Ireland's Competitiveness Challenge 2026

July 2026

National Competitiveness & Productivity Council
An Chomhairle Náisiúnta Iomaíochais agus Táirgiúlachta

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Introduction to the National Competitiveness and Productivity Council

The National Competitiveness Council (NCC) was established in 1997. It reports to an 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 entitled Ireland: Competitiveness Challenge 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** is published triennially.
- 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 Budgetary process.

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

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Prof. Alan Barrett	Chair, National Competitiveness and Productivity Council
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Edel Clancy	Group Director of Corporate Affairs, Musgrave Group
Jennifer Melia	Chief Executive Officer, Enterprise 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 General, Department of Enterprise, Tourism and Employment
Michael Lohan	Chief Executive, IDA Ireland
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Paul Hogan	Department of Housing, Local Government and Heritage
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John McCarthy	Department of Finance
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Taoiseach's Foreword

We live in an increasingly unpredictable world – subject to major macroeconomic and geopolitical risks. So, Ireland needs to focus on what is within our national control and influence – our national productive capabilities and competitive advantages.

While our economy continues to perform well, we need to future-proof its performance to enable further improvement in living standards. The Government recently published *Future Forty: A Fiscal and Economic Outlook to 2065* which highlights the longer-term impacts of global megatrends and structural shifts such as demographics. Increased productivity is the single best response to these trends.

Last September the Government published its *Action Plan on Competitiveness and Productivity*, which was informed by the work of the National Competitiveness and Productivity Council. This sets out actions that need to be taken across government and its agencies in relation to research and innovation, skills, foreign direct investment, creating and scaling SMEs, regulation, costs, and infrastructure.

The Competitiveness Summit which I chaired on July 13th reviewed progress on implementation of these actions, while also considering the recommendations in this 2026 report from the Council. I am pleased about the progress achieved over the last year, while welcoming and endorsing the Council's views on priorities for the period ahead. In particular, the Government will continue to focus on building economic resilience through investment in infrastructure including energy, the digital and AI transformation, innovation and skills, and cost control.

As Ireland now holds the Presidency of the European Council, we must also harness further opportunities to progress and develop the Competitiveness Agenda at a European level. This is one of our Presidency priorities and we will engage on the flagship actions under the EU Competitiveness Compass.

Complex regulatory requirements will need to be addressed to ease the burden on both Irish and European businesses. We will work to simplify EU rules to create a favourable business environment where Irish and European firms can thrive. Domestically, we are also advancing Ireland's better regulation agenda, including a new Red Tape Challenge.

The next chapter of Ireland's economic story will demand capability, resilience, and innovation. I therefore welcome this comprehensive and impactful report by the National Competitiveness and Productivity Council.

Micheál Martin, T.D.,
Taoiseach

Chair's Preface

Competitiveness remains at the forefront of the policy agenda, both in Ireland and internationally. The environment in which economies compete has changed markedly in recent years: geopolitical fragmentation, heightened trade tensions, technological disruption, energy security concerns and a more interventionist approach to industrial policy are reshaping the global economy. These developments are creating a more uncertain and contested international landscape in which resilience, adaptability and productivity have become increasingly important determinants of long-term success.

For Ireland, whose prosperity has been built on openness, foreign direct investment, global value chains and membership of the European Single Market, these developments present both challenges and opportunities. Our response should not be to retreat from openness, but to reinforce the foundations that have underpinned our economic success. This means ensuring that Ireland remains a stable, innovative and competitive location in which businesses can invest, grow and create high-quality employment, while building the resilience needed to adapt to future shocks.

Ireland continues to perform strongly across international measures of competitiveness. Although short-run movements in competitiveness can be captured by international rankings, a longer-run perspective is needed in a changing international economic environment. . Competitiveness must be continually earned through sound policymaking, sustained investment and forward-looking, effective implementation. Persistent infrastructure constraints, pressures on the cost of doing business, skills shortages, energy security challenges and the pace of technological change all underline the need for continued reform. Maintaining competitiveness requires a long-term perspective – anticipating emerging risks, investing in future capabilities and ensuring that today's policy decisions strengthen tomorrow's economy and future living standards.

This year's *Competitiveness Challenge* is therefore framed around a simple but important principle: resilience and competitiveness are mutually reinforcing. A competitive economy is better able to absorb external shocks and generate sustainable improvements in living standards, while resilient infrastructure, secure energy systems, effective public services, innovative enterprises and a highly skilled workforce provide the foundations on which competitiveness depends. Reflecting this approach, the Council makes 19 recommendations across six priority areas: strengthening economic resilience; enhancing energy security; reducing the cost of doing business; modernising public services and improving infrastructure delivery; accelerating AI adoption, innovation and skills development; and advancing Ireland's competitiveness priorities during its EU Presidency. Together, these recommendations are intended to improve Ireland's capacity to compete successfully in an increasingly complex global economy while supporting productivity growth and higher living standards.

A recurring theme throughout this report is the importance of looking beyond immediate pressures and taking a forward-looking approach to policymaking. Fiscal discipline remains essential, but so too does strategic investment in the capabilities that will determine Ireland's future competitiveness. This includes strengthening critical infrastructure, modernising public services, supporting enterprise innovation, accelerating the adoption of AI and ensuring that our education and skills systems remain responsive to a rapidly evolving labour market. Ireland's forthcoming Presidency of the Council of the European Union also presents an opportunity to help shape Europe's competitiveness agenda. As a small, open economy, Ireland has a strong interest in promoting an outward-looking Europe characterised by open markets, free and fair trade, regulatory simplification, a deeper Single Market and policies that strengthen innovation while preserving fiscal and economic stability.

The Council believes that Ireland enters this period from a position of considerable strength, but maintaining that position will require sustained commitment, timely action and a shared focus on building a more competitive, productive and resilient economy for the future.

Prof. Alan Barrett,
Chair, National Competitiveness and Productivity Council

Executive Summary

Ireland's economic model has delivered strong growth over recent years, underpinned by openness, foreign direct investment, and integration within the European Single Market. However, this model is now being tested by a more volatile and uncertain global environment, alongside binding domestic capacity constraints. The policy landscape is also being shaped by growing interventionism in industrial policy across major economies, as governments take a more active role in supporting strategic sectors and influencing investment decisions, creating new challenges for Ireland's traditionally open and market-based economic model. Geopolitical fragmentation, energy security concerns, and evolving trade patterns are reshaping the external landscape, while pressures in infrastructure, costs, and public sector delivery are becoming more acute at home. In this context, recent strategic work, including the Department of Finance's *Future Forty* initiative, highlights the importance of preparing Ireland's economy for longer-term structural shifts and ensuring that competitiveness, resilience, and productivity remain central to policymaking.

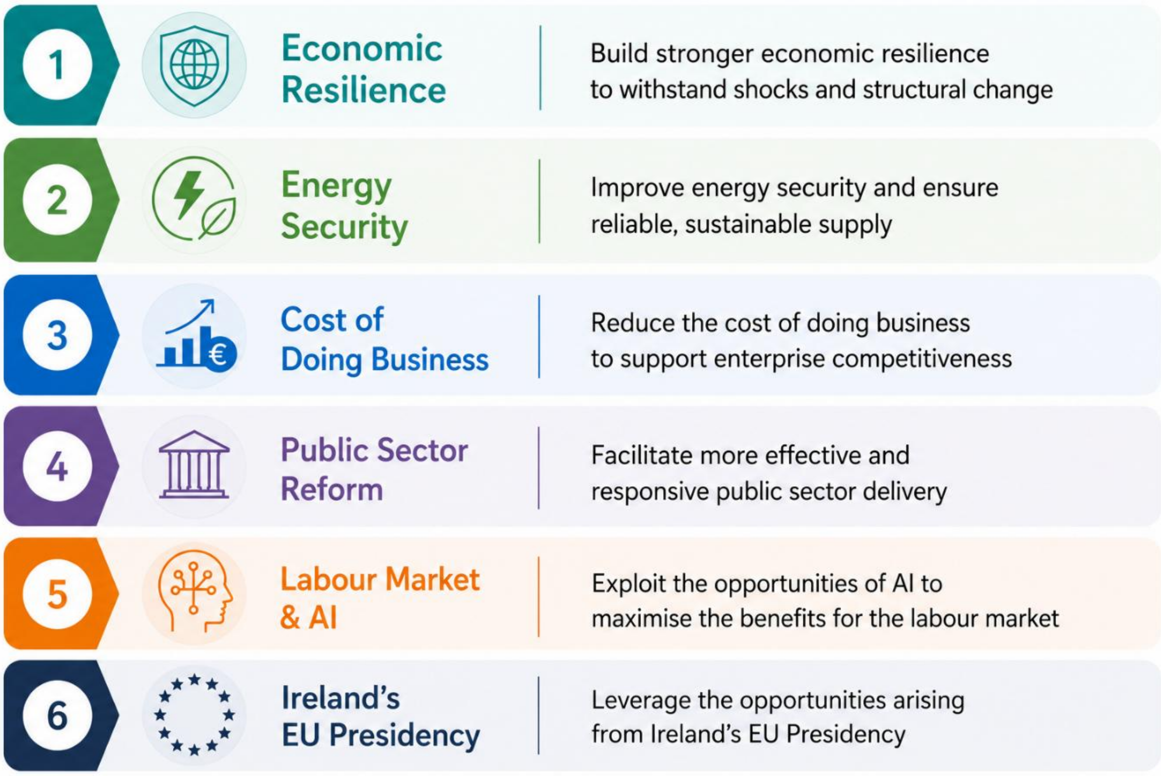
According to the IMD's World Competitiveness Yearbook 2026, Ireland ranked 7th out of 70 economies, unchanged from 2025, and remained the most competitive economy in the Euro Area. Ireland's economy remained resilient amid an unpredictable international environment in 2025, with domestic demand rising by 2.9%, employment increasing by 2.2%, and real median household disposable income growing by 2.4%. Strengthening economic resilience has become an increasingly important policy objective internationally for governments and businesses alike. Economic resilience refers to the capacity of an economy to withstand, adapt to, and recover from external shocks and long-term structural change, while sustaining growth, competitiveness, employment, and living standards. Resilience and competitiveness are mutually reinforcing concepts. A competitive economy strengthens resilience by supporting investment, productivity, fiscal capacity, and adaptability, while resilient supply chains, secure energy systems, reliable infrastructure, and access to labour are essential to sustaining long-term competitiveness in a more volatile and uncertain global environment. For a small, highly open economy such as Ireland, resilience depends not only on exposure to global developments, but also on the strength and adaptability of domestic systems, infrastructure, institutions, and enterprise capability. In this regard, Ireland faces a double challenge involving not only maintaining its leadership position in international competitiveness -- which goes to the core of the Challenges -- but also simultaneously identifying new comparative advantages to sustain longer-term growth and prosperity.

The importance of resilience has become more pronounced in recent years following a series of major global shocks, including the COVID-19 pandemic, the war in Ukraine, supply chain disruption, inflationary pressures, geopolitical tensions, and increased fragmentation in the global economy. These developments have highlighted the vulnerability of open economies to external disruptions, while also exposing domestic capacity constraints that can limit responsiveness and growth. In this context, sustaining competitiveness will require a domestic focus: strengthening resilience to external shocks, while addressing structural bottlenecks that are constraining growth. This includes ensuring sufficient energy and infrastructure capacity, improving the cost environment for firms, strengthening enterprise capability, and delivering a more effective and responsive public sector.

As Ireland's National Productivity Board, the NCPC has a role in monitoring developments in Ireland's national productivity statistics (as published by the CSO). The Council will publish its assessment of these statistics later this year.

As in previous years, this *Competitiveness Challenge* report is anchored in the Council's Competitiveness and Productivity Framework, which underpins its assessment. The six broad areas in this year's report have been selected to reflect both the evidence from Ireland's recent performance and the policy challenges emerging across these areas. Together, they tell a story about the interrelated pressures facing the Irish economy. Economic resilience and energy security reflect a changing international environment; the cost of doing business relates to the domestic business environment; public sector reform, and the labour market and AI, address domestic supply-side capacity and the challenges and opportunities of technological progress; and

Ireland's EU Presidency offers a strategic opportunity to influence the wider European policy environment in which Ireland operates. The report has also been refined this year to be shorter and more concise, with a focus on the key messages and associated recommendations. These **six key messages** are summarised below:



This year, the Council makes **19 targeted recommendations**. These recommendations are detailed below.

1 Ireland must build up its economic resilience and economic security in an era of uncertainty.

The global economic environment is becoming increasingly characterised by volatility, uncertainty, complexity and ambiguity (VUCA), alongside a slowing pace of globalisation, and a shift towards more defensive trade and industrial policies. As a highly open economy, Ireland is particularly exposed to these shifts. At the same time, Ireland's position as a stable, advanced, and democratic location for foreign direct investment represents a significant competitive advantage in an increasingly uncertain world. Economic security underpins sustainable competitiveness. Even where risks do not fully materialise, they can dampen investment and weaken confidence. Without resilient supply chains, financial stability, and a secure workforce, competitiveness gains risk becoming fragile and short-lived.

Recommendations

- **Recommendation 1.1:** The Council recommends that Government strengthen Ireland's economic by exercising restraint in the net fiscal position (in both expenditure and tax policy), through adherence to a domestic fiscal rule, as recommended by the Irish Fiscal Advisory Council while targeting increased investment towards competitiveness and productivity enhancing reforms, such as energy, water and public transport.
- **Recommendation 1.2:** The Council recommends that Government strengthen Ireland's economic resilience to supply disruptions, geopolitical risks and changing global trade patterns, by:
  (i) Developing a national capability to map and monitor critical supply chain dependencies; and

(ii) Progressing the delivery of outstanding actions under the Government Action Plan on Market Diversification to support firms in expanding into new markets, reducing concentration risks, and strengthening resilience to external shocks.

(iii) Continuing development and publication of the *National Risk Assessment – Overview of Strategic Risks*, to identify and discuss significant strategic risks which may arise for Ireland. The process should help inform and support cross-government preparedness and strengthen institutional capacity to anticipate, manage, and respond effectively to external shocks and periods of heightened uncertainty.

Strengthening Ireland's energy security is essential to delivering a more resilient economy.

Secure, affordable, and sustainable energy is now a central determinant of competitiveness. Recent geopolitical shocks have underscored the risks associated with energy dependence and price volatility. Over the long term, improving Ireland's energy security and supporting a more resilient energy system will require accelerating the deployment of indigenous renewable energy, expanding long-duration storage, and developing alternative fuel sources such as biomethane. A technology-neutral approach should be maintained, with no viable option excluded from consideration.

Recommendations

- **Recommendation 2.1:** The Council recommends accelerating the delivery of Ireland's electricity infrastructure by:

    (i) Accelerating investment in the renewal and expansion of the electricity grid and ensuring that EirGrid is appropriately resourced and incentivised to deliver this investment, while ensuring that the chosen funding model does not undermine firm competitiveness through unreasonable pass-through costs

    (ii) Undertaking rapid reform of planning and permitting processes to meet the timelines required under the EU Renewable Energy Directive III, and prepare for the forthcoming Grids Package, including the timely delivery of Phase 1 offshore wind projects and the North-South Interconnector.

- **Recommendation 2.2:** The Council recommends that Ireland strengthen the resilience and security of its energy system, through:

    (i) Putting in place strategic LNG Storage facilities as quickly as possible to ensure the resilience of gas and electricity supply;
    (ii) Following the rejection by the EU Commission of a proposed 'domestic multiplier' under the Renewable Heat Obligation (RHO), designing a support framework, such as a Contract for Difference auction, for indigenously produced biomethane to be used in high-temperature manufacturing processes; and,
    (iii) Facilitating the accelerated rollout of solar powered energy solutions.

- **Recommendation 2.3:** The Council recommends that Government maintain a technology-neutral approach to future energy options, and that a feasibility study be undertaken on the potential costs and benefits of alternative power options for Ireland, including nuclear (with reference to the role that small modular reactors (SMRs) could play), biomethane and tidal power.

3 A more competitive economy will require meaningful progress on reducing the cost of doing business.

The cost of doing business in Ireland remains a key competitiveness challenge, particularly for domestic SMEs. Addressing cost pressures, especially in relation to energy, while tackling long-standing structural impediments to competitiveness will be essential to sustaining enterprise activity, investment and living standards. The establishment of the Cost of Business Advisory Forum is a welcome development, providing an important mechanism for identifying and assessing the cost pressures facing firms and informing policy responses to improve cost competitiveness. However, its success will depend on implementation of its recommendations by Government. Maintaining a stable and constructive industrial relations environment is also an important component of Ireland's competitiveness proposition, supporting investment, business certainty and economic resilience.

Recommendations

- **Recommendation 3.1:** The Council recommends that Government engage with the concerns identified by the Cost of Business Advisory Forum and give consideration to rapidly progressing its recommendations, particularly those measures that would support competitiveness, productivity and the operating environment for firms.
- **Recommendation 3.2:** The Council recommends that Government examine the ways in which it can facilitate increased banking sector competition, reductions in the cost of financing, and increases in the availability of funding to promote SME growth and scaling.
- **Recommendation 3.3:** The Council recommends that the National Energy Affordability Taskforce (NEAT) brings forward both short-term measures to mitigate the impact of the energy crisis for consumers, as well as longer-term structural or market changes to ensure that the low marginal cost of renewable energy materially reduces customer bills.
- **Recommendation 3.4:** Recognising the importance of a stable and harmonious industrial relations environment, Government and the Social Partners are encouraged to continue investing in the maintenance of constructive industrial relations. In this context, the Council welcomes the publication of the Action Plan on Collective Bargaining and recommends that priority actions be progressed, particularly those relating to research and analysis of the indigenous sector and of collective bargaining and its broader economic and societal impacts.

4 Ireland's current competitiveness challenges highlight the need for a more effective and responsive public sector that is capable of delivering at scale.

An effective and responsive public service is a key enabler of competitiveness. Recent evidence suggests that Ireland's public administration is performing less strongly than many international peers[1] with limited system-wide reform over the past two decades. Further analysis is needed to assess Ireland's public sector performance and identify lessons from successful reform initiatives in other jurisdictions. At the same time, businesses and citizens frequently encounter regulatory and administrative processes that are perceived as slow, complex and overly focused on inputs rather than outcomes. There is significant scope to improve public service performance through structural reform, and the strategic adoption of new technologies, including artificial intelligence. Strong population growth and sustained economic expansion have also placed increasing pressure

[1] NCPC Bulletin 25-5: Benchmarking the Performance of Ireland's Public Administration. The Blavatnik index referenced here considers a broader range of factors in comparison to the IMD, hence the rankings will differ.

on Ireland's infrastructure systems, including housing, energy, water and transport. While the publication of the Accelerating Infrastructure Report and Action Plan is welcome, persistent infrastructure deficits highlight the need for further reform to improve delivery capacity, including faster planning and permitting processes and stronger coordination across agencies. In particular, water and wastewater capacity and pricing constraints are increasingly acting not only as environmental and housing challenges, but also as direct barriers to enterprise investment, regional development and the timely delivery of foreign direct investment projects. Addressing these challenges will require further measures to improve planning and permitting processes, strengthen coordination across agencies, and increase the capacity of the State to deliver critical infrastructure efficiently and at scale.

Recommendations

- **Recommendation 4.1:** The Council recommends that Government consider how the new public service agreement can support and enable ongoing reform, increased digitalisation and productivity improvements across the public services.
- **Recommendation 4.2:** The Council recommends that Government establish measurable service-level targets and regularly report on progress in relation to digitalisation, data sharing, process automation, service quality and user outcomes across major public services. Government should also identify priority areas for the deployment of emerging technologies, including artificial intelligence, where these technologies can improve productivity, enhance service delivery and streamline access to public services.
- **Recommendation 4.3:** The Council recommends that Government strengthen the resilience and security of Ireland’s critical infrastructure in an increasingly uncertain geopolitical environment. This could be achieved by ensuring that the implementation of the Critical Entities Resilience framework fully considers domestic and external sources of disruption across critical infrastructure sectors, including cyber threats, climate-related risks, operational failures and physical security risks.

5 Ireland must leverage the opportunities of artificial intelligence to maximise the benefit for the labour market.

Ireland must leverage artificial intelligence (AI) and innovation to boost labour market outcomes and support resilience and competitiveness by enabling firms and workers to adapt to rapid technological change. The diffusion of AI across sectors presents significant opportunities to enhance productivity, improve job quality, and create new areas of employment, but it also requires a proactive policy response to manage transition risks. This includes investing in skills development, lifelong learning, and reskilling initiatives to ensure that the workforce is equipped to meet evolving demand. At the same time, supporting enterprise adoption of AI – particularly among SMEs – will be critical to maximising its economic impact.

