labour market.

There remains a concern, however, that education institutions are not adapting rapidly enough to meet the evolving needs of industries. This is particularly relevant in the context of the aftermath of COVID-19. The Council proposes to publish a *Competitiveness Bulletin* on the implications of post-pandemic learning losses in upcoming weeks (Box 5.B below provides a summary).

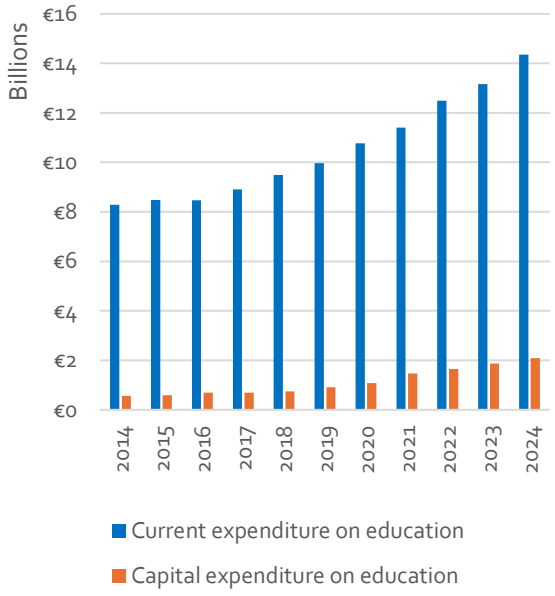
Box 5.B. Upcoming NCPC Bulletin on Competitiveness Implications of Post-Pandemic Learning Losses

- Against the backdrop of a long-term deterioration in maths proficiency, the latest PISA data suggests that the period of the COVID-19 pandemic is associated with an accelerated decline in maths performance, globally. However, a less severe decline is observed for Ireland compared to many peer economies.
- Declining maths proficiency undermines the future availability of critical skills, that are fundamental to long-term success in high-value industries – such as ICT, pharmaceuticals, and financial services – that contribute significantly to growth.
- Immediately following pandemic-era school closures, absenteeism rates in primary and post-primary education almost doubled. Absenteeism levels remain elevated but are gradually trending downward. It remains to be seen if such elevated levels of absenteeism will converge to pre-pandemic rates are an outlier or represent a more long-term trend.
- Learning losses associated with the pandemic – and the need to mitigate against the adverse impacts associated with these losses – are important public policy considerations. Targeted interventions, including monitoring absenteeism, expanding mental health support, and improving self-directed learning, could play a key role in mitigating against pandemic related learning losses and facilitating a more resilient pipeline of skills in critical areas.

Figure 5.1.2a below shows capital and current expenditure on education in Ireland between 2014 and 2024. It is clear from the below that both trends are positive with current expenditure increasing by 73% (or approx. €6 billion) while capital expenditure increased by 275% (or approx.€1.5 billion) between 2014 and 2024. Figure 5.1.2b illustrates the trends in total expenditure on education as a percentage of GDP in Ireland, UK and the EU (with GNI* for Ireland also shown). On the basis of GDP, this data demonstrates that Ireland has seen a decline while UK and EU figures were maintained around five to six percent in the last decade. In the case of GNI*, however, the data for Ireland shows a much higher rate with an increase from 27% to 34% from 2014 to 2023.

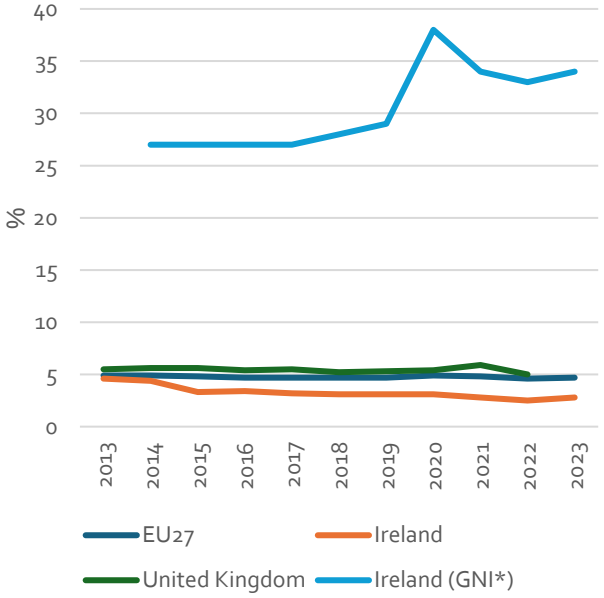
[132] OECD Skills Strategy Ireland 2023 | OECD

Figure 5.1.2a Capital and Current Expenditure on education, Ireland, 2014-2024



Source: Department of Public Expenditure, Infrastructure, Service Reform and Digitalisation – Databank and own calculations. Note: Both expenditures include 'education and skills' category with additional 'further & higher education' category from 2020 onwards. Current expenditure includes non-pay, pay and pension for 'education and skills' and also includes National Training Fund.

Figure 5.1.2b Public expenditure on education as a % of GDP and GNI*, Ireland, United Kingdom and European Union, 2013-2023



Source: Eurostat, World Bank, CSO, Department of Public Expenditure, Infrastructure, Service Reform and Digitalisation – Databank and own calculations.

Apprenticeships

The Minister for Further and Higher Education, Research, Innovation and Science announced a record number of more than 9,000 apprentice registrations in 2024[133].This is an increase from 8,712 new registrations in 2023 and close to reaching the set target of 10,000 new apprentices every year by 2025. In particular, there were more than 5,000 registrations in construction programmes and more than 800 in construction-related programmes. This progress is welcomed by the Council which recognises the need to expand the number of apprentices and continues to highlight the importance of apprenticeships for the current and future workforce.

Since the publication of the Action Plan for Apprenticeship in 2021[134] there has been a 9% increase in annual apprentice registrations and a 23% increase in the total population of apprentices (see Table 5.2 below). The responsible Department has confirmed that seventeen new apprenticeship programmes have been put in place under the current Action Plan to date, targeting key skills needs in the economy such as in civil engineering, quantity surveying, wind turbine maintenance, digital marketing and software development. The Government has committed to growing apprenticeship registrations further – to at least 12,500 per year by 2030 – and developing and launching a new 5-year Apprenticeship Action Plan for 2026-2030 (to set a strategic vision for the sector and expand the skills categories). This new Action Plan is set be launched in 2026. This demonstrates a welcome ambition to expand apprenticeships and generally elevate both the quality of the training and the

[133] gov.ie - Minister O'Donovan welcomes record number of apprenticeship registrations in 2024
[134] Action Plan for Apprenticeship, 2021 to 2025 April 2021.

profile of apprenticeship-led training. The Government must ensure that a shortage of skilled workers is not exacerbated by insufficient apprenticeship programmes.

Table 5.2 Annual increase in new registrations and overall apprentice population over the lifetime of the Action Plan, 2021-2024

Year	2021	2022	2023	2024	% Change
Annual apprenticeship registrations	8,607	6,717	8,712	9,352	***9%***
Total apprenticeship population	24,212	26,325	27,470	29,772	***23%***

Source: Department of Further and Higher Education, Research, Innovation and Science.

In addition, the D/FHERIS has overseen the introduction of the employer grant for consortia-led apprenticeship programmes as well as investing in a significant increase in craft apprentice numbers. Work is ongoing to promote and raise the profile of apprenticeship as a means of obtaining a valued qualification using the "earn while you learn" model. The Department has also worked to remove barriers to under-represented groups participating in apprenticeship through targeted grants. However, there has been a concern as to whether there is sufficient parity in funding between craft and consortia apprenticeships. While the former receive a State training allowance, consortia-employers continue to pay apprentices during off-the-job training and the employer incentive may not cover the actual costs to an employer.