Recommendations

Recommendation 5.1: The Council recommends that Government strengthen the capacity of SMEs to adopt and effectively utilise digital and AI technologies where there is a clear commercial rationale for doing so. This should include:

(i) Assessing management skills and organisational capability requirements associated with technology adoption;
(ii) Addressing information and awareness gaps and enhancing advisory and capability-building supports;
(iii) Embedding cybersecurity capability and best practice within enterprise support programmes; and
(iv) Introducing targeted supports for "new-to-firm" innovation, technology adoption and digitalisation.

Recommendation 5.2: The Council recommends that Government strengthen the responsiveness of the skills system to evolving labour market and enterprise needs. This should include:

(i) Using evidence from the Working in Ireland Survey and the proposed National Skills Observatory to inform the targeting of lifelong learning and skills investment; and,
(ii) Expanding apprenticeship provision in areas of strategic importance to the economy, including ICT, AI and digital technologies, advanced manufacturing, life sciences, and critical technical and operative occupations.
(iii) Strengthening the integration between apprenticeship provision, regional skills strategies and enterprise clusters to support productivity growth, including through the adoption of Modern Methods of Construction, and to address persistent regional labour and skills shortages.

Recommendation 5.3: The Council recommends progressing the recommendations set out in the ESRI's *Roadmap for an Evaluation of the National Training Fund* to strengthen the evaluation of NTF-supported programmes. This should help to ensure that NTF expenditure remains aligned with the statutory purpose of the Fund, in supporting skills development and employability. This will also support a more robust assessment of programme effectiveness and provide a stronger evidence base to inform future funding and policy decisions relating to skills development and employability.

Recommendation 5.4: The Council recommends that Government maintain a responsive and evidence-based employment permits system that supports Ireland’s competitiveness by enabling access to skills critical for productivity, innovation, and growth. This should include ongoing review of Minimum Annual Remuneration thresholds, informed by labour market conditions, skills shortages, and stakeholder engagement, to ensure the permits system remains adaptable to evolving economic and enterprise needs.

6 Ireland’s EU Presidency presents an opportunity to shape the competitiveness agenda and promote initiatives strengthening EU competitiveness and productivity.

Ireland’s EU Presidency presents a strategic opportunity to influence the European policy agenda in support of competitiveness, resilience, and the functioning of the Single Market. As competitiveness becomes an increasingly important priority across the EU, the Presidency provides Ireland with a valuable opportunity to shape discussions on innovation, investment, regulatory simplification and economic security, while promoting an open, outward-looking and competitive European economy.

Recommendations

- **Recommendation 6.1:** The Council recommends that Ireland actively support the EU’s competitiveness agenda by advancing reforms to strengthen the Single Market, boost innovation, and increase investment. In doing so, Ireland should advocate for approaches that recognise the role of effective, coordinated and appropriately decentralised governance in delivering economic resilience and competitiveness. Ireland should also continue to represent the interests of smaller Member States, ensuring that efforts to enhance resilience and strategic autonomy do not undermine open markets, free trade, or competition. A strong, outward-looking and globally engaged Europe remains critical to Ireland’s long-term economic growth.

- **Recommendation 6.2:** The Council recommends that the new “Single Market Taskforce”, through concerted action by all Government Departments, works to strengthen the implementation of Single Market rules and Ireland’s compliance with its Single Market obligations, through the removal and prevention of barriers to the freedom of movement of goods, services and people within Ireland.

- **Recommendation 6.3:** The Council recommends that Government support and advance EU simplification measures in a clear and transparent way, including the Omnibus initiatives, with a view to reducing administrative burdens on firms and improving the overall business environment and competitiveness.

1 CHAPTER 1 Economic Resilience

Summary

- The global economic environment is becoming increasingly uncertain, reflecting heightened geopolitical tensions, trade fragmentation, supply chain disruptions and growing economic security concerns.
- Governments are adopting more interventionist industrial policies to strengthen resilience, secure critical supply chains and support strategically important industries, changing the international competitive landscape.
- The European Union is placing greater emphasis on competitiveness, resilience and strategic autonomy, while seeking to strengthen the Single Market, accelerate the green and digital transitions, and reduce strategic dependencies.
- Ireland's openness to trade, foreign investment and global value chains remains a key competitive strength but increases exposure to external economic and geopolitical shocks.
- Strengthening economic resilience will require greater diversification, stronger strategic risk assessment and continued investment in the competitiveness fundamentals that underpin sustainable long-term growth.
- Energy security (addressed in Chapter 2) is becoming an increasingly important component of competitiveness, reinforcing the need for secure, affordable and sustainable energy supplies alongside investment in critical infrastructure and domestic energy capability.

1.1 Current Situation

The global economic environment is becoming increasingly uncertain. Rising geopolitical tensions, trade fragmentation, supply chain disruptions and growing concerns around economic security are reshaping the international landscape and contributing to a more interventionist approach to industrial policy across many advanced economies. These developments are also influencing policy at European level. In recent years, the EU has placed greater emphasis on competitiveness, resilience, economic security and strategic autonomy, while seeking to accelerate the green and digital transitions. This shift is reflected in a growing focus on strengthening European capabilities, reducing strategic dependencies and supporting investment in critical technologies, infrastructure and supply chains. These challenges are summarised in Figure 1.1.

For Ireland, these developments present both opportunities and challenges. As a small, highly open economy, Ireland has benefited significantly from international trade, foreign direct investment and participation in global value chains. While the global economy is becoming less predictable and more interventionist, Ireland's long-term prosperity will continue to depend on openness and international engagement. The challenge is therefore not to depart from this model, but to strengthen resilience, competitiveness and strategic capabilities in a changing global environment.

Figure 1.1: Overview of Challenges

Uncertainty Driver	Key Features	Implications for Competitiveness
Economic Volatility	Inflation volatility, interest rate changes, growth instability	Impacts investment decisions, business confidence, and cost environment
Geopolitics	Rising global tensions, conflict, strategic rivalries	Increases risk to trade, investment flows, and policy stability
Energy Crisis	Volatile oil and gas markets, energy security concerns	Drives costs, affects inflation, and undermines industrial competitiveness
Trade Fragmentation	Tariffs, trade barriers, supply chain reconfiguration	Disrupts global value chains and reduces market access
Industrial Policy Shift	Increased state intervention, subsidies, strategic autonomy policies	Alters competitive landscape and location decisions for investment.
AI Disruption	Rapid adoption of AI, automation, shifting skill requirements.	Reshapes productivity and business models, creates advantages for early adopters, and risks widening gaps between firms and economies that cannot adapt.

1.1.1 Global Uncertainty and Economic Security

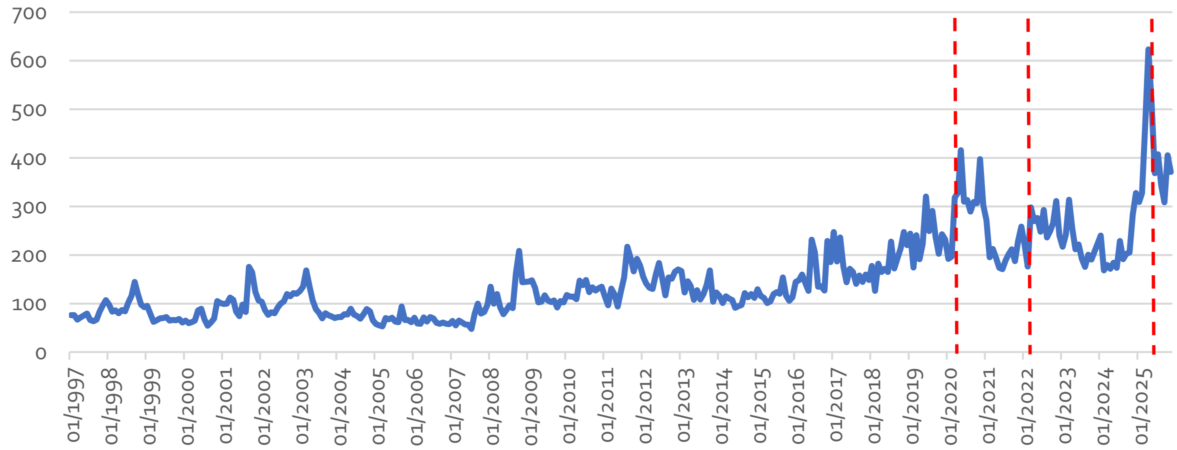
While international economic uncertainty affects all economies, its implications for competitiveness differ depending on factors such as economic openness, sectoral concentration, and reliance on cross-border investment and global supply chains. For Ireland, these issues are particularly significant given the economy's high degree of openness, concentration of exports in a relatively small number of sectors and markets, and continued reliance on foreign direct investment Ireland and Europe face heightened uncertainty across a number of fronts, including trade policy, geopolitical developments, economic security concerns and energy markets.

The global economic environment is becoming increasingly characterised by volatility, uncertainty, complexity and ambiguity (VUCA). Recent years have seen a succession of major shocks, including the COVID-19 pandemic, Russia's invasion of Ukraine, escalating geopolitical tensions, disruptions to global trade, and growing policy uncertainty. The Economic Policy Uncertainty Index has, at several points during 2025, exceeded levels observed during the pandemic, highlighting the scale of uncertainty facing businesses, investors and policymakers.[2] For Ireland, such uncertainty can have a disproportionate impact on investment and location decisions, exports, employment and longer-term growth prospects.

Economic security is an increasingly important foundation for long-term competitiveness. While economies may continue to grow in the presence of risks, heightened uncertainty can weigh on investment, innovation and business planning well before those risks materialise. Resilient supply chains, secure access to critical inputs, financial stability and a skilled workforce all contribute to an environment that supports sustainable economic growth and competitiveness. The reliability of these foundations is especially important given Ireland's integration into global value chains and the concentration of activity in a relatively small number of internationally traded sectors.

[2] Global Economic Policy Uncertainty Index: Current Price Adjusted GDP (GEPUCURRENT) | FRED | St. Louis Fed: Federal Reserve Bank (FRED) of St. Louis, updated March 2026.

Figure 1.2: Global Economic Policy Uncertainty Index



Source: Global Economic Policy Uncertainty Index, St. Louis Fed. Notes: This is a GDP-weighted average of national Economic Policy Uncertainty indices and is constructed using newspaper-based measures of policy uncertainty across major economies. Dashed lines correspond to onset of: COVID-19 pandemic (2020), the invasion of Ukraine (2022) and the outbreak of conflict in the Gulf (2025).

OECD analysis highlights the growing importance of economic security considerations within global value chains, particularly in areas such as semiconductors, critical raw materials and energy.[3] The analysis identifies vulnerabilities where supply is highly concentrated and disruptions can have significant downstream effects across production networks. While concentration often reflects specialisation and can support productivity, competitiveness and lower costs, it can also increase exposure to external shocks and strategic dependencies. For Ireland, these risks arise through reliance on imported energy and critical inputs, internationally connected supply chains, and the potential effects of disruption on multinational-dominated export sectors.

Similar conclusions have been reached by the Expert Group on Global Value and Supply Chains,[4] which highlights how geopolitical tensions, climate-related disruptions and supply chain shocks have increased the importance of understanding critical dependencies within global production networks, particularly for small, highly open economies. These risks are especially evident in critical raw materials, where extraction and processing are often concentrated in a small number of countries. Improved understanding of Ireland’s key supply-chain dependencies is therefore important in identifying where disruption could have the greatest impact on enterprise activity and the wider economy.

Ireland has historically benefited from its reputation as a stable and predictable location in which to invest and do business, although aspects of Ireland’s trade and investment model may be subject to increased scrutiny in a more fragmented international environment. As geopolitical tensions, trade fragmentation and policy uncertainty increase, maintaining that stability and strengthening economic resilience will become increasingly important.

For Ireland, the challenge is to build on existing areas of competitive advantage while ensuring that resilience and economic security considerations are appropriately reflected in enterprise and industrial policy. Looking beyond the current Smart Specialisation Strategy period (which guides the prioritisation of innovation and enterprise policy), there will be an opportunity to consider how competitiveness, resilience and economic security objectives can be more closely aligned in identifying future areas of strategic focus. This should include consideration of how Ireland can reduce excessive supply-chain and market dependencies, diversify its export base, and strengthen the capabilities of domestically owned enterprises.

[3] Economic Security in a Changing World (EN): New Approaches to Economic Challenges, OECD, 2025.
[4] Expert Group on Global Value and Supply Chains Report: Department of Enterprise, Tourism and Employment, November 2024.

Economic resilience and diversification are therefore becoming increasingly important complements to traditional sources of competitiveness. The policy challenge is to strike an appropriate balance between efficiency and resilience, ensuring that economic systems remain both competitive and capable of adapting to external shocks.

1.1.2 International Industrial Policy and Resilience Measures

In response to rising economic uncertainty, geopolitical tensions and growing economic security concerns, governments across advanced economies are increasingly turning to industrial policy as a tool to strengthen competitiveness, build resilience and support strategic sectors. This marks a notable shift from the more market-led approaches that characterised much of the post-globalisation period, with a more active role for the state in shaping investment, innovation and industrial development. Policy instruments such as industrial strategies, public procurement, export controls, investment screening and strategic partnerships are being deployed more extensively to attract high-value segments of global value chains and strengthen domestic capabilities in strategically important sectors.[5]

For Ireland, the growing use of industrial policy internationally has important implications for competitiveness and investment. Ireland's economic model is particularly exposed to this shift given its reliance on foreign direct investment, integration into global value chains and concentration in a relatively small number of internationally traded sectors. As larger economies increasingly deploy subsidies, state aid, public procurement and other policy instruments to support strategic sectors, the international competitive landscape is changing, and Ireland may face greater competition to attract and retain internationally mobile investment.

The IMF finds that subsidies remain the most widely used instrument of industrial policy globally. In recent years, governments have increasingly deployed direct fiscal supports to encourage domestic investment, strengthen strategic industries and reduce supply chain dependencies. Prominent examples include the US Inflation Reduction Act, and CHIPS and Science Act, which provided substantial incentives for investment in clean technologies, semiconductor manufacturing and domestic supply chains. These measures illustrate the scale of the competition for investment in sectors that are important to the country's existing enterprise and export base.

Public procurement has also emerged as an increasingly important industrial policy tool. A number of countries have introduced procurement measures designed to support domestic production in strategically important sectors. For example, Canada's *Policy on Prioritizing Canadian Materials in Federal Procurement*, introduced in 2025, requires the use of Canadian-produced steel, aluminium and wood in major federal construction and defence projects.[6] Similar measures have been introduced in countries including India, China, the UK and South Africa.[7] The growing use of procurement policy reflects a broader shift in industrial policy away from solely supporting innovation and investment towards actively shaping the location of production and supply chains. For Ireland, the spread of domestic-preference measures presents a potential challenge to an economic model that favours open international markets.

Similar trends are increasingly evident within the European Union, where proposals incorporating 'Made in Europe' procurement provisions have begun to feature in initiatives linked to industrial competitiveness, clean technologies and strategic sectors. The relaxation of State aid rules in response to recent crises has also increased the scope for Member States to support strategic sectors, strengthen domestic capabilities and attract industrial investment. This may place smaller Member States such as Ireland at a disadvantage where larger Member States have greater fiscal capacity to support domestic industries and compete for investment. At the same time, EU-level initiatives may create opportunities for Irish firms to participate in the development of European capabilities and supply chains in strategically important sectors.

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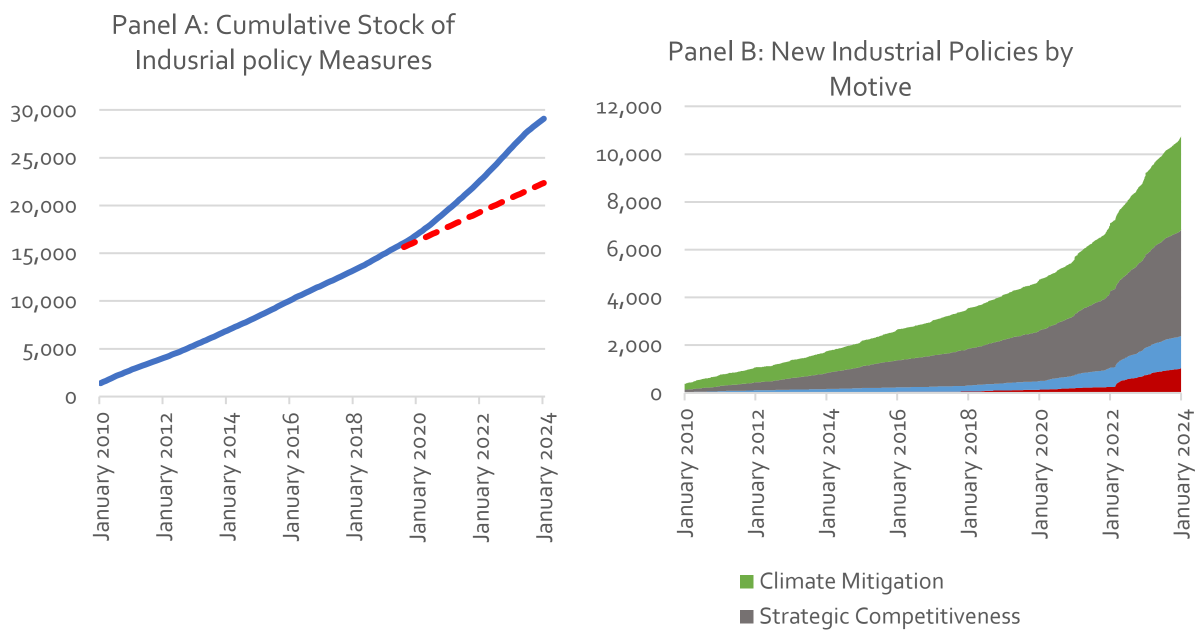
[5] OECD (2025), *Economic Security in a Changing World*, New Approaches to Economic Challenges, OECD Publishing, Paris, https://doi.org/10.1787/4eac89c7-en.
[6] Buy Canadian - Canada.ca, Effective December 2025.
[7] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52026SC0030: Key Performance Indicators (KPIs) Implementation Trackers, Overview of Resilience Measures by Selected Global Players, European Commission, 2026.

This shift is evident across a range of economies. Over the past year, several countries have published new industrial strategies signalling a more active role for government in shaping industrial development, including the UK's *Modern Industrial Strategy*,[8] Italy's *Made in Italy*[9] strategy and Japan's *Growth Strategy Headquarters*.[10] While differing in scope and emphasis, these strategies typically combine horizontal measures to support productivity, innovation, investment and firm growth with targeted interventions aimed at sectors considered critical to future competitiveness.

Analysis by the IMF shows that the use of industrial policy measures has expanded significantly over the past 15 years, particularly since 2020. As shown in Figure 1.3, the number of industrial policy measures introduced globally has increased steadily since the Global Financial Crisis, with a marked acceleration in recent years. The motivations underpinning these interventions have also evolved. While climate mitigation remains an important driver, there has been a notable increase in measures motivated by strategic competitiveness, supply chain resilience and economic security considerations.

Figure 1.3: Cumulative Industrial Policies (post-GFC)



Source: IMF.[11] Notes: Both Panel A and Panel B represent a cumulative count of industrial policy measures post-global financial crisis. The black vertical line in Panel A refers to a statistically significant breakpoint identified in November 2019 (beyond which there was an acceleration in industrial policy activity), while the red dashed line represents the hypothetical continuation of the pre-breakpoint trend. Panel B detail the LLM-assigned motive for industrial policies measured.

While Ireland cannot compete on the scale of intervention available to larger jurisdictions, it can continue to strengthen the framework conditions that underpin competitiveness, including skills, innovation capacity, infrastructure, regulatory certainty and openness to trade and investment. It can also consider how enterprise policy can strengthen the capacity of Irish-owned firms to participate in international supply chains and reduce excessive dependence on a relatively small number of sectors, markets and multinational enterprises. As industrial policy becomes increasingly prominent internationally, Ireland's challenge will be to remain competitive while preserving the openness and market orientation that have underpinned its economic success.

[8] Industrial Strategy - GOV.UK: Department for Business and Trade, June 2025.
[9] Ministry of Enterprises and Made in Italy
[10] Headquarters for Japan’s Growth Strategy (The Prime Minister in Action) | Prime Minister's Office of Japan, November 2025
[11] IMF Working Papers Volume 2025 Issue 222: Industrial Policy Since the Great Financial Crisis (2025), October 2025.

1.1.3 Energy Market Volatility

Energy is a critical component of both economic security and competitiveness. Recent geopolitical developments have once again highlighted the vulnerability of global energy markets to geo-political shocks and the potential for disruptions to affect domestic energy prices, broader inflation pressures and economic activity. While oil and gas are traded on global markets, the impact of energy shocks can vary significantly across countries. Differences in energy import dependency, energy mix, taxation, infrastructure, strategic reserves and industrial structure can all influence the extent to which higher energy costs are passed through to firms and households. As a result, energy shocks can have important implications for international competitiveness, affecting production costs, investment decisions and the attractiveness of locations for mobile investment.

These developments reinforce the importance of strengthening Ireland’s energy security and accelerating the transition towards more affordable, sustainable and domestically generated sources of energy. For Ireland, ensuring a reliable and competitively priced supply of energy will be essential to supporting enterprise, attracting investment and maintaining competitiveness in an increasingly uncertain global environment. In this context, investment in energy infrastructure, grid capacity and renewable generation should be viewed not only as a climate objective, but also as a strategic competitiveness and economic security priority. This is explored in more detail in Chapter 2.

1.2 Actions to Enhance Ireland’s Economic Resilience

1.2.1 Exercising Prudent Fiscal Policy to Strengthen Economic Resilience

In an increasingly uncertain global environment, maintaining fiscal sustainability will be critical to Ireland’s ability to respond effectively to future economic shocks. While Ireland’s economic performance remains strong, the economy remains exposed to external risks arising from geopolitical fragmentation, trade disruption, and volatility in international markets.

Recommendation 1.1: The Council recommends that Government strengthen Ireland’s economic by exercising restraint in the net fiscal position (in both expenditure and tax policy), through adherence to a domestic fiscal rule, as recommended by the Irish Fiscal Advisory Council while targeting increased investment towards competitiveness and productivity enhancing reforms, such as energy, water and public transport.

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

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1.2.2 Strengthening Economic Resilience through Diversification

The Government Action Plan on Market Diversification aims to strengthen Ireland's competitiveness and resilience by broadening export and investment links beyond traditional markets. Progress to date has included expanded overseas representation and new supports to help firms access growth markets. Continued delivery of the Action Plan, alongside efforts to identify and monitor critical supply chain dependencies, will help reduce concentration risks and strengthen Ireland's resilience to external shocks. However, understanding and monitoring critical supply chain dependencies will also be important in managing exposure to geopolitical, trade and other external risks. Continued delivery of the Action Plan, alongside efforts to identify and assess strategic dependencies, will help strengthen Ireland's economic resilience.

In addition, effective management of strategic risks is an increasingly important component of economic resilience and competitiveness. As the global environment becomes more uncertain, require robust mechanisms are required to identify emerging risks, assess vulnerabilities and support coordinated responses across policy areas. Ireland's National Risk Assessment provides an important framework for identifying strategic risks and strengthening preparedness for potential economic, geopolitical, environmental and societal shocks.

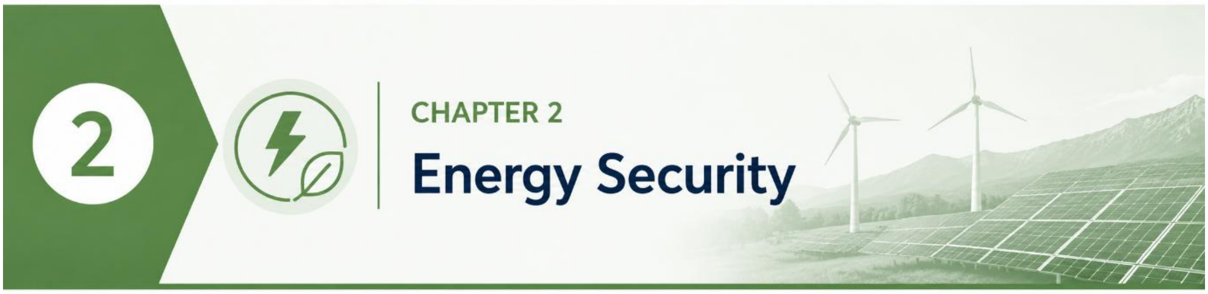
- **Recommendation 1.2:** The Council recommends that Government strengthen Ireland's economic resilience to supply disruptions, geopolitical risks and changing global trade patterns, by:

  (iv) Developing a national capability to map and monitor critical supply chain dependencies; and

  (v) Progressing the delivery of outstanding actions under the Government Action Plan on Market Diversification to support firms in expanding into new markets, reducing concentration risks, and strengthening resilience to external shocks.

  (vi) Continuing development and publication of the National Risk Assessment – Overview of Strategic Risks, to identify and discuss significant strategic risks which may arise for Ireland. The process should help inform and support cross-government preparedness and strengthen institutional capacity to anticipate, manage, and respond effectively to external shocks and periods of heightened uncertainty.

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



2 CHAPTER 2
Energy Security

Summary

- Ireland's energy competitiveness is constrained by high electricity costs, continued dependence on imported fossil fuels and growing pressure on electricity infrastructure.
- Business electricity prices remain among the highest in the EU, with SMEs particularly affected due to their more limited capacity to absorb higher energy costs.
- Ireland's electricity prices remain closely linked to international natural gas markets, leaving businesses and households exposed to geopolitical shocks and volatility in global energy prices.
- Recent geopolitical developments have reinforced the importance of energy security, highlighting the risks associated with Ireland's continued reliance on imported fossil fuels and the need to diversify energy supply.
- Structural characteristics – including Ireland's peripheral location, relatively small market size and infrastructure constraints – also contribute to comparatively high electricity costs.
- Rapid growth in electricity demand, driven by economic expansion, electrification and data centres, reinforces the need for accelerated investment in grid infrastructure, renewable generation and energy system resilience.

2.1 Current Situation

Energy costs remain a significant competitiveness challenge for Ireland. Our energy competitiveness is shaped by a combination of relatively high electricity prices, continued dependence on imported fossil fuels and growing pressure on energy infrastructure. While wholesale electricity prices have eased from recent peaks, business electricity costs remain well above the EU average. Recent geopolitical developments have again demonstrated the extent to which external shocks can affect energy costs and security of supply. At the same time, increasing demand from economic growth, electrification and large energy users is placing additional demands on the electricity system. These trends highlight the close relationship between energy affordability, energy security and competitiveness.

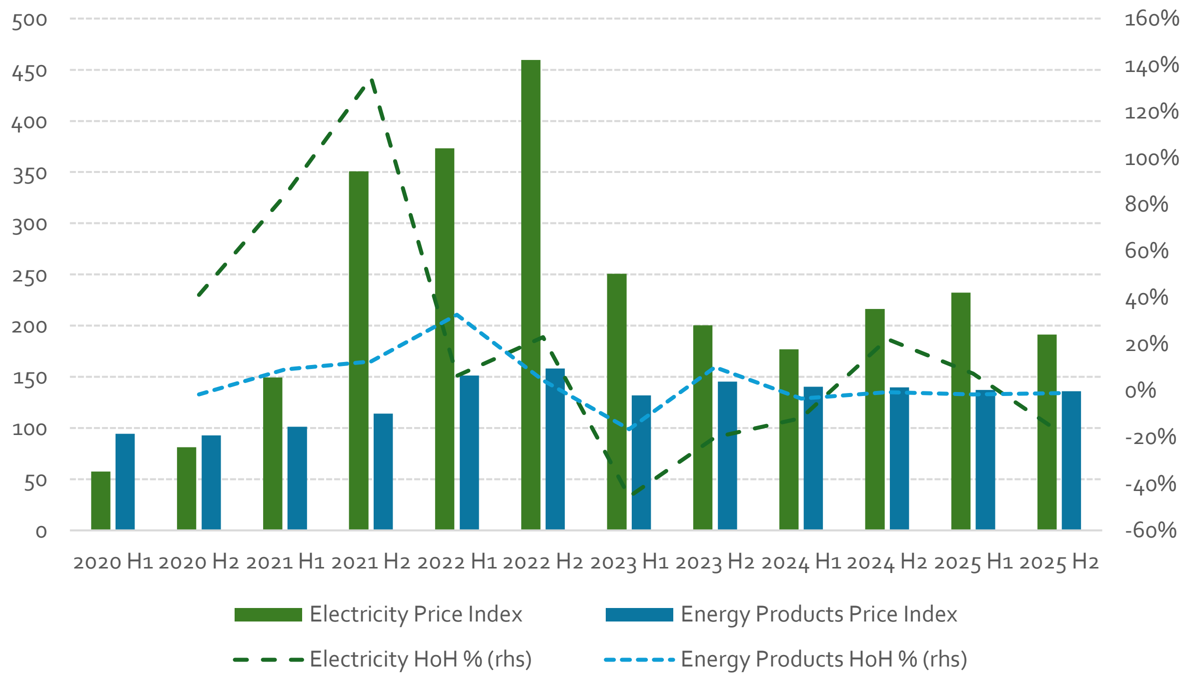
The EU already faces considerably higher electricity prices than both the United States and China, eroding the competitiveness of energy-intensive industries and reducing the attractiveness of Europe, including Ireland, as a location for investment. These challenges are particularly acute for small and medium-sized enterprises, which are often less able to absorb higher energy costs than larger firms.

2.1.1 Developments in Energy Prices

Like other European countries, Ireland experienced a sharp rise in electricity prices following the unprecedented increase in UK and European natural gas prices after Russia's invasion of Ukraine. As Ireland relies heavily on imported natural gas from the UK, and as gas-fired generation frequently sets the marginal price in the Single Electricity Market (SEM), increases in gas prices had a significant impact on wholesale electricity prices. More recently, the war in Iran and the related disruption to energy production and supply chains across the Middle East has contributed to renewed upward pressure on European and UK natural gas prices, which may place renewed upward pressure on electricity costs for Irish consumers and businesses.

Ireland's Wholesale Price Index (Figure 2.1) indicates that, while wholesale electricity prices have declined from the exceptional levels reached during the energy crisis, they remain elevated relative to pre-crisis levels. The latest CSO data shows that wholesale electricity prices were 17.7 per cent lower in the second half of 2025 than a year earlier, while the overall energy products index declined by 1 per cent over the same period. Nevertheless, wholesale electricity prices in the second half of 2025 remained more than three times higher than in the first half of 2020.

Figure 2.1 Wholesale electricity and energy product prices (Index, 2015=100) and year-on-year change (%)[12]



Source: CSO

Analysis of electricity prices for non-household consumers in the first half of 2025 indicates that Irish businesses continue to face significantly higher electricity costs than the EU average (€0.24 per kWh compared with €0.18 per kWh), as shown in Figure 2.2a. Despite these higher prices, the non-recoverable tax component of Irish electricity prices (€0.0173 per kWh) is substantially lower than the EU average (€0.0354 per kWh). This suggests that Ireland's relatively high electricity costs are driven primarily by underlying energy and supply costs rather than taxation.

Figure 2.2b shows the composition of electricity prices for business consumers between 2019 and 2024. While the combined share of taxes, levies, charges and network costs fell from 41.8 per cent of the total price in 2019 to 22.5 per cent in 2024, this largely reflects the sharp increase in wholesale energy costs over the period rather than a reduction in non-energy costs.

[12] Energy Products comprise Gas Oil (other than auto-diesel), Fuel Oil and Electricity. Electricity is assigned a higher weighting on the basis of sales.

Beyond energy costs, energy security is becoming an increasingly important determinant of competitiveness. Recent geopolitical developments in the Gulf have highlighted Ireland's continued exposure to international energy market volatility and supply disruptions arising from its reliance on imported fossil fuels. While Ireland imports relatively little oil directly from the region, disruptions to global energy markets can still affect domestic energy costs through higher international oil and gas prices, with impacts feeding through to electricity, transport and heating costs over time.

These developments come only a few years after the energy market shock triggered by Russia's invasion of Ukraine and reinforce the strategic importance of strengthening Ireland's energy security. In 2024, fossil fuels accounted for approximately 81 per cent of Ireland's total primary energy requirement, underlining the extent of the State's continued dependence on imported energy.

Reducing reliance on imported fossil fuels through greater deployment of indigenous renewable energy, expanded long-duration energy storage, and the development of green dispatchable fuels such as hydrogen and biomethane could strengthen both Ireland's energy security and long-term competitiveness. Access to a secure, affordable and sustainable energy supply will be increasingly important in supporting investment and economic resilience.

At the same time, delivering the energy transition will require significant investment in generation, networks and supporting infrastructure. Managing the financing of this investment in a manner that supports competitiveness will be important, particularly given the relatively high electricity costs already faced by Irish businesses.

Figure 2.2a: Business (non-household) consumers electricity prices – all consumption bands for selected EU countries for H2-2025, (€ per kWh)

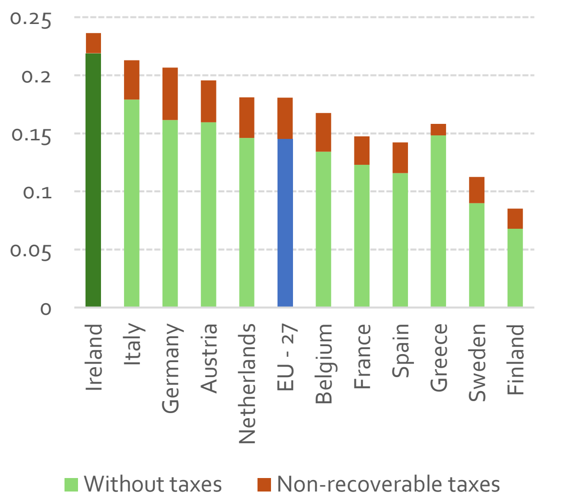
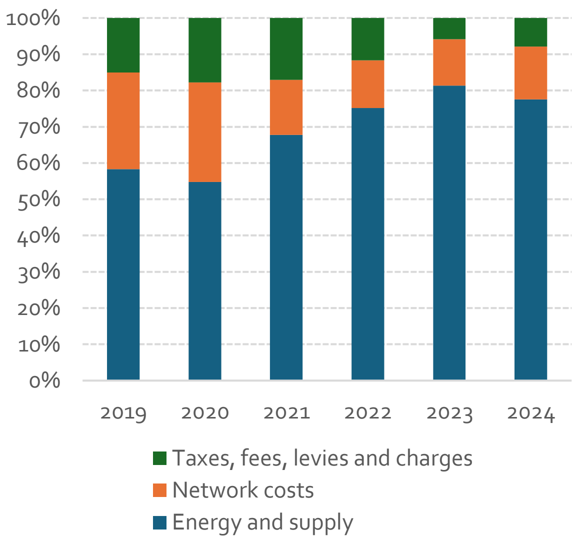


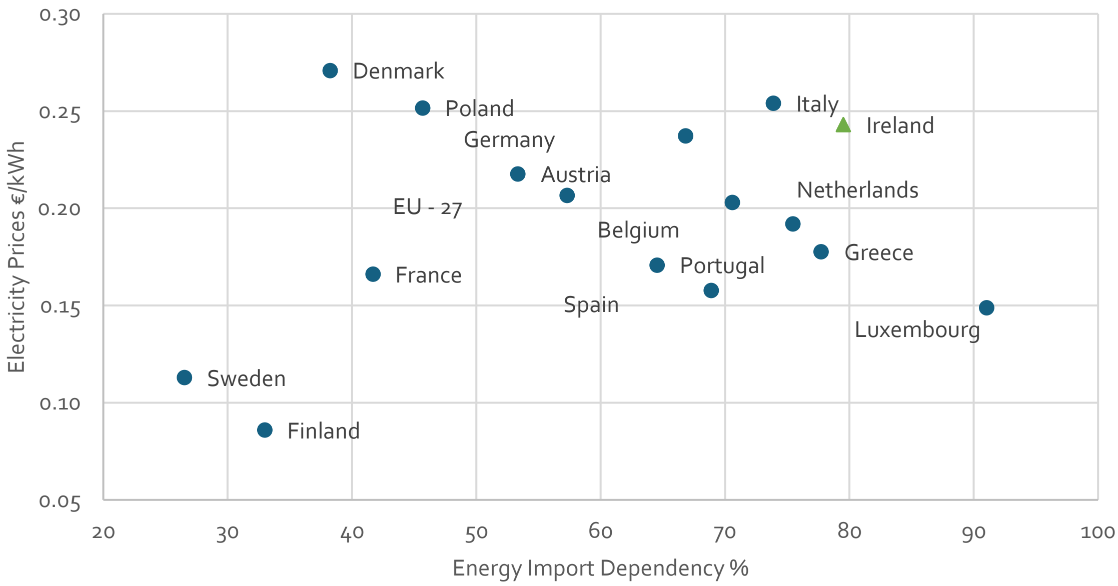
Figure 2.2b: Components of Irish electricity prices of business (non-household) consumers – all consumption bands, (contribution %)



Source: Eurostat, NCPC calculations.

Figure 2.3 illustrates that Ireland combines relatively high electricity prices with a high degree of energy import dependency. While import dependency alone does not explain differences in electricity prices across countries, Ireland's peripheral location, relatively small market size and low population density can contribute to higher infrastructure and network costs. These factors highlight some of the structural challenges associated with delivering a secure, affordable and reliable electricity system. Together, these findings highlight the structural challenges facing Ireland's energy system and reinforce the importance of continued investment in electricity infrastructure to support electrification, energy security and long-term competitiveness.[13]

Figure 2.3: Electricity prices for non-household consumers (including taxes), 2025 H2 (€/kWh) vs. Energy import dependency (%), 2025



Source: Irish Fiscal Council, Eurostat, CSO and NCPC calculations

2.1.2 Electricity Infrastructure and Future Demand

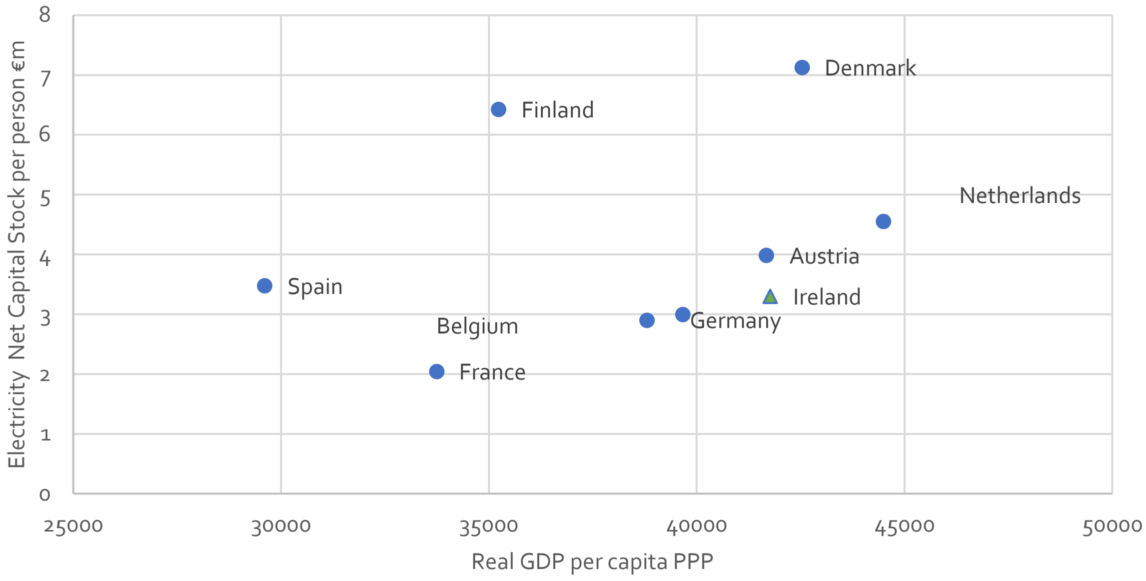
Figure 2.4 highlights a number of important features of Ireland's electricity infrastructure profile. While Ireland is a relatively high-income economy, electricity capital stock per person appears lower than in several high-income peer economies, including Denmark, Finland, the Netherlands and Austria. This is consistent with the view that investment in electricity infrastructure has struggled to keep pace with growing demand associated with economic expansion, population growth and the ongoing electrification of the economy.