In terms of non-progression – or 'drop-out' – rates in the first year, these currently stand at up to 10%. Apprentices with "left trade status" may choose to rejoin programmes and finish their apprenticeship, to transfer to another apprenticeship, or they may choose to "leave trade" after a period of pausing their apprenticeships. Consequently, the proportion of apprentices with a "left trade status" may change from time to time. This is important to consider where we want to enhance and maintain a strong position in terms of apprenticeship training to support domestic talent development.

Table 5.2 below demonstrates apprentices' preferences when registering for a programme by sector and year. Construction, Electrical and Engineering programmes were the top choices for people registering for apprenticeships while Hair and Motor sectors varied each year.

Table 5.2 Apprentice Registrations in Ireland, by selected sector and year

Sector	*2021*	*2022*	*2023*	*2024*	*2025F*
Construction	2,159	1,820	1,706	1,928	2,164
Electrical	3,141	3,123	3,338	3,549	3,131
Engineering	1,025	946	984	1,135	1,060
Hair	182	213	237	260	344
Motor	917	752	920	1,012	780

Source: National Apprenticeship Office

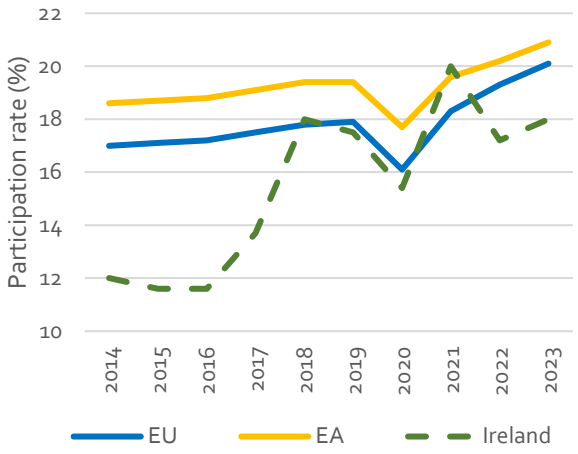
Lifelong learning

In terms of participation rate in education and training (within the last four weeks), Figure 5.1.3a below shows that while Ireland's rate has significantly increased since 2016, its current rate of 18% is still well below EU and EA averages of 20% and 21% respectively. The latest SOLAS report[135] shows that Ireland's lifelong learning participation rate was 16% in Q4 2023 which is an increase from 14% in Q4 2023. In total, there were 457,900 adults (of nearly 2.78 million) engaged in formal and non-formal learning activities, with females accounting for 57% (262,400 persons) of all lifelong learning participants. The number of lifelong learning participants increased across all learning types when compared to a year earlier. The SOLAS report also shows that the majority were aged less than 45 years (60% of total learners aged between 25 and 44 years) with the largest absolute increase for 35-44-year-olds (+25,000 learners), while the largest relative growth was for persons aged 55-64 years (+27%).

Using data from the Adult Education Survey in 2022 – where definition of lifelong learning is much broader[136] – Figure 5.1.3b shows that the participation rate for lifelong learning is much lower among males over 55 years old, with only 33% compared to over 50% for all other age cohorts. Both sources indicate that older males with low levels of education are particularly vulnerable to changes in labour market conditions.

Figure 5.2 below shows that Ireland has made the most progress in terms of unemployed adults with recent learning experience increasing from 7.1% in 2013 to 18.8% in 2023. This data suggests that Ireland now ranks 8th when compared to other EU countries and the average rate of 14.1% demonstrates significant progress made within the last decade in terms of adult education, when the rate was just 7.1%. Ireland should continue aiming to be among the best performing countries in terms of lifelong learning, and further engagement is needed to address these gaps between different cohorts of people. In the next section, the Council once again considers the importance of discussing a potential role for the National Training Fund surplus in facilitating this.

Figure. 5.1.3a Participation rate in education and training (last 4 weeks), 2014-2023



Source: Eurostat

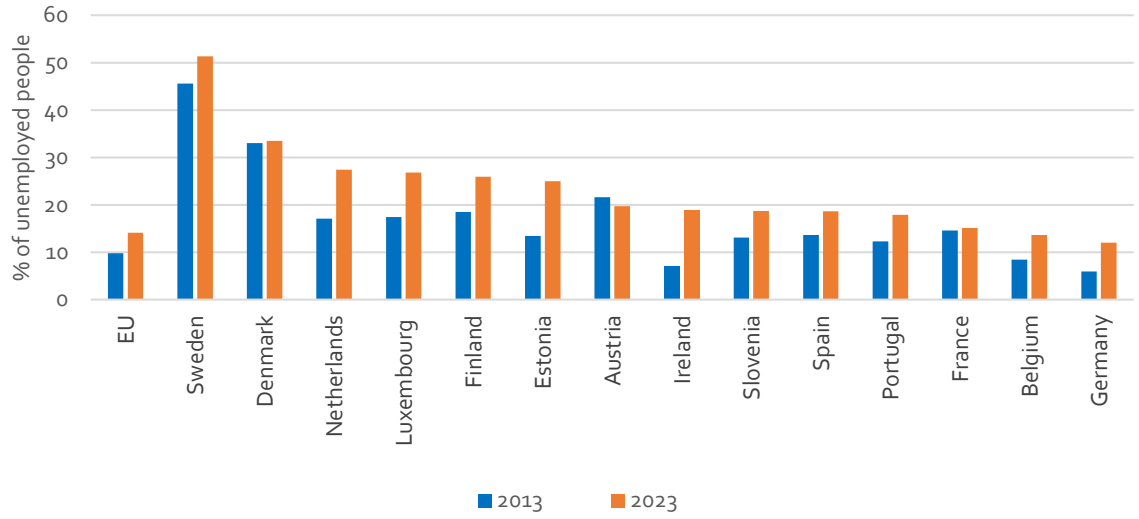
Figure 5.1.3b Lifelong learning participation rate (last 12 months) by gender and age, 2022

Source: Adult Education Survey, CSO

[135] Lifelong learning amongst adults in Ireland Q4 2024

[136] Lifelong learning encompasses all formal or non-formal educational activities undertaken. The different types of non-formal education are courses, workshops or seminars, guided on-the-job training and private lessons.

Figure 5.2 Unemployed adults with a recent learning experience, 2013 and 2023



Source: Eurostat

5.1.3 Skills for Advanced Technology

Ireland continues to be recognised as a world class location for talent, ranking 11th among 67 economies in the IMD World Talent Ranking 2024[137]. The country demonstrates particular strength in talent appeal and readiness, securing 2nd and 6th place, respectively. However, the investment and development ranking, which includes sub-categories such as total public expenditure on education, health infrastructure and pupil-teacher ratio (secondary school), remains a persistent concern, with an overall position ranging from 38th to 39th since 2020 with an increase to 35th position in 2024. In addition, the European Commission's report on *Ireland 2024 Digital Decade Country*[138] states that, while Ireland brings a very strong contribution to the EU's Digital Decade target, with 6.2% of the employed population being ICT specialists in 2023 (above the EU average of 4.8%), it demonstrates a limited dynamic, showing no substantial progression since the previous year. The Commission suggests that Ireland should expand apprenticeship programmes, reskilling and upskilling, to meet the growing demand for ICT specialists. Ireland's AI Advisory Council recently published a report titled *"Helping to Shape Ireland's AI Future"*[139]. This report outlines policy recommendations aimed at accelerating AI adoption in Ireland with *'AI and the Future of Skills and Work'* as one of the key areas to be addressed. This work is summarised in the Box 5.C below.

[137] 2024WTR-Country-profile-Ireland.pdf
[138] Ireland 2024 Digital Decade Country Report
[139] Ireland's AI Advisory Council Report to Government: "Helping to Shape Ireland's AI Future" - DETE

Box 5.C. AI and the Future of Skills and Work

- Ireland is well-positioned to attract a significant share of global AI investments, which could be crucial for future economic success. However, the exact impact of AI on job demand and income distribution in Ireland remains uncertain.
- Despite the nascent nature of AI adoption in Ireland, and low unemployment potentially masking early signs of AI-driven changes, the structure of work will inevitably transform. Some traditionally valuable skills may see reduced demand, while new job types will emerge, requiring adaptation from workers and employers.
- The AI Advisory Council has recommended that the Government establish a real-time, publicly accessible "AI Observatory". This platform would monitor various AI metrics, including labour market trends, capital flows, skill development, and public attitudes, providing critical insights for policymakers, educators, and workers.

Ireland is facing significant skills shortages which are often filled through international recruitment. A recent SOLAS survey[140] highlights the challenges businesses face in recruitment and retention, noting that high living costs and housing shortages continue to be significant barriers, despite the availability of financial incentives and relocation packages. Furthermore, to strengthen Ireland's position as a global digital hub, we must improve our investment in digital infrastructure and skills. With rapid advancements in the digital space, it is important to ensure both the widespread access to basic digital skills and the availability of highly-skilled ICT specialists. Without these actions, many individuals risk being left behind in an increasingly digital society.

Employment Permits

The D/ETE administers Ireland's employment permits system which plays a role in helping to address identified skills needs and labour shortages across the economy. The system is, by design, vacancy-led and driven by the changing needs of the workforce. Although this provides a valuable stream of skilled labour for the Irish economy, there is a risk if the future workforce becomes overly dependent on inward migration to fill vacancies in key skills, when there are skills shortages and key difficult-to-fill vacancies.

In addition, D/ETE is currently undertaking a review of the existing framework of minimum annual remuneration (MAR) thresholds applicable to employment permits. Previously, a roadmap for increases under the MAR was announced in December 2023 (with the first round of increases to MAR taking effect from January 2024). The next round of increases was due to take effect in January 2025, but it has been paused pending completion of a forthcoming review that will examine the impact of initial increases to ensure future adjustments are sustainable for both permit holders and employers.

The Employment Permits Act, 2024 introduced an indexation measure which requires an annual review of MAR thresholds, ensuring that these would change in line with increases in average weekly earnings. As a result, it is important to consider the role of employment permit system as these are necessary for non-EEA nationals to be able to work in Ireland (unless exempted). As already mentioned, businesses often rely on international recruitment to address skills shortages, but this approach has also become more challenging due to high demand for workers across multiple sectors and increasing demand for non-EEA workers across the EU. Ireland needs a balanced approach to secure long-term competitiveness and productivity.

[140] Difficult-to-fill-vacancies survey 2024

Table 5.3 Employment permits issued by selected sectors in 2023 and 2024

	2023	2024	% Change
Grand Total	***30,981***	***39,390***	***27.1%***
Q - Health & Social Work Activities	10,037	12,501	24.6%
J - Information & Communication Activities	5,009	6,788	35.5%
I - Accommodation & Food Services Activities	2,606	3,358	28.9%
S - Other Service Activities	1,511	1,772	17.3%
A - Agriculture, Forestry & Fishing	1,385	3,625	161.7%
F - Construction	1,349	1,523	12.9%
K - Financial & insurance Activities	2,373	2,318	-2.3%
H - Transport & Storage	907	1,282	41.4%
C - All Other Manufacturing	766	981	28.1%
M - All other Professional, Scientific & Technical	1,010	806	-20.2%

Source: Department of Enterprise, Tourism and Employment

Table 5.3 below shows the number of employment permits issued by sector in 2023 and 2024. In both years, the Health & Social Work, Information & Communication and Accommodation & Food Services sectors had the highest number of employment permits issued. Notably, the Agriculture sector saw a doubling of permits issues in 2024 (3,625) compared to 2023 (1,385).

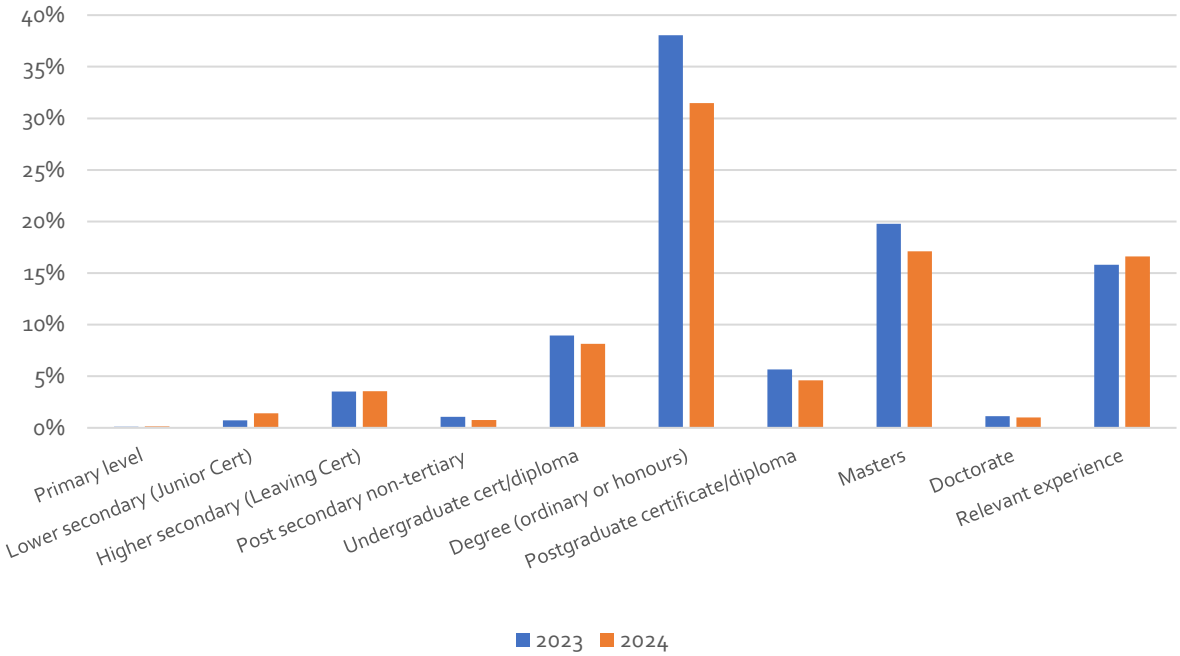
According to data from the D/ETE[141], the highest number of employment permits in 2024 were issued to workers from India (13,566), Brazil (4,553) and the Philippines (4,049). People from these three countries are most likely to work in the Health & Social Work Activities sector. Workers from India are also likely to work in the Information & Communication sector, while a high number of permits are issued to workers from Brazil for the Accommodation & Food Services and the Agriculture sectors.

Figure 5.1.4 below shows the qualification profile of persons who have received employment permits[142]. Workers with a degree (ordinary or honours) accounted for the highest percentage of permits issued, at 31.5% in 2024 (down from 38.1% in 2023). Around 17% of permit recipients in 2024 had a masters' degrees, down from just under 20% in 2023. This data highlights the critical role of skilled professionals in Ireland. The increasing number of permits issued to graduates and experienced workers suggests that Ireland continues to attract and rely on highly qualified non-EEA nationals to fill key roles across various sectors.

[141] Employment Permit Statistics 2024 - DETE

[142] For close to one in six workers, the permit was provided on foot of 'relevant experience' (with no qualification recorded).

Figure 5.1.4 Employment permits issued in Ireland by qualification, in 2023 and 2024



Source: DETE. Note: 'Relevant Experience' is when the foreign national has no evidence of any qualifications (this usually occurs when there is no requirement in legislation or regulations for a particular degree).