Ireland's electricity demand has increased significantly over the past decade, driven by large energy users, industrial activity and the electrification of heating and transport. In 2023, data centres accounted for more than one-fifth of total electricity demand, with this share projected to increase further over the coming decade. Rising demand is expected to place additional pressure on electricity infrastructure and reinforces the importance of timely investment in grid capacity and network expansion. This is particularly relevant in the context of Ireland's climate objectives, which will require a substantial increase in electricity demand as transport, heating and industrial processes become increasingly electrified.

In response, a range of measures have been introduced to strengthen electricity infrastructure, including the Government's planned €3.5 billion investment in grid infrastructure over the period 2026-2030. While these measures are welcome, continued progress will be required to ensure that electricity infrastructure keeps pace with growing demand and supports Ireland's long-term competitiveness and energy resilience.

[13] Luxembourg combined relatively high import dependence with relatively low electricity prices. Deep integration into the Continental European electricity market, extensive cross-border interconnection, relatively low network costs and modest taxes and levies, allow Luxembourg to import most of its electricity while maintaining comparatively competitive prices.

Figure 2.4: Electricity capital stock per person vs real GDP per capita, 2022



Source: Irish Fiscal Council, Eurostat, CSO and NCPC calculations

2.2 Actions Crucial to Improving Energy Security

2.2.1 Accelerating Strategic Energy Infrastructure Delivery

Ireland's high energy import dependence, growing electricity demand and increased geopolitical uncertainty highlight the importance of accelerating the delivery of strategic energy infrastructure. Expanding and modernising the electricity system will be critical to supporting economic growth, electrification, energy security and decarbonisation, while ensuring that the costs of investment do not unduly undermine competitiveness. Achieving this will require both accelerated investment in grid infrastructure and reforms to planning and permitting processes to ensure that key energy projects are delivered in a timely manner. Over the longer term, strengthening energy resilience will also require a more diversified energy mix, including greater deployment of renewable energy, expanded energy storage capacity and the development of low-carbon dispatchable energy sources. As renewable generation is inherently intermittent, ensuring security of supply will continue to require dispatchable generation capacity, including fossil fuel-based sources, alongside the development of cleaner and more sustainable alternatives.

Recommendation 2.1: The Council recommends accelerating the delivery of Ireland's electricity infrastructure by:

(i) Accelerating investment in the renewal and expansion of the electricity grid and ensuring that EirGrid is appropriately resourced and incentivised to deliver this investment, while ensuring that the chosen funding model does not undermine firm competitiveness through unreasonable pass-through costs.

(ii) Undertaking rapid reform of planning and permitting processes to meet the timelines required under the EU Renewable Energy Directive III, and prepare for the forthcoming Grids Package, including the timely delivery of Phase 1 offshore wind projects and the North-South Interconnector.

Responsibility: Department of Climate, Energy and Environment

2.2.2 Diversifying Ireland's Energy System and Strengthening Resilience

Strengthening Ireland's energy security will require a more diversified and resilient energy system. Recent geopolitical developments have highlighted the risks associated with dependence on imported fossil fuels and the importance of ensuring secure and reliable energy supplies. At the same time, supporting the decarbonisation of industry will require the development of alternative low-carbon energy sources and technologies capable of meeting the needs of energy-intensive sectors. As the energy transition accelerates, it will be important to consider the role that a broad range of technologies can play in supporting energy security, system resilience, decarbonisation and competitiveness objectives.

Recommendation 2.2: The Council recommends that Ireland strengthen the resilience and security of its energy system, through:

(i) Putting in place strategic LNG Storage facilities as quickly as possible to ensure the resilience of gas and electricity supply;

(ii) Following the rejection by the EU Commission of a proposed 'domestic multiplier' under the Renewable Heat Obligation (RHO), designing a support framework, such as a Contract for Difference auction, for indigenously produced biomethane to be used in high-temperature manufacturing processes; and,

(iii) Facilitating the rapid rollout of solar powered energy solutions.

Responsibility: Department of Climate, Energy and Environment

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2.2.3 A Technology-Neutral Approach to Future Energy Supply

While renewable energy will play a central role in Ireland's future energy system, uncertainty remains regarding the optimal mix of technologies required to deliver a secure, affordable and sustainable energy supply. Renewable energy sources such as wind and solar tend to be more intermittent than traditional fossil fuel energy. Ireland needs an energy mix that is resilient on the winter days when the wind doesn't blow and the sun doesn't shine. In this context, maintaining a technology-neutral approach and assessing the potential contribution of alternative energy technologies can help inform long-term energy policy and investment decisions. Such analysis should consider the potential role of emerging and alternative technologies in supporting energy security, system resilience, decarbonisation and competitiveness objectives.

Recommendation 2.3: Council recommends that Government maintain a technology-neutral approach to future energy options, and that a feasibility study be undertaken on the potential costs and benefits of alternative power options for Ireland, including nuclear (with reference to the role that small modular reactors (SMRs) could play), biomethane and tidal power.

Responsibility: Department of Climate, Energy and Environment

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3 CHAPTER 3 Cost of Doing Business

Summary

- Irish firms continue to operate in a challenging and uncertain environment, with geopolitical tensions, higher energy costs and persistent domestic inflationary pressures increasing the cost of doing business.
- Sustained productivity growth is essential to maintaining competitiveness, particularly as labour costs continue to rise and wage growth outpaces productivity in many domestically focused sectors.
- High labour costs do not necessarily reduce competitiveness, provided they are matched by productivity gains. However, productivity performance differs markedly between multinational and domestically oriented sectors of the economy.
- Access to affordable finance remains a structural challenge for SMEs, with relatively high lending costs, limited banking competition and financing constraints continuing to affect younger and smaller firms.
- A stable industrial relations environment and effective mobilisation of human capital will become increasingly important in supporting productivity, workforce adaptation and long-term competitiveness.
- The establishment of the Cost of Business Advisory Forum provides an important opportunity to identify and address structural cost pressures affecting enterprise, including energy, finance, regulation and the wider business environment.

3.1 Current Situation

Irish economic activity has remained resilient in recent years despite successive periods of uncertainty, from Brexit and the onset of the COVID-19 pandemic to abrupt shifts in trade policy and escalating geopolitical tensions. The ongoing conflict in the Gulf region represents the latest in a series of external shocks and has increased uncertainty surrounding the outlook for the Irish economy, posing risks to both growth and inflation through demand- and supply-side channels, particularly via higher energy costs (as discussed in Chapter 2). More broadly, firms continue to operate in a challenging and increasingly uncertain trading environment.

As highlighted in the Department of Finance's *Annual Progress Report 2026*, core inflation is expected to remain elevated over the near term, reflecting both the pass-through of higher energy costs and persistent domestic price pressures. Against this backdrop, Irish firms continue to face significant cost-of-doing-business challenges, including rising labour costs, elevated energy prices, inefficiencies in the legal, planning and insurance systems, and the cost of accessing finance, particularly for domestic SMEs.

To better understand these challenges and their regional dimension, the Council continues to engage directly with enterprises. As part of this process, the Council held its third annual regional seminar in Galway in April 2026. A summary of this event is provided in Box 3A.

The Council also welcomes the establishment of the Cost of Business Advisory Forum, which recognises the importance of maintaining a sustained policy focus on the cost of doing business as a key determinant of Ireland's competitiveness. The Forum provides an important mechanism for examining the cost pressures affecting enterprise, identifying barriers to competitiveness, and informing policy responses across Government. The Council looks forward to considering the Forum's forthcoming report and the contribution it will make to informing future policy in this area.

Box 3A: NCPC Regional Seminar 2026 (Galway)

On 29th April, the NCPC – in collaboration with Galway Chamber and the University of Galway – hosted the third annual NCPC Regional Seminar. This year, the seminar focused on the competitiveness challenges, and opportunities, of the Northern and Western region.

A recurring theme throughout the discussion was the importance of connectivity, infrastructure, and talent in supporting regional growth. Participants noted that regional locations offer strong quality-of-life advantages and a collaborative business environment, supported by an experienced workforce and established industry clusters. However, concerns were raised around housing shortages, transport congestion, utilities capacity, and the pace of infrastructure delivery, all of which are affecting firms' ability to expand and plan for the future.

Speakers also highlighted challenges facing indigenous enterprises and SMEs, particularly in adopting digital and AI technologies and accessing existing enterprise supports. Tax-related issues, childcare availability, commuting pressures, and barriers to availing of R&D incentives were identified as factors impacting business growth and labour force participation.

There was significant discussion around the need for more effective regional planning and governance structures. Participants argued that Ireland remains overly centralised, limiting the ability to identify and respond to local challenges effectively. The importance of long-term strategic planning, stronger local decision-making, and improved alignment between infrastructure delivery and national development objectives was emphasised throughout.

The Q&A session reinforced concerns regarding labour shortages, infrastructure delivery, and balanced regional development. Participants highlighted the need to strengthen apprenticeship pathways, improve regional connectivity, and ensure that national investment strategies are matched by delivery mechanisms capable of supporting sustainable regional growth.

3.1.1 Developments in Labour Costs

Labour costs represent a significant share of firms' operating costs. Improving labour productivity is therefore essential to maintaining competitiveness, both domestically and internationally, by enabling firms to absorb higher wages without eroding competitiveness. This is particularly important in the context of ongoing cost-of-living pressures and the need to support sustainable real wage growth.

Ireland's enterprise base is characterised by a dual economic structure, comprising a globally integrated, highly productive multinational enterprise (MNE) sector alongside a predominantly domestic enterprise sector. The importance of productivity growth is particularly evident in domestically focused sectors, where labour accounts for more than 50 per cent of gross value added. By contrast, labour represented just 10.2 per cent of gross value added in the foreign sector in 2023, reflecting the highly capital-intensive nature of multinational activity and helping to explain the large productivity gap between the two parts of the economy. Consequently, headline measures of nominal unit labour costs (ULCs) can provide a misleading picture of Ireland's underlying competitiveness, as they are heavily influenced by the activities of multinational firms.

Examining ULCs separately for domestic- and foreign-dominated sectors provides a more informative picture. In domestically dominated sectors, nominal ULCs have increased steadily over the past decade (Figure 3.1a), reflecting labour cost growth that has outpaced productivity growth. This points to a gradual erosion in the cost competitiveness of many domestic firms, particularly those operating in labour-intensive sectors.

By contrast, ULCs in foreign-dominated sectors have remained low and broadly stable over the same period (Figure 3.1b). While this reflects the exceptionally high measured productivity of many multinational firms, it is also influenced by well-documented statistical distortions arising from the recording of intellectual property and other intangible assets in the national accounts. Nevertheless, the divergence between the two sectors highlights the very different productivity dynamics across the Irish economy.

The persistence of this productivity gap reinforces the importance of policies that strengthen productivity growth in the domestic enterprise sector through investment in skills, innovation, digitalisation and capital formation. Without stronger productivity growth, continued increases in labour costs are likely to place increasing pressure on the competitiveness of domestically focused firms.

Figure 3.1a Domestic-Owned Dominated Sectors Nominal Unit Labour Costs (ULC), seasonally adjusted, from 2011 Q1 – 2025 Q3

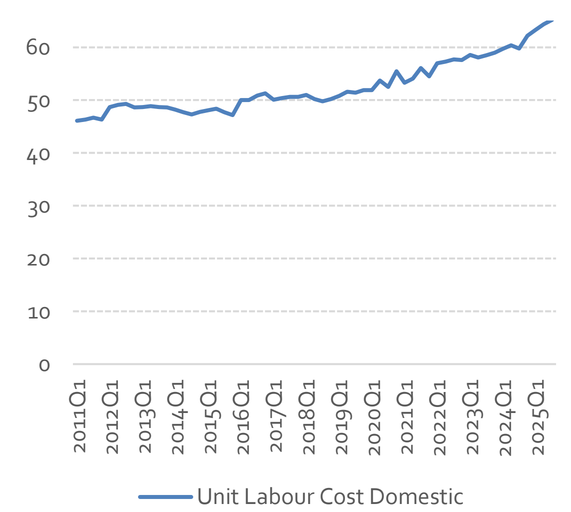
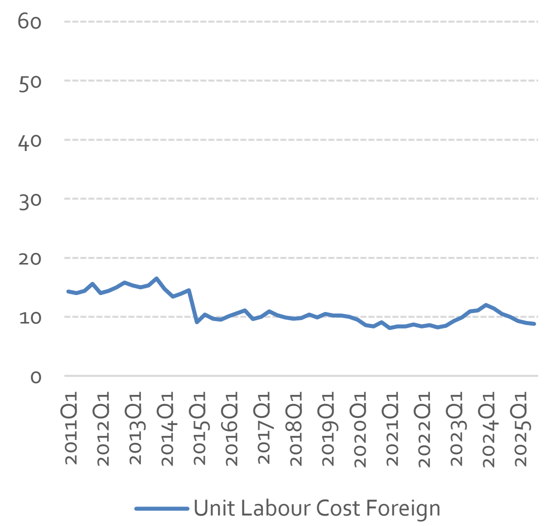


Figure 3.1b Foreign Owned Dominated Sectors Nominal Unit Labour Costs (ULC), seasonally adjusted, from 2011 Q1 – 2025 Q3



Source: CSO

In comparison with European peers (see Figure 3.2a), Ireland's average hourly labour costs (€44.20 in 2025) remain well above the EU average (€34.90) but are broadly in line with those of other small, advanced European economies, including Denmark (€51.70), the Netherlands (€47.90), Austria (€46.30) and Finland (€39.40). Ireland's relatively high labour costs reflect, in part, the concentration of high-value, high-wage sectors such as ICT, pharmaceuticals and internationally traded services. Indeed, Ireland recorded the highest hourly labour costs in the ICT sector among EU Member States in 2024 and across all reporting countries in 2025.

While the level of labour costs is comparable with many of Ireland's peers, labour costs have increased more rapidly in Ireland over recent years. Since 2021, hourly labour costs have grown faster than the EU average and faster than in many comparator economies (see Figure 3.2b). Labour cost growth has also exceeded consumer price inflation over the same period, resulting in sustained increases in real wages.

High labour costs need not undermine competitiveness where they are matched by strong productivity performance. On conventional measures, Ireland records the highest labour productivity in Europe (Figure 3.3). However, this largely reflects the exceptional productivity of the multinational sector and well-documented distortions in the national accounts. As discussed in the previous section, productivity growth has been considerably weaker in domestically dominated sectors, where rising labour costs have increasingly outpaced productivity growth, placing greater pressure on competitiveness.

Figure 3.2a Hourly Labour Costs in the EU, 2025, for selected countries and where data is available[14], euros

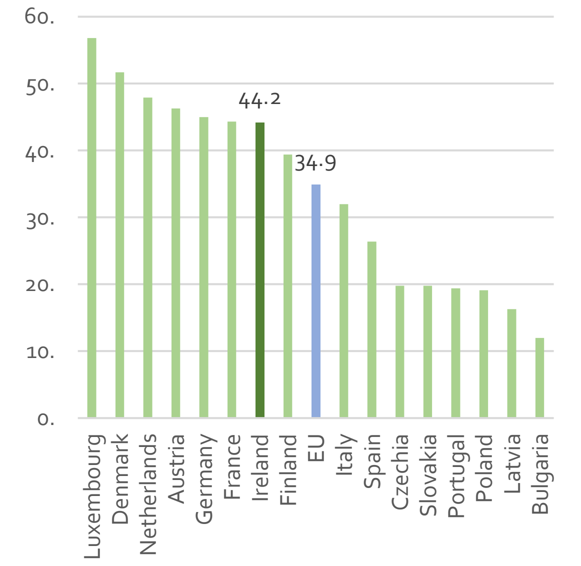
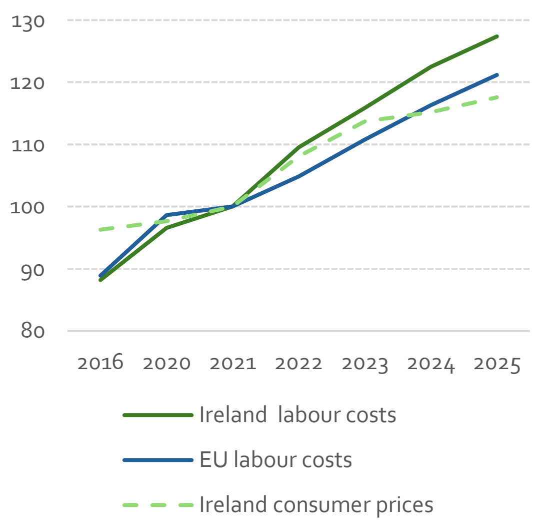
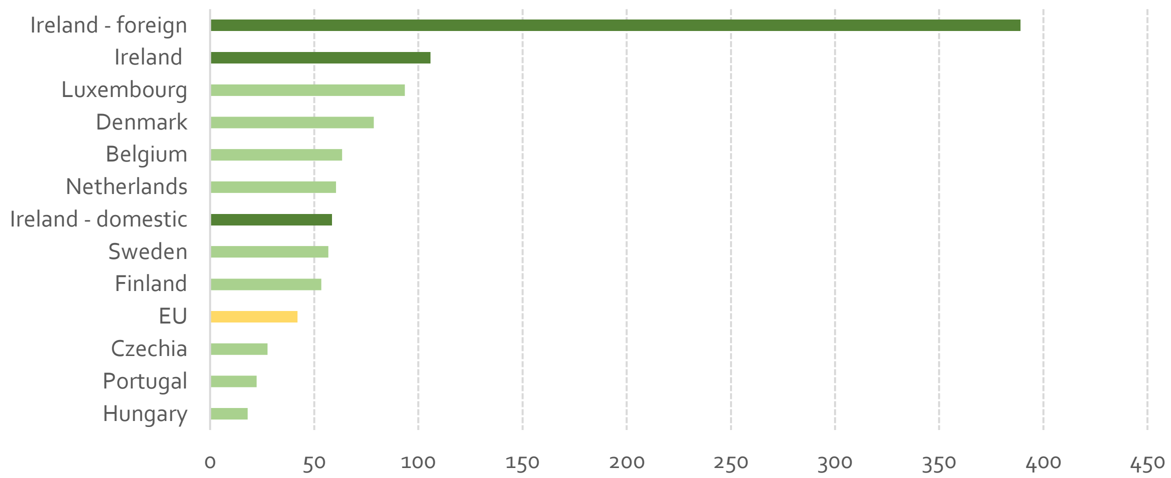


Figure 3.2b Hourly Labour Costs in Ireland and the EU-27, and Ireland Consumer Price Index (HICP), (index 2021=100.) from 2016 – 2025



Source: Eurostat

Figure 3.3 CSO European Comparison of Labour Productivity (Euro per Hour): 2023



Source: CSO

Notwithstanding some moderation in labour demand as the global economic outlook becomes more challenging, the Department of Finance anticipates that labour supply constraints will persist over the medium term, continuing to place upward pressure on wages. This may contribute to a further deterioration in Ireland's

[14] Data for 2025 was available for 26 EU member states with the exception of Belgium.

relative cost competitiveness and reinforces the importance of improving productivity, particularly within the indigenous enterprise sector.

Government policy will also continue to influence labour costs. On 1 January 2026, the National Minimum Wage (NMW) increased by 65 cent (4.8%) to €14.15 per hour, in line with the recommendation of the Low Pay Commission. Since 2020, the NMW has increased by 40%, from €10.10 per hour. These increases form part of the Government's transition towards a living wage equivalent to 60% of median hourly earnings. Recognising heightened economic uncertainty, the target date for achieving this has been extended from 2026 to 2029. The Government has indicated that future increases will continue to be informed by economic conditions, inflation and labour market developments, based on the recommendations of the Low Pay Commission.

Further changes to the labour market are also underway through the Action Plan on Collective Bargaining 2026-2030, which sets out 22 measures to strengthen collective bargaining arrangements and support the effective operation of the Workplace Relations Commission and Labour Court. While greater collective bargaining coverage may contribute to higher labour costs in some sectors, improved dispute resolution mechanisms and stronger industrial relations institutions should help reduce the costs associated with workplace disputes.

The implementation of the Automatic Enrolment Retirement Savings System (AE), branded as My Future Fund, in January 2026 will also have implications for business costs and should be monitored over the coming years. The scheme aims to improve pension coverage by automatically enrolling eligible employees aged 23 to 60 earning more than €20,000 per annum who are not already participating in a qualifying occupational pension or PRSA. To date, almost 800,000 employees have been automatically enrolled. For employers, automatic enrolment introduces an additional labour cost through mandatory employer pension contributions, with the impact likely to be greatest for SMEs and labour-intensive sectors with relatively low existing pension coverage. However, over the longer term, the scheme may also support staff recruitment and retention by enhancing the overall remuneration package available to employees.