A recently published IGEES working paper, *Recent trends in Migration Flows Impacting the Irish Labour Market*'[143] projects employment permit demand for the period 2025-2030 utilising historic employment permit data. These outline low, medium and high growth scenarios, with the annual growth in new employment permits ranging from an average of 5% under the low growth scenario and 12% under the high growth scenario. Based on these projections, the estimated number of new permits over five years ranges from 201,000 to 338,000, depending on the scenario. While inward migration plays a crucial role in addressing labour and skills shortages, it may also present challenges if there were a change in migration patterns. As a result, the Government should aim for a balanced approach that supports domestic talent development while maintaining a responsive and efficient employment permit system to address immediate skills shortages which will ultimately enhance our long-term competitiveness and productivity.

Investment in training

Recently published Annual Business Survey of Economic Impact (ABSEI) 2023[144] suggests that investment in structured, formal training may have been falling over long-term. In terms of foreign firms, the total expenditure on training remained unchanged at €114 million for the years 2000 and 2023. This spending, however, has not kept pace with payroll growth. The latter has risen quite significantly over the same time period (from €6,282 million in 2000 to €24,545 million in 2023, and from €3,814 million to €11,530 million for Irish-owned firms). This would suggest that for foreign-owned firms, investment in training has fallen from 1.8% of payroll in 2000 to 0.5% in 2023. Similarly, for Irish-owned firms, the fall has been from 1.5% to 0.9% for the same period.

[143] Recent Trends in Migration Flows Impacting the Irish Labour Market 2025 - DETE
[144] Annual Business Survey of Economic Impact 2023 - DETE

5.2 Actions Crucial for a Thriving Future Workforce in Ireland

5.2.1 Access to affordable, high quality early learning and childcare

Access to affordable, high quality early learning and childcare facilitates participation, in particularly women's participation, in the workforce. Backed by increases in State investment in early learning and childcare in recent years – with €1.37 billion allocated in 2025[145]– a significant number of families are being supported with out-of-pocket expenses for early learning and childcare. Building on this progress, significant and ambitious commitments in relation to a further reduction in early learning and childcare fees for parents feature in the current Programme for Government (alongside the possible introduction of some degree of public delivery and improving pay for staff in the sector). It is suggested that Government is committed to develop an Action Plan in order to facilitate an affordable, high quality, accessible early education and care system with State-led facilities adding capacity.

Recommendation 5.1: The Council welcomes the Government's commitment to develop an Action Plan to improve childcare and recommends its implementation without a delay.

Responsibility: Department of Children, Disability and Equality

5.2.2 Lifelong Learning and the National Training Fund

Based on the analysis in the previous section, the Council is drawing attention once again to the need for reform of the National Training Fund (NTF). Ireland is still underperforming in terms of lifelong learning compared to other EU member states and the Government must consider this as a priority. The latest OECD survey also make a recommendation to increase the use of the National Training Fund to support lifelong learning and boost training and retraining[146]. Budget 2025 suggested that the Government will introduce a six-year multi-annual agreement totalling almost €1.5 billion on the sustainable use of the NTF surplus which includes measures to increase core funding to Higher Education, provide supports for enterprises and capital investment[147]. However, it is not clear to what extent the actions will address the upskilling challenges.

Recommendation 5.2: The Council recommends that the following steps are taken in relation to the National Training Fund (NTF) and the development of lifelong learning:

- **(a)** The NTF should be strategically targeted to increase lifelong learning participation among underrepresented groups, such as older male workers, and among workers in sectors of rapid change. This can be achieved through dedicated (and ringfenced) programmes and the inclusion of clear KPIs in existing initiatives.
- **(b)** Consideration should be given to setting an upper-limit on the surplus in the NTF that can accrue by year-end (in any given year).
- **(c)** In response to the OECD review of Ireland's skills ecosystem, that a new Action Plan on Lifelong Learning should be developed.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of Enterprise, Tourism and Employment

[145] Minister Roderic O'Gorman Speech - Budget 2025
[146] Full Report OECD Economic Surveys: Ireland 2025 | OECD
[147] gov.ie - Budget 2025: Expenditure Reports

5.2.3 Employment Permits and Employment Visas

The Council has become aware of some administrative challenges that can arise for workers and employers from the interdependence between visa and work permit systems (due to the interdependence of these systems). For instance, a prospective employee might receive a conditional job offer requiring a work permit. That individual would then apply to extend their immigration permission but could potentially encounter processing delays which means that no update is available from the immigration authorities. During this time, the applicant cannot provide the required documentation to the employer, resulting in job offers being withdrawn as employers cannot wait indefinitely or risk legal penalties for employing someone without valid documentation. This disconnection between the various departments involved places both the applicant at risk of deportation and the employer at risk of non-compliance with employment and immigration laws. A more coordinated, transparent process is urgently needed to mitigate risks to both employers and prospective employees.

The Programme for Government contains a commitment to increase investment to support the faster processing for visas and permits (as well as introducing expedited visa options for high-demand sectors to facilitate quicker entry for skilled professionals). Government has also agreed to merge the visa and employment permit system into a single application procedure which D/ETE is currently working closely with the Department of Justice to implement. The planned streamlined procedure will consist of a common platform to apply for a work and immigration permission, while both Departments will retain their policy and operational decision-making responsibility. This will potentially reduce the risk of job loss and administrative burden for employers.

Recommendation 5.3: The Council welcomes Government's commitment to improve employment permit and visa systems and recommends implementation of a single application system as soon as is practicable.

Responsibility: Department of Justice; Department of Enterprise, Tourism and Employment

Chapter 6: Productivity, Technology and Innovation

Key messages:

- Domestic firms are generally less productive than MNEs – a trend seen across many countries., digitalisation, advanced technology adoption, and cost competitiveness could assist in closing the productivity gap. To support policy formulation, the Council would welcome the publication of productivity data on a firm-ownership basis.
- Forthcoming DETE-ESRI research will shed light on AI adoption in the private sector. Less is known about adoption in the public sector. However, international experience suggests that there is scope to drive greater AI adoption across the public service, unlocking capacity and enhancing service efficiency. The delivery of outstanding actions outlined in the National AI Strategy Refresh should be prioritised, and there is scope for further action in identifying value added and adoption targets at the local level.
- The consistent application of GDPR across EU Member States would help maintain Ireland's reputation as a business-friendly jurisdiction, striking s a balance between robust data protection and a strong environment for investment and growth. The experience gained by the Data Protection Commission in addressing GDPR violations places Ireland in a strong position to contribute meaningfully to the broader data protection landscape.
- A persistent challenge within Ireland's innovation landscape is the significant investment gap between MNEs and SMEs in research, development and innovation (RD&I) with the current R&D Tax Credit appears relatively less accessible to SMEs. This could be addressed by a targeted incentive to encourage investment in innovation by small firms.
- In order to support a system-wide approach to new initiatives, the role of a national Chief Technology Officer (CTO) should be considered to champion and lead the development of a whole-of-Government approach.

6.1 Current Situation in Ireland

Developments in labour productivity are critical to Ireland's international competitiveness position, and to sustainable growth and improvements in living standards, which are at the centre of the Council's *Productivity and Competitiveness Framework.* For this reason, the Council actively reviews the CSO's *Productivity in Ireland* publication and welcomes the CSO's continued investment in productivity statistics.[148] After a hiatus, the publication of CSO data in April 2025 covering productivity developments in 2022 and 2023 provides invaluable insights into recent developments in Ireland's economy.[149] The Council has published a Competitiveness Bulletin examining recent developments in Ireland's national productivity statistics (informed by this latest statistical release). Box 6A provides a summary of this work.

In addition to productivity, this Chapter also examines research, development and innovation (RD&I). This includes an examination of AI use in the public service and the digitalisation of Government services more broadly (6.1.1). We also consider both the challenges and opportunities relating to data protection regulation and the enforcement actions taken by Ireland (6.1.2), strengthening Ireland's innovation ecosystem (6.1.3), and challenges relating to the alignment of Ireland's national RD&I strategies (6.1.4).

6.1.1 AI and Digital Government

AI and the public sector

The Council has previously examined the adoption of AI by enterprise, noting its potential to deliver significant productivity gains, particularly for early adopters.[150] As of 2024, Eurostat data show that 14.9 per cent of Irish firms report using AI technologies, slightly above the EU average of 13.5 per cent.[151] In line with Recommendation 5.2 of *Ireland's Competitiveness Challenge 2024*, the Council welcomes upcoming joint research by the ESRI and the Department of Enterprise, Tourism and Employment on AI adoption trends and barriers in Ireland. This work will inform future Council deliberations. At this early stage of AI adoption, metrics will relate to the extensive margin (share of enterprises adopting AI), and over time as adoption rates increase, it will be crucial to also consider the intensive margin (depth of use which enterprises).

[148] In *Ireland's Competitiveness Challenge 2023* the Council welcomed the publication of new productivity data by the CSO that provides a more detailed view of productivity in Ireland using firm level micro-data. This data highlights the heterogeneity of productivity between foreign and domestic owned firms on a within-sector basis, showcasing the value of firm-level microdata in analysing sectoral trends in productivity.
[149] See: Productivity in Ireland 2022-2023, 1 April 2025.
[150] See: Ireland's Competitiveness Challenge 2023; and Ireland's Competitiveness Challenge 2024.
[151] See: Digitalisation Dashboard, Eurostat.

Box 6A: Developments in Ireland's National Productivity Statistics

The latest data shows Irish labour productivity in 2023 had fallen for the first time in seven years (dropping marginally below the level for 2021). This was driven by developments in the foreign-dominated sector, which suffered a sharp decline, while productivity in the domestic-dominated sector remained flat. The productivity gap between small, domestic firms and large multinational corporations – and the significant contribution that the latter make to developments in Ireland's aggregate productivity statistics – has been examined in detail by the Council previously. As the Council has previously emphasised, it is important to take a long-term view when interpreting developments in productivity. In general, Ireland's national productivity statistics can be described using five central stylised facts:

- Ireland's productivity performance should, where practicable, be assessed in terms of GNI*, and over a medium to long-term time horizon, owing to the distortions inherent in GDP data.
- Positive contributions to labour productivity in Ireland are largely driven by the activities of firms in two sectors, namely 'Manufacturing' and 'Information and Communication'.
- These sectors, which are key determinants of overall trends in Ireland's labour productivity, are dominated by foreign-owned multinational companies. In effect aggregate productivity statistics mask underlying trends in the relatively less productive domestic-facing sectors.
- These highly productive, foreign-dominated sectors are also very capital intensive, and this is reflected in an overall labour share of GVA that is well below the average for EU-27.
- Given the difference between productivity in SMEs and MNEs, it is vital that where data are available, they are analysed separately to give greater clarity to what is driving Irish productivity.

The Council welcomes the CSO's continued investment in productivity statistics. In the CSO's previous statistical release,[1] productivity data presented on a firm-ownership basis. This approach provided new insight into the dynamics of foreign versus domestic firm productivity. While this level of analysis was not included in the latest statistical release, the Council looks forward to the publication of this information as part of the CSO's next *Productivity in Ireland* publication.

The potential opportunities afforded by AI – and other emergent technologies – are not limited to the private sector. AI integration in the public sector can also deliver enormous benefits. Indeed, there are examples of Governments worldwide already leveraging AI and automation to improve service efficiency and address labour shortages in key areas of public service delivery. AI technologies can be used, *inter alia*, to power chat-bots and virtual assistants in answering queries, automate repetitive administrative tasks, process data more efficiently, improve communications, assist with risk assessment, provide predictive analytics, and improve fraud detection. In this way, AI can potentially unlock capacity across the public service and enhance the delivery of key services in a more cost-effective way.

A survey from the European Commission[152] found that around half of public sector organisations across the EU have implemented AI initiatives, with 11% planning future adoption. Usage is most common for service delivery and internal operations, while adoption in policy decision-making remains limited. In the case of Ireland, recent evidence suggests that 67% of Government Departments reported having no Department-specific AI policy,

[152] See: European Commission: Joint Research Centre, Grimmelikhuijsen, S. and Tangi, L., What factors influence perceived artificial intelligence adoption by public managers, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2760/0179285, JRC138684. This survey included 576 public managers from seven countries, namely: Germany, Spain, France, the Netherlands, Austria, Poland and Sweden.

although half have initiated or planned staff training.[153] As adoption grows, the challenge ahead lies in moving from experimentation and *ad hoc* application to the structured, strategic, and accountable use of AI across the public service (albeit information on this change remains limited at present).

Ireland was comparatively late, however, in publishing a national AI strategy[154] and implementation is underway (this was published in 2021, whereas 18 individual EU Member States had published a strategy by 2020).Finally, the Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation published *Guidelines for the Responsible Use of AI in the Public Service* (May 2025). These guidelines are intended to support public service bodies in adopting AI technologies in a way that is ethical, transparent, and consistent with the public interest. The guidelines are aligned with the EU AI Act and aim to build an overarching culture of trust and responsibility in the deployment of AI across the public service. While welcome, these guidelines are a starting point.

Advancing Digital Government

The digitalisation of public services is a critical enabler of more advanced technologies, including AI, across the public sector. More broadly, the deployment of digital solutions can increase efficiency, unlock capacity, and improve the quality of frontline services for citizens. For the private sector, a digitally mature public service reduces administrative burdens, facilitates access to government supports, and improves regulatory predictability – benefits that are valuable to SMEs and multinational enterprises alike. A strong digital Government therefore enhances Ireland's attractiveness for investment by ensuring streamlined, transparent, and technology-driven engagement with public authorities. International benchmarks suggest that Ireland performs reasonably well in the digitalisation of government, particularly in service provision. According to the Digital Economy and Society Index (DESI), Ireland leads the EU in several key metrics, including the share of e-Government users (91.5 per cent vs 75 per cent EU average) and the availability of digital public services for both citizens (81.2 per cent vs 79.4 per cent) and businesses (100 per cent vs 85.4 per cent)[155].

Ireland's position is weaker overall when it comes to AI-specific readiness. In the Oxford Insights AI Readiness Index, Ireland ranks 18th but drops to 36th in the Government sub-pillar,[156] indicating institutional and capability gaps. Similarly, in the IMF's AI Preparedness Index,[157] Ireland ranks 23rd overall, and 20th on the Regulation and Ethics[158] sub-pillar. The latter is marginally better than the advanced economy average, but behind many small, advanced peers such as Finland, Luxembourg, New Zealand, Estonia, Denmark, and Switzerland. The IMD World Digital Competitiveness Ranking places Ireland 17th overall, but highlights persistent weaknesses in digital government, particularly in cybersecurity (58th) [159] and AI policy implementation[160] (39th) – significantly behind EU counterparts like Germany and Spain. These findings suggest a dual reality: Ireland is strong in digital service delivery but lags behind in terms of strategic and institutional readiness for AI adoption and in cyber-security. Effective cyber-security is a cornerstone of public sector digitalisation, ensuring data protection,

[153] Based on responses to Parliamentary Questions. See: Artificial Intelligence – Wednesday, 22 Jan 2025 – Parliamentary Questions (34th Dáil) – Houses of the Oireachtas.
[154] See: How countries are implementing the OECD Principles for Trustworthy AI, OECD 2023.
[155] Ireland performs more modestly in the UN e-Government Index (20th overall and 8th among EU Member States), and in the Network Readiness Index (19th) – here, cybersecurity (54th) and government promotion of emerging technologies (66th) are flagged as significant weaknesses.
[156] This sub-pillar refers to how "A government should have a strategic vision for how it develops and governs AI, supported by appropriate regulation and attention to ethical risks (governance and ethics). Moreover, it needs to have strong internal digital capacity, including the skills and practices that support its adaptability in the face of new technologies."
[157] Ireland ranks 23rd in the index overall, with a score of 0.69, marginally above the advanced economy average of 0.68 and the Euro Area average of 0.67.
[158] This refers to the presence of strong legal frameworks and enforcement mechanisms and captures perceptions of the legal frameworks adaptability to digital business models, as well as government effectiveness, and voice and accountability.
[159] This measures the extent to which the government has sufficiently technologically skilled staff and resources to mitigate harm from cyber-security threats.
[160] This is a cumulative count of AI related bills passed into law.

service continuity, and public trust. As new technologies are adopted, legacy systems also pose significant challenges – limiting interoperability and slowing service delivery.