3.1.2 Mobilising Human Capital

Mobilising human capital is central to Ireland's long-term competitiveness and productivity performance. This requires not only high employment, but also productive workplaces that attract, retain and develop skilled workers while making effective use of their skills and experience. Greater emphasis could also be placed on building effective pathways between education, research and industry to accelerate the commercialisation of innovation and strengthen the responsiveness of the skills system to emerging economic opportunities.

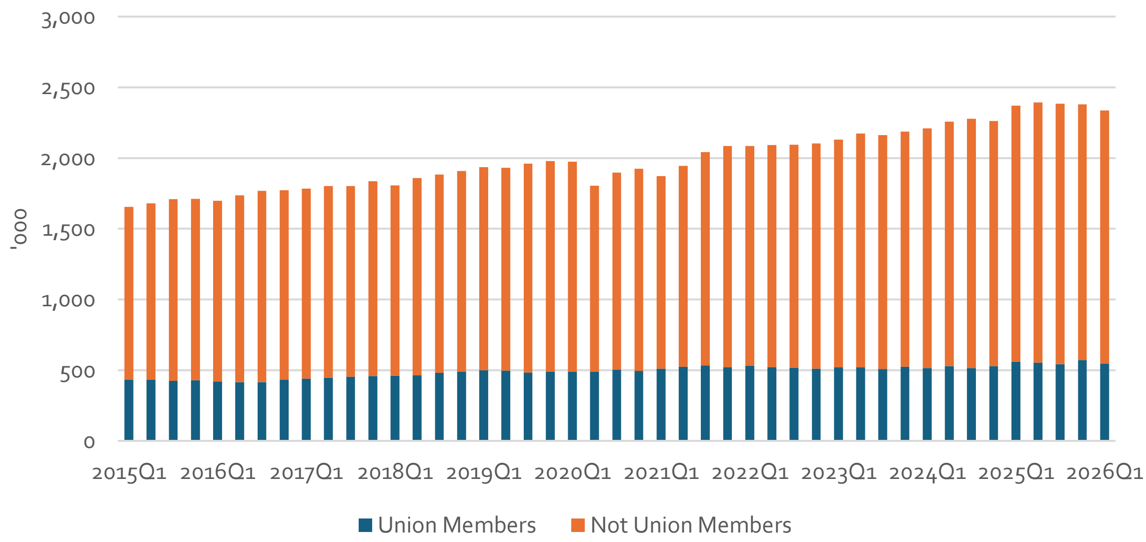
Alongside the availability and development of skills, well-functioning industrial relations arrangements can contribute to these objectives, by supporting constructive engagement between employers and employees on issues such as pay, working conditions, skills development and work organisation. They can also promote workplace cooperation, facilitate organisational change and innovation, and reduce the costs associated with industrial disputes. As Ireland's labour market adapts to demographic change and the increasing adoption of AI and other digital technologies, effective workplace dialogue will become increasingly important in supporting workforce adaptation and productivity growth.

Ireland's *Action Plan to Promote Collective Bargaining* positions collective bargaining as complementary to Ireland's longstanding voluntary industrial relations model and sets out a programme of measures to promote collective bargaining over the period 2026-2030. The Action Plan, developed in collaboration with the Irish Congress of Trade Unions (ICTU) and the Irish Business and Employers Confederation (IBEC), delivers on a Programme for Government commitment and supports Ireland's implementation of Article 4 of the EU Directive on Adequate Minimum Wages.

The Council welcomes the Action Plan's focus on promoting effective and stable industrial relations arrangements. Its importance to competitiveness lies in the potential for constructive collective bargaining to support predictable wage formation, workplace cooperation, skills development and the effective management of organisational and technological change. Greater collective bargaining coverage has implications for labour costs and workplace practices. The overall impact on competitiveness will depend on how it affects productivity, labour market flexibility and industrial relations outcomes. Continued monitoring of the implementation and impact of the Action Plan will therefore be important.

Figure 3.4 shows the number of employees who are trade union members compared to those are not. Trade union membership increased from approximately 430,000 in 2015 to 573,000 in 2025. However, trade union density declined modestly over the same period, reflecting strong overall employment growth. Neither membership nor density directly measure competitiveness. Instead, these trends show the reach of trade-union organisation and provide context for implementing the Action Plan in a growing labour market. Their competitiveness impact will depend on whether collective bargaining supports productivity, workplace adaptability and stable industrial relations.

Figure 3.4 Trade Union Members



Source: CSO Labour Force Survey

3.1.3 Cost of Finance

The cost and availability of finance remain an important component of the overall cost of doing business, particularly for SMEs. Recent research undertaken as part of the Joint Research Programme between the ESRI and the Department of Enterprise, Tourism and Employment[15] revisited SME financing in Ireland almost two decades after the Global Financial Crisis. The analysis finds that, while credit constraints have eased significantly since the crisis, structural challenges remain in the SME financing landscape. Compared with other euro area countries, Irish SMEs rely more heavily on trade credit and make less use of bank lending. At the same time, Ireland continues to have relatively high SME lending rates and a concentrated banking market, factors which appear to suppress demand for bank finance and encourage firms to rely on less efficient forms of financing. While overall rejection rates have fallen, younger and micro firms continue to experience greater difficulties accessing finance than larger and more established businesses.

The research suggests that improving competition in SME lending and reducing the cost of finance should be important structural priorities. Model-based analysis indicates that, if Irish SME lending rates and competitive conditions were closer to euro area norms, demand for bank lending would increase significantly while the number of discouraged borrowers would decline. The findings also point to the need for continued targeted support for young and micro firms, alongside measures that broaden financing options and strengthen

[15] Irish SMEs face persistent financing challenges despite economic recovery, new ESRI research finds | ESRI, June 2026.

competition in the SME lending market. Beyond improving access to bank finance, there is growing international recognition of the importance of strengthening equity and scale-up finance. OECD analysis[16] highlights that well-functioning capital markets are essential for channelling long-term savings into productive investment, innovation and high-growth firms, while the EU's predominantly bank-based financial system has been less effective at providing financing for innovative and intangible-intensive businesses. Similarly, analysis by the European Investment Bank[17] identifies a persistent shortage of later-stage growth capital in Europe, prompting a number of countries to explore mechanisms to mobilise institutional investors, including pension funds and insurers, to increase the availability of long-term risk capital. These developments underline the importance of ensuring that Ireland's financing ecosystem supports firms throughout their growth journey.

3.1.4 Cost of Business Advisory Forum

The Programme for Government 2025 committed to set up a Cost of Business Advisory Forum. Its primary objective is to facilitate a solution focused dialogue to examine the factors and impacts that increasing costs and regulatory burden are having on businesses in Ireland. The Forum report contains a total of 63 recommendations which are aimed at ensuring that businesses navigating today's economic landscape remain competitive and resilient. More information on the work of the Cost of Business Advisory Forum is provided in Box 3B below.

Box 3B: Cost of Business Advisory Forum

The Minister for Enterprise, Tourism and Employment, Peter Burke TD, established the Cost of Business Advisory Forum in 2025. The Forum serves as a structured platform bringing together enterprise representative bodies from retail, tourism, agrifood, exports, professional services and multinational sectors, alongside Government Departments, State Agencies, and Regulators. Its primary objective is to facilitate a solution focused dialogue to examine the factors and impacts that increasing costs and regulatory burden are having on businesses in Ireland. The findings will inform a final independent report and set of recommendations to Government, that will outline the merits of a changed approach, and those steps that can be taken to mitigate these issues.

The report is based on extensive engagement with all Forum participants through scene-setting presentations, written submissions, discussions at the meetings and additional bilateral consultations. The inaugural meeting of the Forum took place on the 11th of June 2025 and this was followed by the first thematic meeting in July. This meeting focused on Energy Costs and Security of Supply. Other thematic meetings examined Insurance Costs (August 2025), Regulation and Planning (September 2025), Water and Wastewater Services (November 2025), Legal Costs (January 2026), Regulation, Compliance and Tax Administration (February 2026), and Banking, Payments and Financial Services (March 2026). As a result, the Forum has identified **six recurring themes** with one principle underpinning them all, a shift from a public sector culture that measures *activity* and process to one that measures *outcomes*. This principle of public sector cultural reform is cross-cutting by nature and is reflected in recommendations across every chapter of the report. The six themes are listed below:

1. Energy is the principal contributor to rising business costs;
2. Importance of price transparency and easier switching for non-domestic customers;
3. Importance of improving engagement between regulators and the enterprise sector;
4. A new culture of regulatory reform is needed;
5. Legal reform must be progressed as a matter of urgency;
6. The absence of effective business banking competition in Ireland makes borrowing for investment very expensive.

[16] Capital markets | OECD.
[17] The scaleup gap: Financial market constraints holding back innovative firms in the European Union: European Investment Bank, July 2024.

3.2 Actions Crucial to Support Business in Ireland

3.2.1 Progressing Cost of Business Reforms

The establishment of the Cost of Business Advisory Forum is a welcome development, providing a structured mechanism to identify, assess and monitor the cost pressures facing firms and to inform policy responses. Addressing unnecessary business costs can improve the operating environment for firms, support investment and productivity, and enhance Ireland's overall competitiveness. As the Forum's work progresses, early consideration should be given to measures that can be implemented in the near term to address persistent cost pressures, particularly those affecting SMEs and firms exposed to international competition. A formal Government response to these recommendations is expected to be developed in Q3 2026, providing clarity on delivery and timelines. To ensure accountability, Forum members are expected to reconvene in around six months' time to assess progress against the agreed actions. This approach should help prioritise implementation within established frameworks while maintaining oversight and a continued focus on tangible outcomes.

Recommendation 3.1: The Council recommends that Government engage with the concerns identified by the Cost of Business Advisory Forum and give consideration to rapidly progressing its recommendations, particularly those measures that would support competitiveness, productivity and the operating environment for firms.

Responsibility: Department of Enterprise, Tourism and Employment

3.2.2 Improving Access to Finance for SMEs

Access to affordable finance remains an important component of Ireland's competitiveness, particularly for SMEs seeking to invest, innovate and scale. While financing conditions have improved since the Global Financial Crisis, evidence suggests that structural challenges remain, including relatively high lending costs, limited competition in the banking sector, and continued financing constraints for younger and smaller firms. Strengthening competition, improving access to finance and supporting a broader range of financing options would help create a more favourable environment for enterprise investment and growth.

Recommendation 3.2: The Council recommends that Government examine the ways in which it can facilitate increased banking sector competition, reductions in the cost of financing, and increases in the availability of funding to promote SME growth and scaling.

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

3.2.3 Ensuring the Benefits of the Energy Transition are Passed Through to Consumers and Businesses

While significant investment in Ireland's energy system is required to strengthen energy security and support the transition to net zero, it is equally important that the benefits of this transition are reflected in lower energy costs over time. As the share of low-cost renewable electricity increases, policy and market arrangements should ensure that these efficiency gains are passed through to consumers and businesses. This will be important in improving affordability, supporting competitiveness, and maintaining public confidence in the energy transition.

Recommendation 3.3: The Council recommends that the National Energy Affordability Taskforce (NEAT) brings forward both short-term measures to mitigate the impact of the energy crisis for consumers, as well as longer-term structural or market changes to ensure that the low marginal cost of renewable energy materially reduces customer bills.

Responsibility: Department of Climate, Energy and the Environment

3.2.4 Supporting a Stable Industrial Relations Environment

A stable and constructive industrial relations environment is an important component of Ireland's competitiveness, providing certainty for employers, employees and investors while supporting productivity and economic resilience. The publication of the Action Plan on Collective Bargaining provides a framework for progressing reforms in this area. Continued engagement between Government and the Social Partners, supported by robust research and evidence, will be important in ensuring that collective bargaining developments contribute positively to Ireland's economic and social objectives.

Recommendation 3.4: Recognising the importance of a stable and harmonious industrial relations environment, Government and the Social Partners are encouraged to continue investing in the maintenance of constructive industrial relations. In this context, the Council welcomes the publication of the Action Plan on Collective Bargaining and recommends that priority actions be progressed, particularly those relating to research and analysis of the indigenous sector and of collective bargaining and its broader economic and societal impacts.
Responsibility: Department of Enterprise, Tourism and Employment

CHAPTER 4

Public Sector Reform and Infrastructure Delivery

Summary

- An effective and responsive public sector is a critical enabler of competitiveness, influencing the State's capacity to deliver infrastructure, improve public services and respond to demographic, technological and geopolitical change.
- Despite historically high levels of public capital investment, infrastructure delivery continues to be constrained by planning, consenting, procurement, coordination and delivery capacity across key sectors including housing, transport, energy and water.
- Strengthening the resilience of critical infrastructure is becoming increasingly important, reflecting heightened geopolitical uncertainty, cyber threats, climate-related risks and Ireland's strategic role in international digital infrastructure.
- Ireland performs relatively well in some aspects of the digitalisation of public services, particularly for enterprise, but significant gaps remain in areas such as eHealth and the wider adoption of digital technologies across the public sector.
- Greater use of digital technologies and artificial intelligence has the potential to improve public sector productivity, strengthen service delivery and reduce administrative burdens for citizens and businesses.
- Closing Ireland's infrastructure gap will require not only sustained investment but also more effective planning, prioritisation and project delivery to ensure public capital expenditure translates into timely infrastructure outcomes.

4.1 Current Situation

An effective and responsive public sector is a critical enabler of competitiveness. The ability of Government to plan strategically, coordinate across institutions and deliver major reforms and infrastructure efficiently has an important bearing on Ireland's productivity, investment attractiveness and long-term growth potential. While Ireland performs strongly in a number of areas, including digital public services, longstanding challenges remain in infrastructure delivery, planning and regulatory processes, and broader public sector productivity. Strengthening public sector capability, accelerating infrastructure delivery and making greater use of digital technologies and AI will be important to supporting Ireland's resilience and future competitiveness more broadly.

4.1.1 Public Sector Performance and Reform

An effective and responsive public sector is a critical enabler of competitiveness. The capacity of public institutions to coordinate activity, make timely decisions, and deliver policy and infrastructure efficiently has an important bearing on Ireland's productivity, investment attractiveness and long-term economic performance. As economies become increasingly complex, the effectiveness of public administration is becoming an ever more important determinant of international competitiveness.

Recent international evidence suggests that there is scope to strengthen the performance of Ireland's public administration. The Blavatnik Index of Public Administration (2024) ranked Ireland 24th out of 120 countries, 14th out of 16 Western European countries, and last among a peer group of small, advanced economies. The Index points to particular challenges in areas such as national delivery, digital services, procurement, and the use of technology within the public sector. At the same time, it identifies areas of relative strength, including tax administration, human resource management, and diversity and inclusion.

The Council has previously noted that the Blavatnik Index should be regarded primarily as a diagnostic tool and interpreted with caution. As a newly developed benchmark, some of its underlying indicators rely on historical data and do not yet capture a range of recent reforms and digital initiatives undertaken by Government. Nevertheless, it provides a useful basis for identifying areas where further analysis and reform may be warranted. The Council considers that more comprehensive and timely international benchmarking of public administration performance would support a more evidence-based approach to improving public sector effectiveness.[18]

Table 4.1: Ireland's performance across four domains of the Blavatnik Index, 2024

Domain	Ireland's Ranking	Scoring		
		Ireland	Western Europe	SAE
Strategy and Leadership	23rd	0.71	0.75	0.80
Public Policy	8th	0.78	0.74	0.79
National Delivery	28th	0.71	0.81	0.80
People and Processes	57th	0.62	0.71	0.74

Source: Blavatnik School of Government

Strengthening public sector capability will be increasingly important as Government seeks to deliver major infrastructure programmes, improve public services and respond to demographic, technological and geopolitical change. Continued reform, supported by better data, greater use of digital technologies and AI, stronger cross-government coordination, and a greater focus on outcomes, has the potential to improve public sector productivity and strengthen Ireland's long-term competitiveness.

4.1.2 Infrastructure Delivery

The Council has consistently identified infrastructure delivery as one of Ireland's most significant competitiveness challenges. High-quality infrastructure is a fundamental enabler of economic activity and productivity, an important pillar of Ireland's value proposition for mobile investment, and a critical support for domestic enterprise. More broadly, the timely delivery of infrastructure is essential to support economic growth, investment and the economy's long-term productive capacity. However, successful delivery depends not only on investment, but also on the effectiveness of public sector systems, particularly in relation to planning, consenting, procurement, project prioritisation and cross-agency coordination.

Infrastructure must also increasingly be viewed through the lens of resilience and economic security. Geopolitical uncertainty, climate change and growing pressures on energy systems have reinforced the

[18] Bulletin 25-5: Benchmarking the Performance of Ireland's Public Administration, 2024 - Competitiveness: National Competitiveness & Productivity Council, May 2025.

importance of developing and safeguarding critical infrastructure. This is particularly evident in relation to energy infrastructure, where protracted planning and consenting processes, grid constraints, connection delays and wider energy security concerns are increasingly affecting enterprise investment, housing delivery, and progress towards electrification and decarbonisation. Ensuring adequate generation, transmission, storage and network capacity will be critical to strengthening Ireland's resilience, supporting security of supply and facilitating the transition to a lower-carbon economy. At the same time, clearer infrastructure pipelines and greater certainty around routes to market will help unlock private investment and improve delivery.

The Council welcomes the progress made in recent years to address long-standing barriers to infrastructure delivery. In particular, the establishment of the Accelerating Infrastructure Taskforce and the publication of the *Accelerating Infrastructure Report and Action Plan*[19] have strengthened the focus on systemic bottlenecks and the need for a coordinated whole-of-government approach. The Critical Infrastructure Act also represents an important step towards establishing a framework for prioritising strategically significant projects. Nevertheless, persistent challenges – including lengthy planning and consenting processes, judicial review, fragmented delivery responsibilities, and capacity constraints within the construction sector – continue to impede timely delivery. Addressing these structural barriers will require sustained public sector reform, clearer prioritisation and sequencing of projects, and strengthened delivery capability across Government.

4.1.3 Critical Entities Resilience

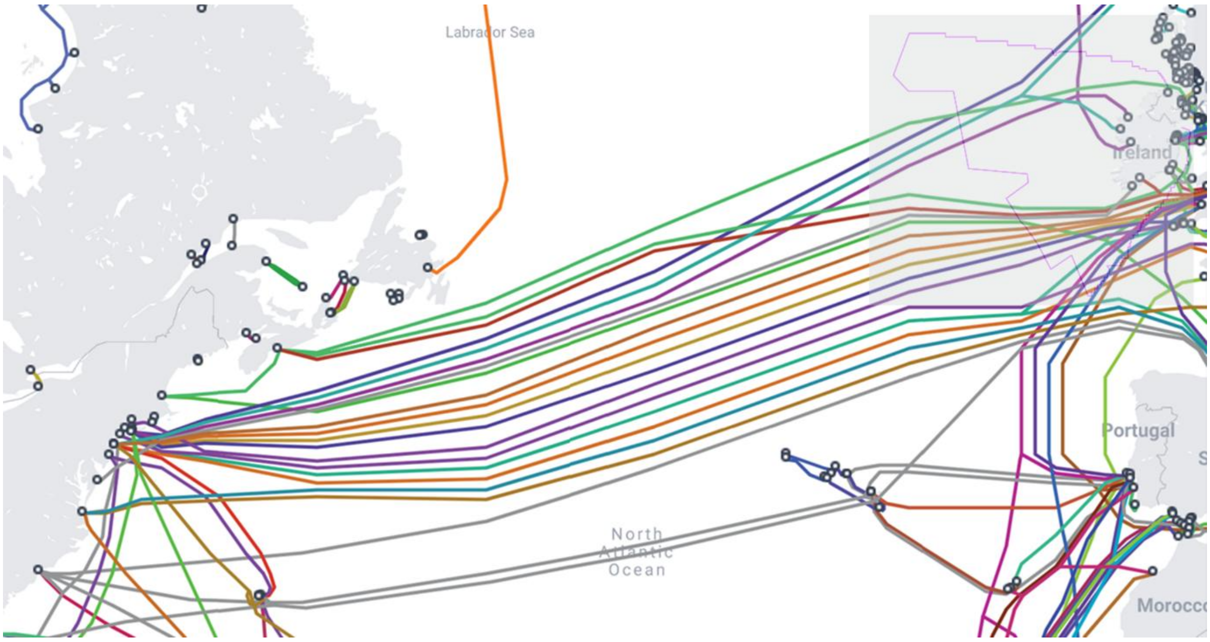
The resilience and security of critical infrastructure are becoming increasingly important determinants of competitiveness. Recent geopolitical developments, cyber threats and climate-related risks have reinforced the importance of protecting the infrastructure on which economic activity depends, including energy systems, digital infrastructure, transport networks, water services and communications. For a small, highly open economy such as Ireland, disruption to these systems could have significant implications for investment, trade and business continuity.