Figure 6.1 Indicators of AI and Digital Government

Indicator	Score/Rank	Year	Index	Source
e-Government Users	91.5%	2024	DESI	European Commission
Digital Public Services for Citizens	81.2%	2024	DESI	European Commission
Digital Public Services for Businesses	100%	2024	DESI	European Commission
e-Government	20th	2024	UN EGDI	UN
Network Readiness	19th	2024	Network Readiness Index	University of Oxford
Cybersecurity	54th	2024	Network Readiness Index	University of Oxford
Government Promotion of Emerging Technologies	66th	2024	Network Readiness Index	University of Oxford
AI Readiness	18th	2024	AI Readiness Index	Oxford Insights
Government	36th	2024	AI Readiness Index	Oxford Insights
AI Preparedness	23rd	2023	AI Preparedness Index	IMF
Regulation and Ethics	20th	2023	AI Preparedness Index	IMF
Digital Competitiveness	17th	2024	World Digital Competitiveness	IMD
AI Policies Passed into Law	39th	2024	World Digital Competitiveness	IMD
Government Cyber-security Capacity	58th	2024	World Digital Competitiveness	IMD

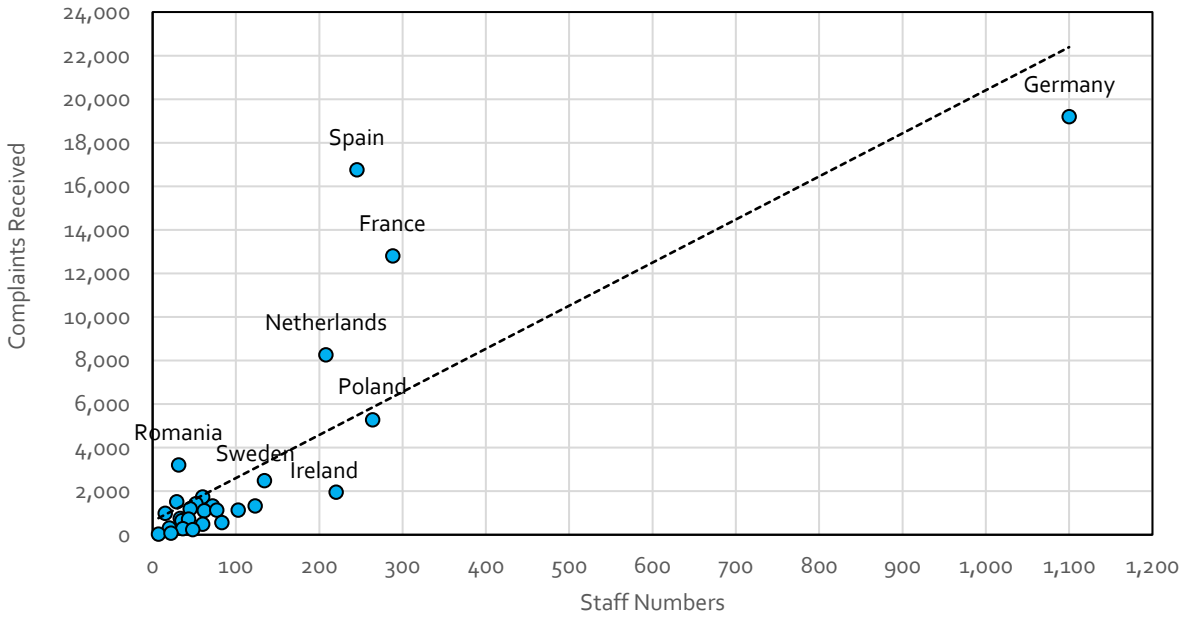
Source: Various, as indicated in table.

6.1.2 Data Protection Regulation

The General Data Protection Regulation (GDPR) came into effect in EU Member States in 2018.[161] As a result of Ireland's success in attracting significant levels of inward investment, several large information and communication technology companies have their European headquarters located here. Under the GDPR's "one-stop shop" mechanism, the Data Protection Commission (DPC) takes the lead in regulating these and other data controllers in Ireland. This concentration of high-profile data controllers in Ireland has placed the DPC at the heart of many cross-border cases, often involving very complex and precedent-setting issues around data processing, advertising technology, consent, and user privacy.[162]

Information gathered *via* survey by the European Data Protection Board (EDPB) as part of the *Contribution of the EDPB to the report on the application of the GDPR under Article 97*,[163] compares the experience of lead supervisory authorities across the EU and EEA. As shown in Figure 6.3, survey responses suggest that a majority of bodies tasked with enforcing the GDPR handled fewer than 2,000 complaints in 2023 and had a staffing component of fewer than 100. Ireland is among the group of countries receiving a greater number of complaints. However, it is important to note that the legal and technical complexity of these complaints is likely to vary significantly by jurisdiction, and a simple comparison of numbers in this way masks the resource intensity of complaints handled by individual data protection bodies. As outlined previously, the concentration in Ireland of very large, high-profile data controllers with a global footprint, likely adds to the legal and technical complexity of complaints handled by Ireland's DPC.

Figure 6.3 Complaints Received by EU Data Protection Bodies and Staff Numbers, 2023



Source: European Data Protection Board (EDPB)

In addition, the DPC has a broader mandate, beyond the handling of complaints. Apart from enforcement, the DPC also carries out a range of additional functions under the GDPR and the Data Protection Act 2018. This includes the providing guidance on GDPR rights and obligations, including sector-specific advice, as well as

[161] While not the primary focus here, the opening up of data to companies under the Data Act may interact with obligations under the GDPR. This raises questions around how firms can effectively manage access to data, particularly where there is a risk of re-identification, and ensure continued compliance with data protection principles.
[162] See: Case Studies – May 2018-May 2023, Data Protection Commission.
[163] See: Contribution of the EDPB to the report on the application of the GDPR under Article 97, European Data Protection Board, December 2023.

consulting with bodies in relation to new products and services, to facilitate responsible innovation that is data protection compliant. In this way, the DPC's role is both corrective and preventive, acting where there is non-compliance while also promoting good practice, offering support, and shaping future policy on data protection.

GDPR is crucial for protecting privacy and building trust in digital systems, which, itself, can promote digitalisation and encourage greater take-up of digital technologies. Ireland's role as the data regulator for large multinational information and communication technology companies has placed it at the forefront of GDPR enforcement. This role has enhanced Ireland's regulatory standing. However, GDPR compliance and enforcement also presents challenges. On one hand, robust enforcement strengthens public trust and reinforces Ireland's credibility. However, on the other hand, there is a risk that heightened regulatory scrutiny may undermine Ireland's reputation as a place to do business, particularly if companies come to view Ireland as a high-risk jurisdiction for data compliance. Compliance can also be costly, particularly for smaller firms[164]. As part of this, it will be critical to ensure that the DPC has sufficient resources to fulfil its mandate, particularly as the complexity of its work, both in terms of prevention and correction, increases over time. The DPC's role in the enforcement of GDPR to date, and the significant experience gained in both prevention and correction, places Ireland in a strong position to contribute meaningfully to the broader data protection landscape.

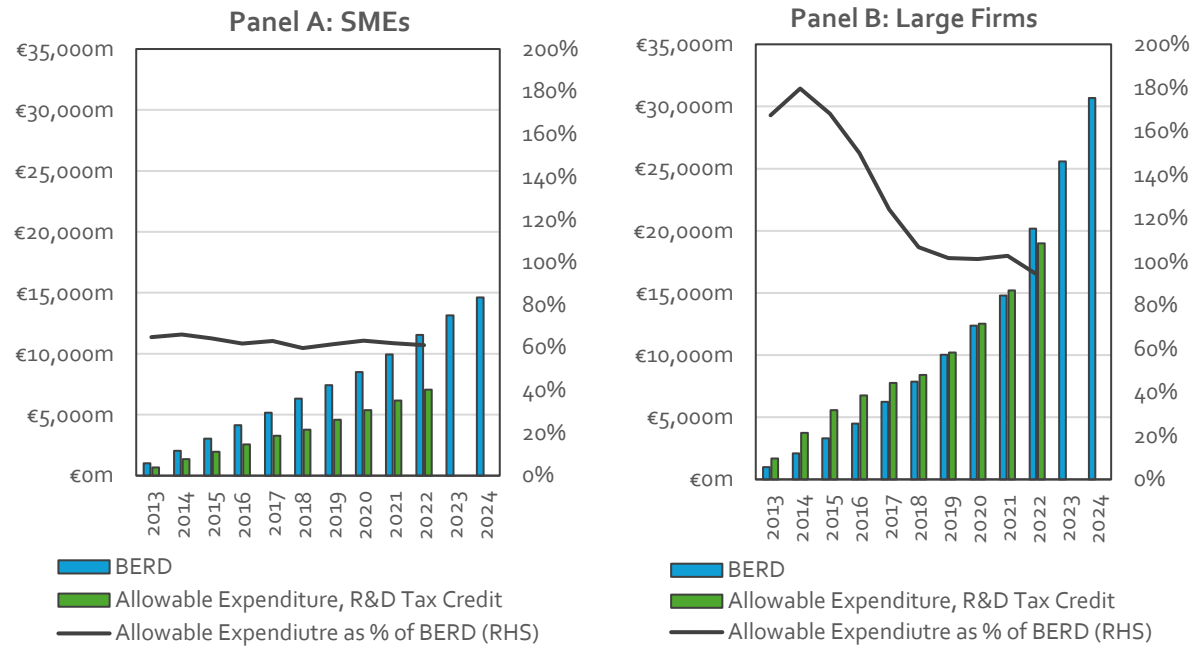
6.1.3 Strengthening Ireland's Innovation Ecosystem

A persistent challenge within Ireland's innovation landscape is the significant investment gap between MNEs and SMEs in research, development and innovation (RD&I). The Council has highlighted that the current design of the R&D Tax Credit may be relatively less accessible to SMEs, limiting their take-up of the scheme. Figure 6.4 shows the cumulative amount of BERD (Business Expenditure on R&D) and allowable expenditure under the R&D Tax Credit, beginning in 2013. As shown, the gap between total R&D expenditure and the amount that is allowable under the terms of the credit, has been much greater for SMEs than for large firms over the last decade. This suggests that large firms have been able to make greater use of the incentive and are better positioned to classify their R&D activities as eligible for the measure.

The Council has previously recommended the introduction of a broader definition of qualifying activities in line with the Oslo – as opposed to the Frascati – Manual, that would incorporate "new to firm" innovation, to improve SME access and encourage greater R&D investment. The Council holds that there is value in expanding the R&D Tax Credit in this way or alternatively, introducing a complementary innovation-focused credit (aimed at supporting digitalisation and the adoption of productivity-enhancing technologies). Similar measures have been introduced in other jurisdictions. In Spain, a 25% tax credit applies in respect of R&D activity, while a 12% credit can be claimed for technological innovation, increasing to 40% for SMEs.[165] Similarly, firms in Luxembourg can avail of an 18% tax credit for investments and operating expenses that relate to the digital and ecological transition.[166]

[164] A further competitiveness risk arises where there is inconsistent enforcement of GDPR across jurisdictions. Ireland must maintain strong and effective GDPR enforcement, while also preserving its attractiveness as a base for digital enterprises.
[165] See: Spain - Corporate - Tax credits and incentives (pwc.com)
[166] See: Luxembourg - Corporate - Tax credits and incentives (pwc.com)

Figure 6.4 Cumulative BERD vs. Allowable Expenditure under R&D Tax Credit, 2013-2024

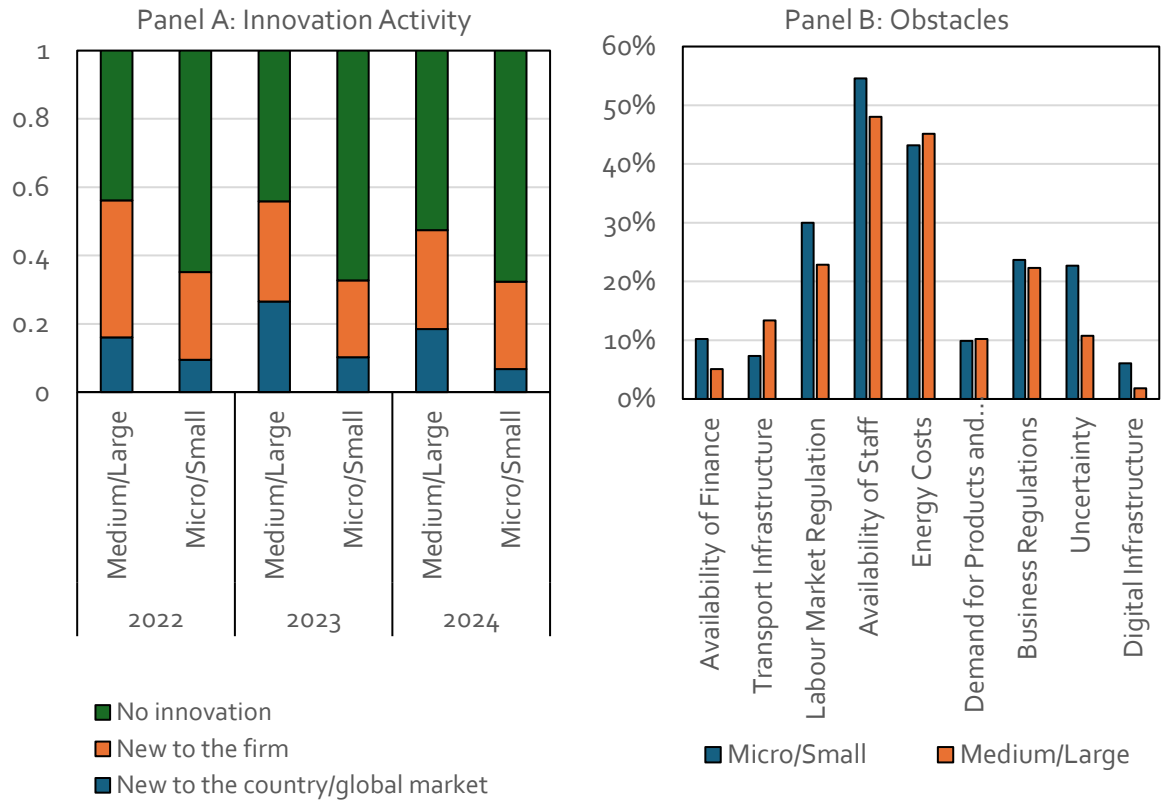


Source: NCPC based on data from CSO and Revenue Commissioners

As shown in Figure 6.5 (Panel A), a significantly greater share of medium and large firms are engaged in innovation activity compared to micro and small firms. This reflects a persistent size-related gap in innovation activity, with smaller firms often facing greater constraints in terms of resources, capabilities, and access to finance or supports. This data shows that across the business population, irrespective of firm size, firms tend to focus more on innovation that results in products or services that are "new to the firm", rather than those that are "new to the market" – indicating a predominance of incremental over frontier innovation. However, this tendency is even more pronounced among micro and small firms, where early innovation is more likely to take the form of internal improvements. In contrast, medium and large firms are somewhat more likely to engage at an early stage in innovation that pushes market boundaries, generating a broader competitive advantage. This pattern shows that firm size plays a critical role not only in the likelihood of engaging in innovation, but also in the nature of that innovation. This points to a role for a targeted incentive to encourage investment in innovation by smaller firms.