Ireland has strengthened its approach in this area through the transposition of the EU Critical Entities Resilience (CER) Directive[20] and the publication of the *National Strategy on the Resilience of Critical Entities 2026-2029*. The Strategy establishes arrangements for identifying critical entities, undertaking risk assessments, strengthening resilience measures and improving coordination across eleven critical sectors, including energy, transport, banking, health, digital infrastructure, public administration and water services.

The strategic importance of this agenda is particularly evident in relation to Ireland's digital infrastructure. Ireland occupies a central position within transatlantic communications networks, with a significant proportion of submarine cables connecting North America and Europe either landing in Ireland or passing through Ireland's Exclusive Economic Zone (see Figure 4.1). This reinforces the importance of safeguarding critical infrastructure against physical, cyber and geopolitical threats, as recognised in the National Maritime Security Strategy 2026-2030.

[19] Accelerating Infrastructure Report and Action Plan: Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, April 2026.
[20] Critical Entities Resilience (CER) Regulations: Office of Emergency Planning, April 2026.

Figure 4.1 Submarine Cable Map – Trans-Atlantic and Irish Sea & Irish EEZ



Source: TeleGeography Submarine Cable Map 2025

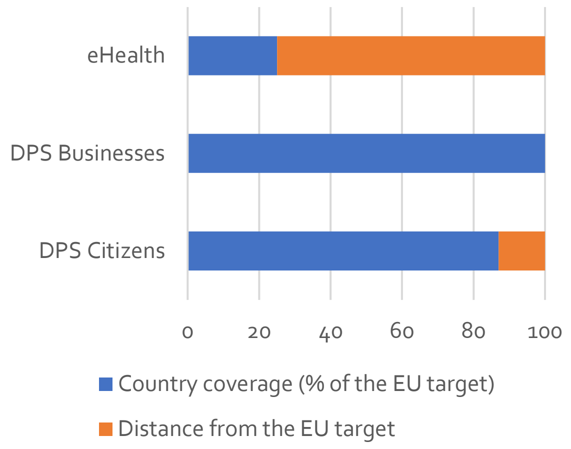
4.1.4 Digital Transformation and AI in the Public Sector

Digital transformation provides an important opportunity to improve the effectiveness, responsiveness and productivity of the public sector. More efficient digital public services can reduce the administrative burden on citizens and businesses, improve interactions with Government, and support more efficient public service delivery. More recently, advances in AI have created further opportunities to automate routine administrative tasks, strengthen decision support and improve service quality.

Overall, Ireland performs relatively well in some aspects of the digitalisation of public services. The European Commission's *Digital Decade 2025* report shows that Ireland achieved the maximum score (100 out of 100) for digital public services for businesses and scored 87 out of 100 for digital public services for citizens (see Figure 4.2a). Since 2020, Ireland has consistently maintained the maximum score for both domestic and cross-border digital services for businesses, making it one of only three EU Member States to do so. This strong performance provides an important foundation for improving public sector efficiency.

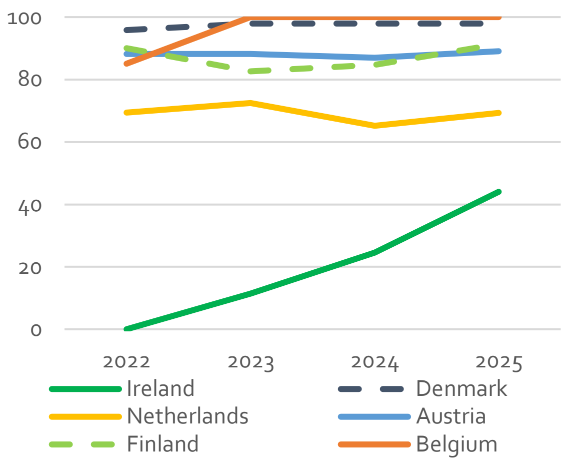
Despite this progress, digital transformation has been uneven across the public sector. Access to electronic health records remains a significant weakness, with Ireland's eHealth score increasing significantly from 24.52 in 2024 to 44.03 in 2025, but remaining well below other countries in the SAE-5 cohort (Figure 4.2b). This highlights the need to accelerate digital transformation more consistently across public services, particularly in areas facing growing demand and productivity pressures. The Government's approach to public service digitalisation is set out across a number of complementary strategies, including *Digital Ireland – Connecting our People, Securing our Future*, *Connecting Government 2030*, *Better Public Services* and the *Digital Public Services Plan 2030*. Together, these initiatives seek to strengthen digital capability, improve data sharing, expand common digital platforms and deliver more integrated, user-centred public services. Looking ahead, embedding digital and AI-enabled solutions across Government will be important in improving public sector productivity, streamlining service delivery and supporting better outcomes for citizens and businesses.

Figure 4.2a Public Service Digitalisation (out of 100), 2024



Source: Digital Decade 2025

Figure 4.2b Access to e-health records (out of 100), SAE-5 Countries, 2022-2025



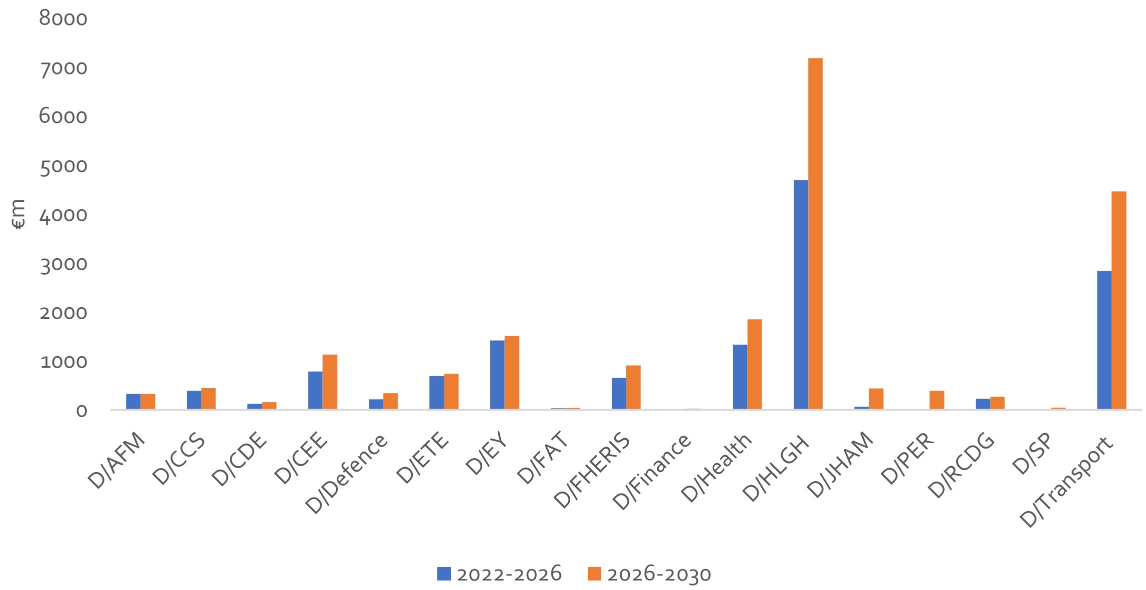
Source: Digital Decade 2025

4.1.5 Capital Investment and Infrastructure Priorities

The scale of planned public investment reflects the importance of addressing Ireland's longstanding infrastructure deficits. Voted capital expenditure has increased significantly since 2020 across a range of Departments, particularly those responsible for housing, transport, climate and energy (see Figure 4.3). While National Development Plan (NDP) projections suggest that the pace of growth in capital expenditure will moderate over the remainder of the decade, planned investment remains historically high. The effectiveness of this investment, however, will depend not only on funding levels but also on the State's ability to prioritise, coordinate and deliver major infrastructure projects efficiently.

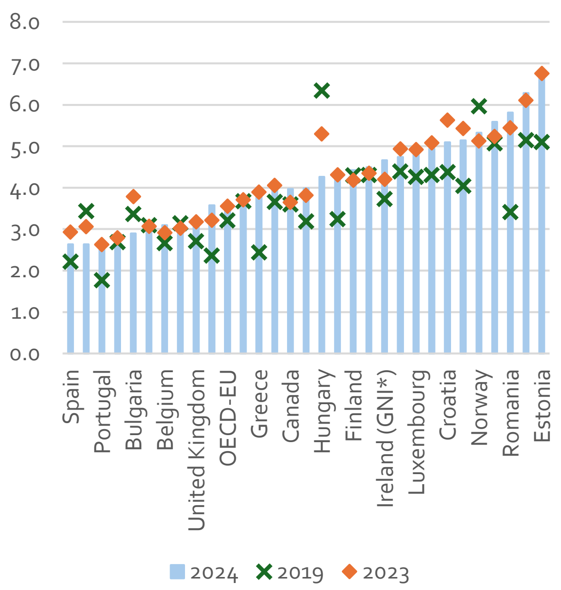
Internationally, Ireland compares favourably in terms of public capital investment. Capital expenditure amounted to approximately 5 per cent of GNI* in 2024, placing Ireland around twelfth among OECD countries (see Figure 4.4a), while the increase in capital expenditure since 2019 has been among the strongest in the OECD. This reflects the scale of investment required to address accumulated infrastructure deficits across housing, transport, water and energy. Nevertheless, Ireland's relatively high level of current investment needs to be viewed in the context of prolonged underinvestment following the Global Financial Crisis. As illustrated in Figure 4.4b, Ireland's capital stock per person remains comparatively modest relative to other high-income economies despite having one of the highest levels of GDP per capita. This reflects the legacy of lower investment over a prolonged period and illustrates how infrastructure deficits can persist long after fiscal conditions improve.

Figure 4.3 Average Annual Voted Capital Expenditure (by Department) – Actual (2022 to 2026) & NDP Projection (2026 - 2030)



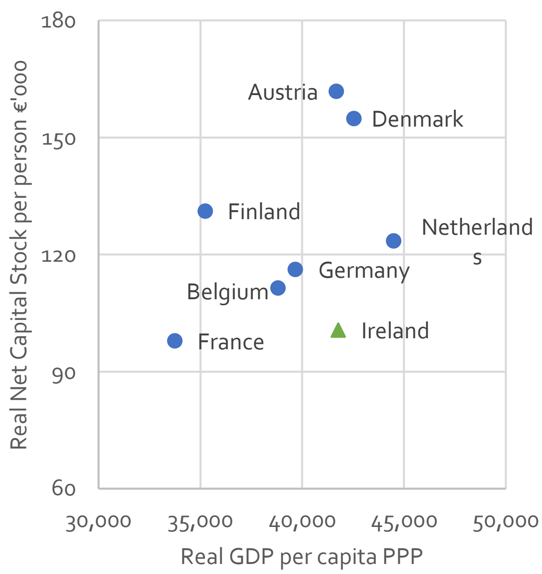
Source: D/PER Statbank & NDP

Figure 4.4a Capital Expenditure as a Proportion of GDP in OECD countries (%; GNI* for IE)



Source: OECD & CSO estimates for GNI* in 2019,2023 & 2024

Figure 4.4b Overall capital stock per person vs real GDP per capita, 2022



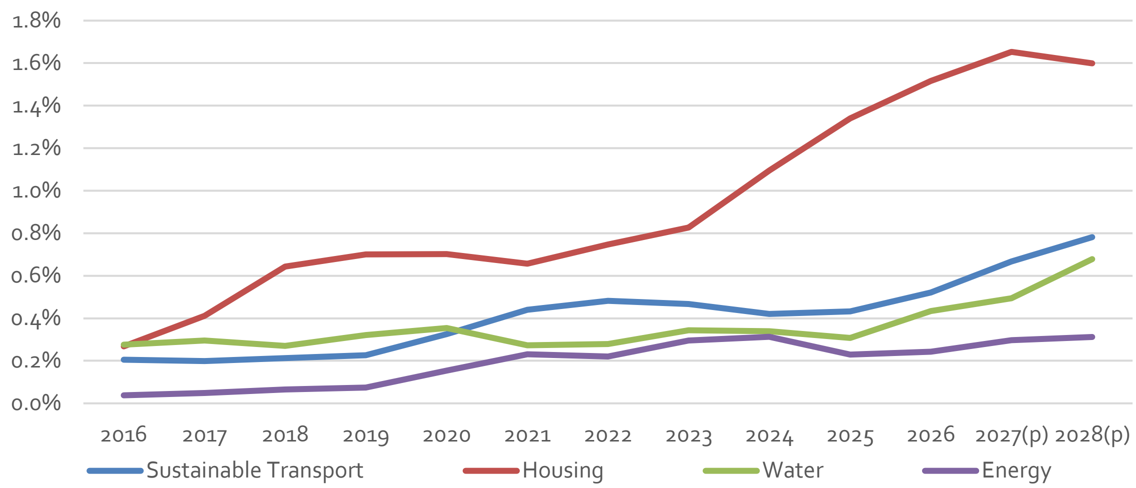
Source: Irish Fiscal Council, Eurostat, CSO & author's calculations

The composition of capital investment[21] has also evolved significantly. Housing has experienced the largest increase in capital expenditure, rising from 0.27 per cent of GNI* in 2016 to 1.52 per cent in 2026 (Figure 4.5), reflecting the priority attached to increasing housing supply, although expenditure is projected to moderate towards the end of the decade. Energy investment has increased more gradually from a lower base, with

[21] Research investment is classified as capital.

projected growth from 2026 onwards reflecting the increasing importance of electricity networks, grid reinforcement, electrification and energy security. Investment in sustainable transport has also accelerated, while planned expenditure on water infrastructure has increased in recognition of longstanding capacity constraints.

Figure 4.5 Capital Infrastructure by Policy Area (% of GNI*), 2016-2028



Source: D/PER Statbank and Uisce Éireann. Note: Forward projections on energy capital expenditure as outlined in the NDP sectoral plan do not appear to include equity investment in ESB and EirGrid of €3.5 billion to 2030.

While these investment commitments are welcome, funding alone will not be sufficient to close Ireland's infrastructure gap. The benefits of increased capital expenditure will ultimately depend on the capacity of the planning system, public administration and construction sector to deliver projects efficiently. While investment in sustainable transport has increased significantly, progress in delivering major public transport capacity enhancements has been more limited than envisaged. Given the role of commuter transport in supporting housing development, labour mobility and regional growth, improving the delivery of strategic public transport infrastructure should remain a priority.[22] More broadly, continued delays in planning, consenting and judicial review processes remain significant bottlenecks across housing, transport, energy and water infrastructure. These delays increase project costs, constrain capacity expansion, reduce certainty for investors and ultimately weaken Ireland's competitiveness.

4.2 Actions Crucial to Supporting Public Sector Reform and Infrastructure Delivery

4.2.1 Supporting Public Sector Reform and Productivity

An effective and productive public sector is fundamental to Ireland's long-term competitiveness and its capacity to deliver high-quality public services and infrastructure. As demands on public services continue to grow, ongoing reform will be essential to improve productivity, strengthen organisational capability and make greater use of digital technologies. The forthcoming public service agreement provides an opportunity to embed a renewed focus on reform, innovation and continuous improvement across the public service, while supporting the delivery of better outcomes for citizens and businesses.

[22] Bulletin 26-1: Public Investment in Transport Infrastructure: A Competitiveness and Productivity Perspective - Competitiveness: National Competitiveness & Productivity Council, January 2026.

Recommendation 4.1: The Council recommends that Government consider how the new public service agreement can support and enable ongoing reform, increased digitalisation and productivity improvements across the public services.

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

4.2.2 Accelerating Digital Transformation and AI in Public Services

Digital technologies and AI present significant opportunities to improve the efficiency, quality and responsiveness of public services. While Ireland performs strongly in the provision of digital public services, further progress will require a greater focus on measurable outcomes, improved data sharing, and the strategic deployment of emerging technologies. Establishing clear performance metrics and regularly monitoring progress will help ensure that digital transformation delivers tangible improvements in productivity, service quality and the user experience.

Recommendation 4.2: The Council recommends that Government establish measurable service-level targets and regularly report on progress in relation to digitalisation, data sharing, process automation, service quality and user outcomes across major public services. Government should also identify priority areas for the deployment of emerging technologies, including artificial intelligence, where these technologies can improve productivity, enhance service delivery and streamline access to public services.

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

4.2.3 Strengthening the Resilience of Critical Infrastructure

Critical infrastructure underpins Ireland's economic resilience, security and competitiveness. As geopolitical tensions, cyber threats, climate-related risks and other external shocks become more frequent and complex, ensuring the resilience of essential infrastructure will become increasingly important. The implementation of the Critical Entities Resilience framework provides an opportunity to strengthen risk management, improve cross-sector coordination and enhance preparedness across critical infrastructure sectors.

Recommendation 4.3: The Council recommends that Government strengthen the resilience and security of Ireland's critical infrastructure in an increasingly uncertain geopolitical environment. This could be achieved by ensuring that the implementation of the Critical Entities Resilience framework fully considers domestic and external sources of disruption across critical infrastructure sectors, including cyber threats, climate-related risks, operational failures and physical security risks.

Responsibility: Department of Defence

5

CHAPTER 5

AI, Innovation and the Labour Market

Summary

- AI, innovation and workforce skills are becoming increasingly important drivers of productivity and long-term competitiveness, requiring firms and workers to adapt to rapid technological change.
- AI adoption among Irish firms is increasing but remains at an early stage, particularly among SMEs, with knowledge, management capability and organisational readiness emerging as key barriers to wider adoption.
- Cyber resilience is an increasingly important enabler of digital transformation, yet most Irish SMEs exhibit low levels of cyber preparedness, highlighting the need to embed cybersecurity within broader enterprise support programmes.
- Maintaining a responsive skills system will be essential to realising the benefits of technological change, with lifelong learning, apprenticeships and effective deployment of National Training Fund resources playing a central role in supporting workforce adaptability.
- While Ireland has strengthened its innovation performance, it continues to lag leading small advanced European economies, highlighting the need to increase research capability, technology adoption and innovation across the indigenous enterprise base.
- Broadening participation in research, development and innovation – particularly among SMEs – will be critical to improving productivity and reducing reliance on a relatively small number of research-intensive firms.

5.1 Current Situation in Ireland

Innovation, technological adoption and workforce skills are becoming increasingly important determinants of long-term competitiveness, as rapid advances in AI, digital technologies and automation have the potential to transform productivity, business models and labour markets. At the same time, demographic trends are likely to increase demand for labour in health and social care, while simultaneously tightening overall labour supply, reducing the dependency ratio, and placing upward pressure on participation, skills utilisation and productivity. Maintaining Ireland's competitive advantage will therefore require continued investment in research and innovation, stronger diffusion of new technologies across the enterprise base, and a skills system capable of responding to evolving labour market needs. While the pace and scale of technological change remain uncertain, ensuring that firms and workers can adapt effectively will be central to supporting productivity growth, building resilience and providing the foundations for sustainable economic development.

5.1.1 AI Adoption and Digital Transformation

AI has the potential to become an increasingly important driver of productivity, innovation and competitiveness. While the scale and distribution of its economic impacts remain uncertain, AI is already being incorporated into business processes across a growing range of sectors. AI has the potential to improve productivity through process automation, enhanced decision-making, improved customer engagement and the development of new products and services. Ensuring that firms have the capability to assess, adopt and effectively deploy AI technologies where there is a clear commercial rationale for doing so is therefore becoming an increasingly important competitiveness consideration.

Recent research undertaken as part of the Joint Research Programme between the Department of Enterprise, Tourism and Employment and the ESRI provides new evidence on AI adoption among Irish SMEs using novel firm-level data from the Department of Finance's Credit Demand Survey.[23] The research finds that AI adoption remains relatively modest, with 16.5 per cent of SMEs reporting the use of at least one AI tool in 2024. Adoption increases with firm size, ranging from 14.3 per cent among micro enterprises to 22.3 per cent among medium-sized firms, and is higher among exporters and firms operating in knowledge-intensive sectors such as professional services, finance and high-technology manufacturing. Firms already using AI generally report positive experiences, with satisfaction increasing alongside the intensity of use.