This measure could be aligned with broader national priorities such as the digital transformation, AI adoption, or the green transition (as is the case in other jurisdictions, as mentioned previously) and could help to strengthen the overall resilience and absorptive capacity of the RD&I ecosystem. In terms of the barriers to investment more broadly (see Figure 6.5 – Panel B), 2024 data suggest that the availability of skilled staff, labour market and business regulations, energy costs, and uncertainty about the future are all factors. The evidence published by the EIB, however, suggests that uncertainty about the future and/or the availability of finance have a disproportionately higher (negative) impact on the investment decisions of micro and small firms (when compared to larger firms).

Figure 6.5 Innovation Activity, Micro/Small vs Large; Obstacles to Innovation



Source: European Investment Bank Investment Survey 2024

6.1.4 Strategic Alignment and Absorptive Capacity in a Multi-Strategy RD&I Environment

As Ireland advances a series of interdependent national strategies – Impact 2030, the National AI Strategy, Quantum 2030, the forthcoming semiconductor strategy, and others – a cohesive, system-wide approach is critical to ensure that these initiatives reinforce, rather than compete with, one another. The publication and progression of these strategies is welcome and timely and signals a strong commitment to improving Ireland's position in global innovation. While each strategy is grounded in a distinct vision, they share common dependencies, including the quality of digital infrastructure, and the availability of innovation funding, research capability, and talent. However, it is fundamental that these strategies complement, rather than compete with, one another.

Central to the success of this multi-strategy agenda is the absorptive capacity of the research, development and innovation (RD&I) ecosystem. This refers to the system's ability to integrate and apply new knowledge and technologies through people, institutions and infrastructure. Without sufficient absorptive capacity, there is a risk that policy ambition could outpace the system's readiness to deliver. There is a growing global demand for highly skilled professionals – particularly in AI, quantum, data science, cybersecurity, and engineering. While Ireland has a strong base of STEM talent, the scale and concurrency of these initiatives places significant pressure on the higher education pipeline, and on the capacity to reskill and upskill the existing workforce. This requires a substantial and coordinated investment in domestic talent development, as well as the attraction of talent from abroad to meet domestic shortfalls.

It is also the case that many of the same Departments, agencies, and institutions, are charged with delivering across multiple national strategies, simultaneously. The operational bandwidth – in terms of staffing, and programme design, management and evaluation – is limited. It is fundamental that this does not create bottlenecks to delivery. It must also be noted that Government spending on R&D is low by international standards (Ireland is relatively more reliant on "BERD" or business expenditure on R&D). Given the inherent challenges facing Ireland's economic model (as outlined earlier in this report) and the implications for future revenues, difficult trade-offs can be expected. These strategies each call for targeted investments in infrastructure, testbeds, collaborative platforms, and applied research, which is likely to test the capacity of the State to deliver on all fronts.

Absorptive capacity, therefore, is not just a technical consideration, but a potential strategic bottleneck that will determine whether Ireland's national ambitions translate into real-world impact. It stands to reason then, that strategic foresight and workforce planning be embedded across all strategies. This includes investment in education and training, as well as alignment between national skills policies and RD&I priorities, so that Ireland can continue to attract, retain, and deploy talent where it is needed most. Without this, competition for limited expertise will likely constrain progress. A whole-of-government, whole-of-ecosystem approach, underpinned by joined-up governance and shared infrastructure planning is essential. This will ensure Ireland's RD&I system remains capable of delivering on a broad portfolio of strategic ambitions, while also enhancing our national competitiveness.

To better address and manage these issues, the role of national Chief Technology Officer (CTO) should be considered. While some individual public bodies have appointed CTOs, a centralised strategic CTO position does not exist. The CTO would champion the development of a whole-of-government approach, supporting the cohesive execution of these strategies. This would include coordinating efforts across departments and institutions to avoid operational bottlenecks, facilitating effective collaboration, resource optimisation, and the alignment of national skills policies with RD&I priorities. In this way. The CTO could contribute play a key role in building a sustainable innovation ecosystem that serves to enhance Ireland's competitiveness.

6.2 Actions Crucial to Boosting Productivity, Driving Technological Adoption, and Spurring Innovation

Ireland's ability to compete in an increasingly innovation-driven global economy depends not only on the successful delivery of its national strategies, but on the strength and coherence of the RD&I system that underpins them. As the scale and complexity of our strategic ambitions grow, with the emergence and adoption of disruptive technologies, so too does the need for a system that is agile, well-resourced, and capable of absorbing technological advancements. The recommendations that follow are aimed at addressing persistent and emerging challenges across the RD&I landscape.

6.2.1 National Productivity Statistics

To improve the monitoring and analysis of productivity trends, particularly in respect of domestic sectors, productivity statistics should be published on a disaggregated basis. These statistics should provide insight into the labour productivity of domestically owned enterprises, separately from foreign-owned enterprises. This data would enable meaningful international benchmarking of labour productivity among domestic enterprises, supporting evidence-based policy design and cross-country comparisons of the performance of the domestic sector.

Recommendation 6.1: The Council recommends the publication of national productivity statistics that provides insight into developments in the labour productivity of firms that are owned domestically, and that facilitates the international benchmarking of labour productivity across domestic firms.

Responsibility: Central Statistics Office

6.2.2 AI in the Public Service

The adoption of AI technologies across the public sector has the potential to improve service delivery, unlock organisational capacity, and contribute to enhanced public service productivity. To harness these benefits, a more strategic and coordinated approach, underpinned by a clear implementation plan to guide AI adoption at both the national, local and (any other) organisational levels.

Recommendation 6.2: The Council recommends the publication of an ambitious national strategy and implementation plan to drive the adoption of AI technology in the public service, with a view to unlocking capacity, boosting productivity, and dealing with new ways of working that have emerged since COVID-19. This strategy should prioritise the delivery of outstanding actions for AI use in the Public Service as outlined in the National AI Strategy. In addition, further action should be taken to:

- **(a)** Identify the potential added value from use of AI at the organisational level.
- **(b)** Set appropriate targets for the take-up and use of AI at the local level.
- **(c)** Develop a reporting structure to facilitate oversight and accountability of progress towards adoption targets.

Responsibility: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation; Department of the Taoiseach

6.2.3 Addressing the RD&I Gap

There is a longstanding RD&I investment gap between small firms and large MNEs. Supporting innovation and technology adoption among SMEs, including in new-to-firm technologies, is critical to enhancing firm-level productivity and competitiveness. There is a need for targeted policy measures that encourage investment in RD&I by smaller firms, particularly in areas that align with our national strategic ambitions, for example, in relation to digital and green technologies.

Recommendation 6.3: The Council recommends the introduction of an innovation investment incentive targeting small and medium sized firms that would support firm advancement in the form of new-to-firm investments, including those related to digitalisation and the take-up of advanced technologies.

Responsibility: Department of Finance; Department of Enterprise, Tourism and Employment

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