The research also highlights considerable scope for further diffusion. Approximately 23 per cent of SMEs indicate that they intend to invest in AI between 2025 and 2027, with almost two-thirds of these firms not currently using AI. If these investment intentions are realised, AI adoption across the SME sector could increase substantially over the coming years. Medium-sized firms and exporters report the strongest investment intentions, while sectoral differences in planned investment are less pronounced than differences in current adoption, suggesting that AI adoption has the potential to broaden across the enterprise base.

A key finding of the study is that knowledge-related barriers are among the most important constraints to AI adoption. Firms reporting limited understanding of the potential benefits of AI, uncertainty about how AI could be applied within their business, or the perception that AI is not being used by other firms in their sector are significantly less likely to adopt AI or plan future investment. These factors appear to be more influential than many operational barriers in explaining current adoption patterns. However, as firms move from considering AI to implementing it, operational constraints become increasingly important. Security concerns, access to finance, implementation costs and skills requirements all emerge as significant barriers to future investment. The findings suggest that many SMEs have an interest in adopting AI but require greater information, organisational capability and practical support to translate this interest into productive investment.

The study concludes that policy should focus on two complementary areas. First, addressing information and awareness gaps through targeted communication, sector-specific guidance and the sharing of practical use cases could help firms better understand the potential benefits of AI. Second, strengthening the wider enabling environment through improvements in management capability, workforce skills, access to finance, cybersecurity and practical implementation supports would help firms evaluate, adopt and effectively integrate AI technologies where there is a clear commercial rationale for doing so.

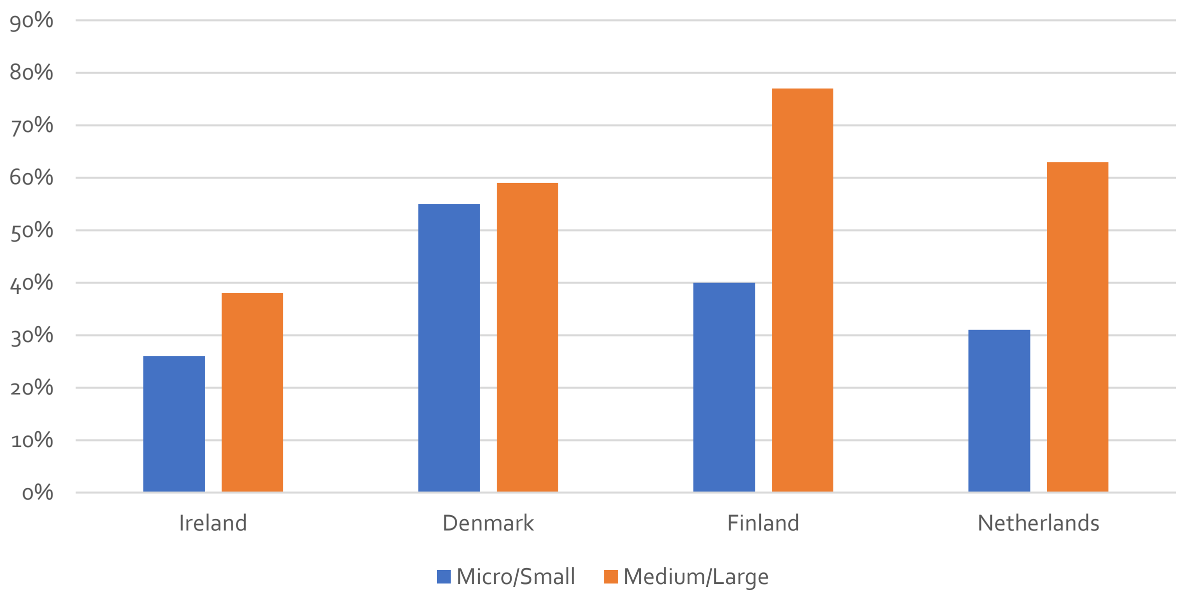
Evidence from the 2025 European Investment Bank Investment Survey (EIBIS) also suggests that Ireland lags a number of leading small advanced European economies in the adoption of generative AI technologies by firms (Figure 5.1). In 2024, 34 per cent of Irish firms reported using generative AI tools, compared with 58 per cent in Denmark, 66 per cent in Finland and 54 per cent in the Netherlands. The gap is evident across firms of all sizes. Among micro and small firms, adoption rates in Ireland stood at 26 per cent, compared with 55 per cent in Denmark, 40 per cent in Finland and 31 per cent in the Netherlands. Similarly, only 38 per cent of Irish medium and large firms reported using generative AI, substantially below the corresponding rates in Denmark (59 per cent), Finland (77 per cent) and the Netherlands (63 per cent).

[23] Alvaro-Taus, M., Fitzgerald, K., Kren, J., O'Regan, C., and O'Toole, C. (2026). Drivers of AI adoption and investment intentions: Insights from Irish SMEs, ESRI Working Paper 830, Dublin: ESRI.

Taken together, these findings suggest that while AI adoption is increasing, Ireland risks falling behind a number of comparator economies in the diffusion of AI technologies across the enterprise base. Given AI's potential to enhance productivity and innovation, policy should focus on ensuring that firms – particularly SMEs – have the information, management capability, organisational capacity and workforce skills required to evaluate, adopt and effectively utilise AI technologies where they can deliver commercial value. This will be important in supporting productivity growth, strengthening competitiveness and enabling Irish firms to take advantage of emerging technological opportunities.

In addition, Ireland's National Digital and AI Strategy provides an important framework for ensuring that digital technologies and artificial intelligence become key drivers of future economic growth, productivity and competitiveness. The strategy sets out a vision to position Ireland as a leading digital nation and a global hub for applied AI innovation, building on the country's existing strengths in technology, research, talent and international investment. It recognises that AI has the potential to transform business operations, public services and workforce productivity, while also highlighting the need for responsible and trustworthy adoption. The strategy's focus on skills, innovation, infrastructure and enterprise adoption provides a strong foundation for enabling Irish businesses to harness the opportunities presented by emerging technologies.

Figure. 5.1: Firms using Generative AI Tools



Source: EIBIS

5.1.2 Cyber Security and Digital Resilience

As firms become increasingly reliant on digital technologies and AI, cybersecurity is becoming an increasingly important factor for enterprise resilience – no longer solely a risk management issue, but a prerequisite for digital transformation, technology adoption and participation in global value chains. Firms with robust cybersecurity capabilities are better positioned to adopt emerging technologies, engage in digital markets and meet the security expectations of customers, suppliers and regulators. However, weak cyber resilience can inhibit digital adoption, increase operational risk and reduce firms' ability to compete in an increasingly digital economy.

International evidence demonstrates that cyber incidents can impose significant economic costs on firms. According to IBM Security, the global average cost of a data breach reached approximately US$4.5 million in 2024, reflecting business disruption, recovery costs, legal liabilities and reputational damage. While SMEs typically incur lower absolute losses, the relative impact can be considerably greater given their more limited financial and operational capacity. Evidence from the UK Government's *Cyber Security Breaches Survey*[24] and the European Union Agency for Cybersecurity (ENISA)[25] similarly highlights that cyber incidents can result in business interruption, financial losses, reputational damage and the loss of customers. From a broader competitiveness perspective, the World Economic Forum continues to identify cyber threats among the most significant global business risks, reflecting their potential to disrupt supply chains, critical infrastructure and essential services.[26] At the same time, many of the most effective baseline cybersecurity measures – including multi-factor authentication, regular software updates, data backups and staff awareness training – are relatively inexpensive to implement. This suggests that improving cyber resilience often depends less on large financial investments than on greater awareness, stronger organisational practices and the wider adoption of established cybersecurity standards.

Recognising the importance of cybersecurity to enterprise competitiveness, a range of public supports has been introduced to strengthen digital capability among SMEs. The Grow Digital Voucher provides financial support for the adoption of digital technologies, including AI and cybersecurity solutions, while the European Digital Innovation Hub (EDIH) network offers technical assessments and advisory services to support firms undertaking digital transformation. In particular, the ENTIRE European Digital Innovation Hub, led by Munster Technological University, provides specialised expertise to assist SMEs in strengthening their cybersecurity capabilities alongside wider digitalisation efforts.

The *SME Cyber Resilience: State of the Sector* (2025) report,[27] developed by Munster Technological University in collaboration with the National Cyber Security Centre (NCSC), provides one of the most comprehensive assessments of cybersecurity preparedness among Irish SMEs. Drawing on data from 894 firms across 11 sectors and using the NCSC's Cyber Fundamentals Framework, the study identifies a significant cyber resilience gap across the SME sector. The findings indicate that 78 per cent of SMEs exhibit low or very low levels of cyber resilience, while only 6 per cent achieve high or very high levels. The results also reveal a pronounced size effect, with approximately 81 per cent of micro firms classified as having low or very low resilience, compared with 45 per cent of medium-sized firms.

The study also finds that cyber resilience weaknesses are widespread across sectors rather than concentrated in particular industries. No sector records an average resilience score above 6 out of 10. Even the highest-performing sector (ICT) scores only 5.7, while healthcare – despite being a frequent target for cyberattacks – scores just 3.3. This suggests that cybersecurity capability is a systemic challenge affecting the SME population as a whole rather than one confined to specific industries.

The report concludes that improving resilience does not necessarily require sophisticated technological solutions, but rather the widespread adoption of well-established cybersecurity practices. It identifies a number of policy priorities, including expanding access to cybersecurity training, embedding cybersecurity within existing digitalisation and enterprise support programmes, and strengthening practical guidance and standards for SMEs. In this context, the National Cyber Security Centre has launched SMECORE, a dedicated online resource to support SMEs, with plans to introduce a cyber risk assessment tool. Strengthening cyber resilience across the SME base will be an important component of Ireland's wider digital transformation, competitiveness and economic resilience agenda.

5.1.3 Skills, Lifelong Learning and Workforce Adaptation

Realising the productivity benefits of AI and other emerging technologies will depend not only on firms adopting new technologies, but also on the ability of workers and managers to acquire the skills required to use them effectively. As technological change accelerates and labour market needs continue to evolve, lifelong learning, upskilling and workforce adaptability will become increasingly important determinants of

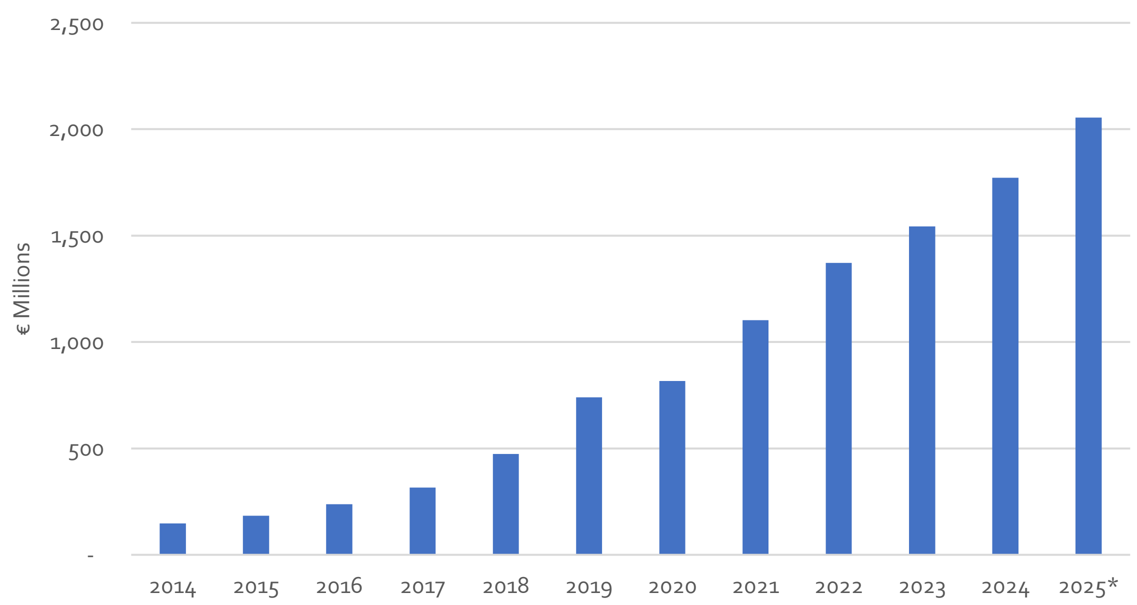
[24] UK Government's *Cyber Security Breaches Survey*.
[25] Home | ENISA: European Union Agency for Cybersecurity.
[26] The rise of cybersecurity as a strategic economic priority | World Economic Forum: May 2026.
[27] SME Cyber Resilience – State of the Sector 2025 - Cyber Resilience: Digital Resilience for SMEs.

competitiveness. Ensuring that Ireland's skills system remains responsive to changing enterprise needs will therefore be critical to supporting long-term growth and resilience.

The National Training Fund (NTF) plays a central role in supporting workforce development by funding education and training programmes that enhance skills, employability and labour market responsiveness. The original rationale for the Fund, which was funded by a 1% levy on employer PRSI, was to raise skills for those in employment, provide jobseeker training programmes, fund apprenticeships, etc. In the period leading up to 2025, the NTF accumulated a substantial surplus, reflecting sustained employment growth, rising employer PRSI receipts, and constraints on expenditure from the Fund arising from overall Government expenditure ceilings. By end-2024, the NTF surplus was estimated at approximately €1.7-1.8 billion (see Figure 5.2). Budget 2025 set out a decision to deploy approximately €1.5 billion of the accumulated surplus over a six-year period from 2025 to 2030. This package was explicitly framed as a structured and controlled deceleration of the surplus rather than a once-off drawdown. The funding plan prioritised investments in higher education core funding, skills-related capital infrastructure, and targeted current expenditure for apprenticeships and upskilling, while ensuring consistency with the State's medium-term expenditure framework and fiscal rules.

To give effect to this approach, legislative change was required. The National Training Fund (Amendment) Act 2025[28] expanded the range of permissible uses of the Fund, most notably by enabling capital expenditure, while retaining the core statutory purpose of the Fund as a vehicle for skills development and employability. The commencement of the Act in January 2026 removed legal barriers to the planned expenditure and allowed the multi-annual funding package announced in Budget 2025 to be implemented. In line with the purposes of the amending legislation, there has been greater deployment of the NTF but a significant share of expenditure is now channelled towards higher education. This will ensure a strong supply of skilled talent essential to Ireland's economy and overall competitiveness across both the public and private sectors. Notwithstanding these developments, the overall level of the Fund remained elevated into 2026. The Minister for Further and Higher Education, Research, Innovation and Science has noted that a prudent reserve is necessary to protect against economic cyclical risks, and that the pace of drawdown remains constrained by broader Government expenditure ceilings.

Figure 5.2 National Training Fund Surplus



Source: National Training Fund Financial Statements.[29] Notes: *2025 figure is an estimate.

[28] Minister Lawless receives approval from Oireachtas for National Training Fund (Amendment) Bill, unlocking €1.5 billion for Education and Research: Department of Further and Higher Education, Research, Innovation and Science, March 2026.
[29] National Training Fund Financial Statements: Oireachtas Library Search.

Alongside these reforms, the Economic and Social Research Institute (ESRI) published a Roadmap for an Evaluation of the National Training Fund in December 2025.[30] The report sets out a comprehensive framework for assessing the effectiveness of NTF-supported programmes and concludes that different evaluation approaches will be required depending on programme objectives, target populations and data availability. Where feasible, the report recommends the use of robust counterfactual impact evaluation methods, while recognising that alternative approaches will be required where experimental or quasi-experimental evaluation is not practical. Developing a stronger evidence base on programme effectiveness will help ensure that NTF expenditure delivers measurable improvements in workforce skills, employability and enterprise competitiveness.

Beyond programme evaluation, ensuring that the education and training system remains responsive to changing labour market conditions will become increasingly important as technological change reshapes occupational demand. This will require continued investment in lifelong learning, digital and management capabilities, and stronger alignment between skills provision and enterprise needs. It will also require high-quality labour market intelligence to identify emerging skills shortages and inform education, training and workforce planning. As Ireland seeks to maximise the productivity benefits of AI and innovation, maintaining a flexible and responsive skills system will be essential to supporting enterprise adaptation, labour market resilience and long-term competitiveness.

5.1.4 Benchmarking Ireland's Innovation Performance

Benchmarking innovation performance against appropriate peer economies is important for identifying relative strengths, weaknesses and areas for policy improvement. Recognising this, the Government's *Action Plan on Competitiveness and Productivity* introduced a comparator group of five small advanced European economies (Austria, Belgium, Denmark, Finland and the Netherlands – the SAE-5) to assess Ireland's performance in research, development and innovation (RD&I). These countries represent high-income, innovation-driven economies of a similar scale that operate within the EU's regulatory and funding frameworks while facing comparable structural characteristics associated with openness and relatively small domestic markets. Their innovation systems are generally characterised by strong public research capacity, high levels of business innovation and effective institutional coordination. The Council welcomes this shift towards benchmarking Ireland's performance against best-in-class peer economies, rather than relying solely on comparisons with the EU average or much larger economies operating at the global innovation frontier.

Figure 5.3 compares Ireland's innovation performance with the SAE-5 average using two internationally recognised indicators: the European Innovation Scoreboard (EIS) [31] and the Global Innovation Index (GII). The EIS data (Panel A) indicates that Ireland has consistently performed below the SAE-5 average, although the gap has narrowed steadily since 2020, reflecting gradual improvements in Ireland's innovation performance relative to the comparator group. A similar pattern is evident in the GII data (Panel B). While Ireland continues to trail the SAE-5 average, the gap widened between 2020 and 2022 before narrowing modestly thereafter, indicating some improvement in Ireland's relative innovation performance over recent years.

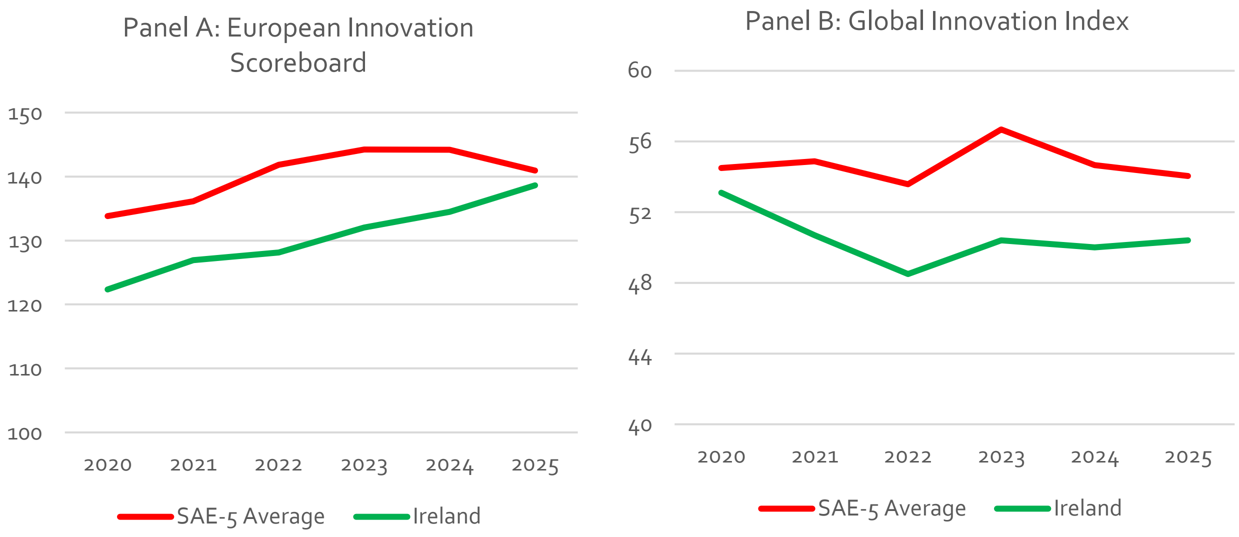
Taken together, these indicators suggest that Ireland has strengthened its innovation performance in recent years but continues to lag behind the leading small advanced European economies. This reinforces the importance of continuing to strengthen research capability, business innovation, technology adoption and the diffusion of innovation across the indigenous enterprise base if Ireland is to close the remaining competitiveness gap.

[30] Roadmap for an Evaluation of the National Training Fund: ESRI, December 2025.

[31] The World Intellectual Property Organization Global Innovation Index (GII) and the European Commission European Innovation Scoreboard (EIS) are widely used benchmarking tools that assess countries' innovation performance using composite indicators. The GII provides a global comparison across a broad set of economies, measuring both innovation inputs (such as institutions, skills, and infrastructure) and outputs (including knowledge creation and technology diffusion), while the EIS focuses specifically on EU Member States and selected neighbouring countries, evaluating performance across dimensions such as research systems, firm innovation, and digitalisation.

Understanding the factors underpinning Ireland's innovation performance requires consideration of both the scale and composition of research and development investment, as well as the effectiveness with which research is translated into commercial innovation and productivity gains.

Figure 5.3: Benchmarking Ireland's Innovation Performance, 2020-2025



Source: European Innovation Scoreboard; Global Innovation Index.

Notes: The European Innovation Scoreboard (EIS) measures innovation performance using a composite Summary Innovation Index (SII) based on 32 indicators organised into 12 dimensions and grouped into four broad categories: Framework Conditions, Investments, Innovation Activities, and Impacts. Country performance is expressed relative to EU innovation performance in 2018, where the EU average in 2018 equals 100. The GII uses more than 80 indicators structured into seven pillars: Institutions, Human Capital and Research, Infrastructure, Market Sophistication, Knowledge and Technology Outputs and Creative Outputs. The maximum GII score is 100.

5.1.5 Research, Development and Innovation Investment

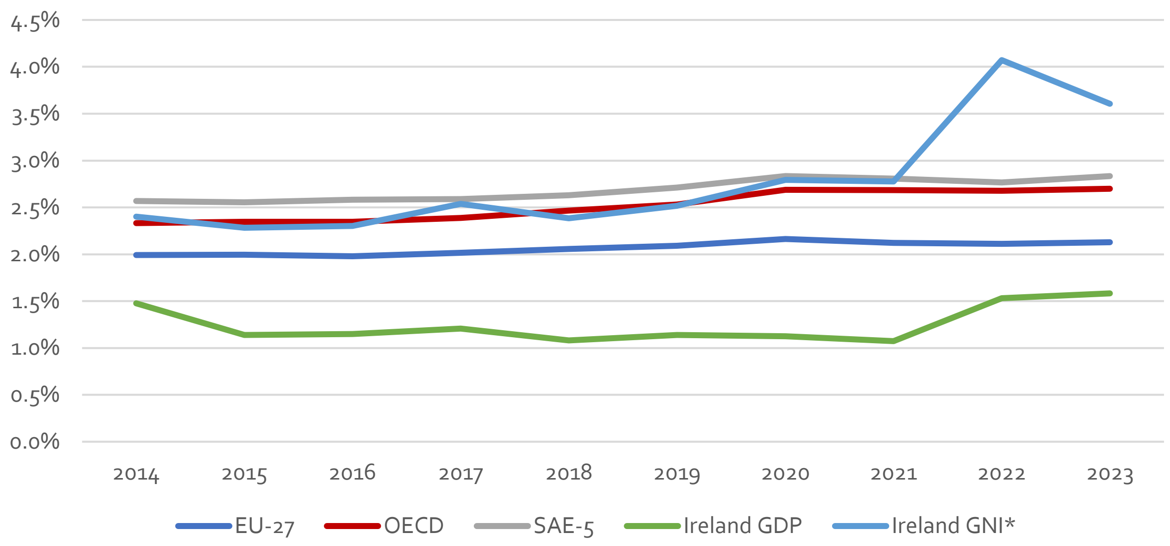
Investment in R&D is a key driver of innovation, productivity growth and long-term competitiveness. Strong R&D performance supports the development of new technologies, products and processes, enhances firms' capacity to innovate, and underpins high-value economic activity. For small open economies such as Ireland, sustained investment in research is also important in attracting internationally mobile investment, strengthening indigenous enterprise capability and supporting long-term productivity growth.

A useful starting point in assessing the scale of national R&D effort is Gross Expenditure on Research and Development (GERD), which captures R&D spending across the business, higher education and government sectors. When measured relative to GNI*, Ireland's GERD has increased steadily over the past decade, rising from 2.4 per cent in 2014 to 3.6 per cent in 2023 (Figure 5.4). On this basis, Ireland's overall R&D intensity is now broadly comparable with, and in some cases exceeds, that of other small advanced European economies.

However, the composition of Ireland's R&D investment differs significantly from that of its peers. A defining feature of Ireland's innovation system is that a comparatively large share of total R&D expenditure is undertaken by the business sector, reflecting the strong presence of multinational enterprises. As shown in Figure 5.5 (Panel A), business expenditure on R&D accounts for a considerably larger share of total R&D investment in Ireland than in the SAE-5 comparator group. Conversely, public investment in research remains comparatively modest. On a per capita basis, Ireland's Government Budget Allocations for Research and Development (GBARD) remain well below the SAE-5 average. Closing this gap would require additional public investment of approximately €1.3 billion per annum, while matching the EU-27 average would require approximately €403.5 million in additional annual expenditure.

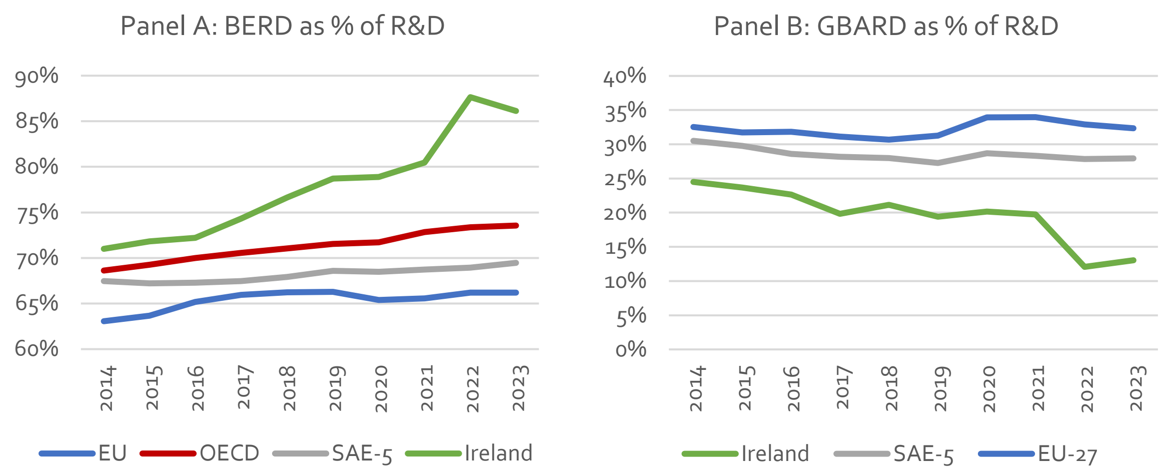
This composition has important implications for competitiveness. Ireland has benefited considerably from high levels of multinational R&D investment, but greater public investment in research can help strengthen the wider innovation ecosystem by supporting research capability within higher education institutions, encouraging collaboration between researchers and enterprise, and facilitating the commercialisation of research. It can also support research activities that may not attract private investment, but which generate important long-term economic and societal benefits. Maintaining Ireland's innovation performance will therefore require continued growth in both business and public investment in research and development.

Figure 5.4: Gross Expenditure on R&D (GERD), 2014-2023



Source: OECD

Figure 5.5: Expenditure on R&D (BERD & GBARD), 2014-2023



Source: OECD and Eurostat

5.1.6 Supporting Innovation Diffusion

While aggregate measures of R&D investment provide an indication of the scale of Ireland's innovation system, long-term competitiveness also depends on the extent to which innovation is diffused across the wider enterprise base. Broadening participation in research, development and innovation – particularly among SMEs – will be important in strengthening productivity growth and reducing reliance on a relatively small number of research-intensive firms.

The Council has previously highlighted that a significant proportion of State support for business R&D is delivered through the R&D Tax Credit. While this has played an important role in supporting research activity, large firms have historically been the primary beneficiaries of the scheme. There remains a substantial gap between SMEs and larger firms in both the level of allowable expenditure claimed and the proportion of total R&D expenditure qualifying for relief. Although allowable expenditure has increased across firms of all sizes, large firms continue to claim the credit in respect of a considerably greater share of their overall R&D activity, while the proportion of SME expenditure qualifying for relief has remained broadly unchanged.[32]

Revenue data indicates that an estimated 3.8% of large corporates (or LCDs) claimed the R&D Tax Credit in 2023. For non-LCD companies, only 0.6% claimed the Credit. This implies that large corporates are over 6 times more likely to claim the Credit than smaller firms, and suggests that, while the scheme has broad coverage in terms of claimant numbers, its utilisation remains concentrated among larger enterprises.[33]

Recognising the importance of maintaining a competitive innovation support framework, the Government published the *R&D Tax Credit and Innovation Compass*[34] in February 2026. The Compass sets out the medium-term direction for Ireland's R&D tax supports and wider innovation framework, highlighting the growing importance of innovation, productivity growth and technology adoption to Ireland's long-term competitiveness. While not a roadmap of firm policy commitments, it identifies a number of areas for further consideration, including simplifying the operation of the R&D Tax Credit, reviewing qualifying expenditure and subcontracting arrangements, strengthening collaboration with higher education institutions, and exploring broader innovation supports beyond traditional R&D activities.

The Council welcomes the publication of the Compass, particularly its recognition that innovation extends beyond frontier R&D. In addition to recent reforms to the R&D Tax Credit – including the increase in the headline rate to 35 per cent, improvements to payment arrangements and administrative simplifications – the Compass signals a broader policy focus on supporting activities such as digitalisation, decarbonisation and the commercialisation of research. This wider approach has the potential to broaden innovation across the indigenous enterprise base and complement existing supports for research-intensive firms.

However, barriers to access appear to persist. This is particularly significant given evidence from the Department of Finance indicating that approximately 40 per cent of R&D supported through the tax credit would have occurred in the absence of the measure. Increasing SME participation therefore has the potential not only to broaden innovation activity but also to improve the effectiveness and additionality of public support. Strengthening advisory supports, simplifying engagement with the innovation system, encouraging collaboration between SMEs and research institutions, and exploring innovation supports that extend beyond traditional R&D activity, could further improve the diffusion of innovation across the enterprise base.

5.1.7 Employment Permits and Study Visas

The Department of Finance's *Future Forty*[35] analysis highlights that continued population growth and labour force expansion over the coming decades will increasingly depend on net inward migration, particularly as Ireland's population ages and domestic labour supply growth slows. Inward migration will therefore remain an important component of Ireland's long-term economic resilience and fiscal sustainability. Ireland's employment permits system plays a key role in this regard by helping to address skills shortages and support competitiveness across the economy.

[32] Research and Development Tax Credit statistics: Revenue, March 2026.
[33] An alternative approach, combining Revenue data with the CSO's business demography statistics, suggests that around 25% of large firms claimed the Tax Credit, compared to just 0.4% of SMEs.
[34] Research_and_Development_Tax_Credit_and_Innovation_Compass_-_Final.pdf: Department of Finance, February 2026.
[35] Future Forty - An Economic and Fiscal Outlook to 2065

5.2 Actions Crucial to Driving Technological Adoption and Innovation

5.2.1 Accelerating AI Adoption and Digital Innovation Among SMEs

AI and digital technologies have the potential to improve productivity, innovation and competitiveness across the enterprise base. However, realising these benefits will depend on more than access to technology alone. Firms (particularly SMEs) require the management capability, organisational capacity, workforce skills and cybersecurity resilience to evaluate, adopt and effectively integrate new technologies where they can deliver commercial value. Addressing these capability gaps, alongside strengthening advisory supports and encouraging wider innovation adoption, will help ensure that Irish firms are well positioned to benefit from ongoing technological change.

Recommendation 5.1: The Council recommends that Government strengthen the capacity of SMEs to adopt and effectively utilise digital and AI technologies where there is a clear commercial rationale for doing so. This should include:

(i) Assessing management skills and organisational capability requirements associated with technology adoption;

(ii) Addressing information and awareness gaps and enhancing advisory and capability-building supports;

(iii) Embedding cybersecurity capability and best practice within enterprise support programmes; and

(iv) Introducing targeted supports for "new-to-firm" innovation, technology adoption and digitalisation.

Responsibility: Department of Enterprise, Tourism and Employment

5.2.2 Strengthening Skills and Workforce Adaptability

As technological change accelerates and labour market needs continue to evolve, maintaining a responsive and flexible skills system will be essential to Ireland's long-term competitiveness. Strengthening the use of labour market intelligence, ensuring that education and training provision aligns with enterprise demand, and expanding skills pathways in strategically important sectors will help address emerging skills shortages, support productivity growth and improve the economy's capacity to adapt to structural change.

Recommendation 5.2: The Council recommends that Government strengthen the responsiveness of the skills system to evolving labour market and enterprise needs. This should include:

(i) Using evidence from the Working in Ireland Survey and the proposed National Skills Observatory to inform the targeting of lifelong learning and skills investment; and,

(ii) Expanding apprenticeship provision in areas of strategic importance to the economy, including ICT, AI and digital technologies, advanced manufacturing, life sciences, and critical technical and operative occupations.

(iii) Strengthening the integration between apprenticeship provision, regional skills strategies and enterprise clusters to support productivity growth, including through the adoption of Modern Methods of Construction, and to address persistent regional labour and skills shortages.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Enterprise, Tourism and Employment

5.2.3 Strengthening the Evaluation of NTF Expenditure

As investment in workforce development continues to increase, it will be important to ensure that skills programmes deliver measurable improvements in employability, workforce capability and enterprise competitiveness. A stronger evidence base on programme effectiveness will help ensure that NTF resources are directed towards interventions that respond to evolving labour market needs and deliver the greatest economic impact.

Recommendation 5.3: The Council recommends progressing the recommendations set out in the ESRI's *Roadmap for an Evaluation of the National Training Fund* to strengthen the evaluation of NTF-supported programmes. This should help to ensure that NTF expenditure remains aligned with the statutory purpose of the Fund, in supporting skills development and employability. This will also support a more robust assessment of programme effectiveness and provide a stronger evidence base to inform future funding and policy decisions relating to skills development and employability.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

5.2.4 Maintaining a Responsive Migration System

A responsive employment permits system plays an important role in supporting Ireland's competitiveness by enabling firms to access critical skills that are not readily available in the domestic labour market. As technological change accelerates and labour market needs continue to evolve, the permits system should remain sufficiently flexible to respond to emerging skills shortages while complementing longer-term investment in education, training and workforce development. Maintaining an evidence-based approach to labour migration will help support productivity, innovation and sustainable economic growth.

Recommendation 5.4: The Council recommends that Government maintain a responsive and evidence-based employment permits system that supports Ireland's competitiveness by enabling access to skills critical for productivity, innovation, and growth. This should include ongoing review of Minimum Annual Remuneration thresholds, informed by labour market conditions, skills shortages, and stakeholder engagement, to ensure the permits system remains adaptable to evolving economic and enterprise needs.

Responsibility: Department of Enterprise, Tourism and Employment; Department of Further and Higher Education, Research, Innovation and Science

6 CHAPTER 6 Ireland's EU Presidency

Summary

- The EU is placing competitiveness, resilience and economic security at the centre of its policy agenda, reflecting growing geopolitical uncertainty, strategic dependencies and international competition.
- Recent developments in EU industrial policy, State Aid and strategic autonomy seek to strengthen Europe's industrial base but also raise important questions regarding the future operation of the Single Market and the position of smaller, open Member States.
- Maintaining open markets, effective competition and a well-functioning Single Market will remain critical to Ireland's long-term competitiveness, particularly as industrial policy and strategic autonomy measures continue to evolve.
- The European Commission has launched an ambitious competitiveness agenda, including the Competitiveness Compass, the Single Market Strategy and regulatory simplification initiatives, to address persistent weaknesses in innovation, investment and market integration.
- Ireland has an opportunity to strengthen implementation of the Single Market domestically through the establishment of the Single Market Office and the cross-government Single Market Taskforce.
- Ireland's Presidency of the Council of the European Union provides a unique opportunity to shape European competitiveness policy, promoting reforms that strengthen productivity, innovation and investment while preserving openness, competition and the integrity of the Single Market.

6.1 Current Situation in Ireland

The EU remains Ireland's largest trading partner, the foundation of the Single Market and an increasingly important source of industrial, energy and competitiveness policy. As geopolitical uncertainty has increased, EU policy has evolved to place greater emphasis on resilience, economic security and strategic autonomy. While these developments present important opportunities to strengthen Europe's industrial base and reduce strategic dependencies, they also create new challenges for smaller, open economies that have traditionally benefited from open markets, effective competition and a well-functioning Single Market.

Ireland's Presidency of the Council of the European Union provides an important opportunity to influence the future direction of European competitiveness policy. Promoting an open, competitive and integrated Single Market, while supporting reforms that strengthen productivity, innovation and resilience across the European economy, will be important priorities for safeguarding Ireland's long-term competitiveness and future-proofing our economic model.

6.1.1 The Evolving European Competitiveness Agenda

Growing geopolitical tensions, heightened concerns regarding economic security and increasing international competition have prompted a significant evolution in EU industrial and competitiveness policy. Recent initiatives increasingly emphasise resilience, strategic autonomy and reducing critical dependencies alongside traditional objectives relating to productivity, innovation and economic integration.

This shift is evident across a range of policy areas. Public procurement rules have increasingly incorporated EU-origin requirements and broader non-price criteria. Industrial policy initiatives, including the proposed Industrial Accelerator Act,[36] seek to strengthen domestic manufacturing capacity through local content requirements linked to public support. Similarly, measures supporting the green transition – including the Net Zero Industry Act – place greater emphasis on reducing dependence on third-country suppliers for strategically important technologies. Comparable approaches have also emerged in defence procurement, where a number of new instruments restrict eligibility to EU-based suppliers.

Alongside these developments, there has been a broader shift towards supporting the development of strategically important European industries. Recent reforms to State Aid rules, the expansion of Important Projects of Common European Interest (IPCEIs) and proposed revisions to EU merger guidelines reflect a greater willingness to support industrial scale, innovation and resilience objectives. Together, these initiatives seek to strengthen Europe's industrial base, improve economic security and enhance competitiveness in strategically important sectors.

While these developments respond to legitimate policy objectives, they also raise important questions regarding the future operation of the Single Market. Increased reliance on subsidies, industrial policy and preference-based measures risks disproportionately benefiting larger Member States with greater fiscal capacity and larger domestic markets. For smaller Member States such as Ireland, which have traditionally benefited from open trade, strong competition and a level playing field within the Single Market, preserving these principles remains critically important.

At the same time, competitiveness is increasingly recognised as being closely linked to job quality and workforce resilience. The European Commission's Quality Jobs Roadmap highlights the contribution of quality employment to long-term productivity, competitiveness and social cohesion, emphasising the importance of skills development, lifelong learning, workforce adaptability and effective labour market institutions. As technological change, digitalisation and artificial intelligence continue to reshape labour markets, ensuring that workers can access high-quality employment characterised by fair pay, good working conditions, opportunities for progression and appropriate workplace flexibility will be important in supporting both economic performance and living standards.

These developments also reinforce the importance of maintaining a strong competition framework alongside industrial policy objectives. While targeted intervention may be justified to address market failures, strengthen resilience or support strategic technologies, competition remains a key driver of productivity, innovation and consumer welfare. Industrial policy should therefore complement, rather than weaken, competitive markets by encouraging innovation, investment and efficient resource allocation.

For Ireland, continued engagement with like-minded Member States will be important to ensure that efforts to strengthen European competitiveness remain consistent with the principles of openness, effective competition and Single Market integration that have underpinned Ireland's economic success.

[36] Commission proposes Industrial Accelerator Act to strengthen industry and create jobs in Europe - Employment, Social Affairs and Inclusion: European Commission, March 2026.

6.1.2 Strengthening the Single Market and European Competitiveness

Recognising Europe's persistent productivity and investment challenges, the European Commission has placed competitiveness at the centre of its policy agenda. The *2026 Annual Single Market and Competitiveness Report*[37] presents a mixed assessment of progress. While improvements have been recorded in some areas, many of the structural weaknesses identified in recent years remain. Of the 29 key performance indicators used to monitor competitiveness, only a minority have improved, while many remain unchanged or have deteriorated. In particular, indicators relating to innovation, investment and Single Market integration continue to highlight significant gaps relative to major international competitors.

The Single Market remains one of Europe's greatest competitive advantages, yet recent evidence suggests that it is not operating to its full potential. Integration in goods and services has stagnated in recent years, while regulatory fragmentation continues to constrain cross-border activity, particularly in services. In response, the Commission's *Single Market Strategy*[38] and the *One Europe, One Market Roadmap*[39] set out an ambitious programme of reforms aimed at removing the most significant barriers to the free movement of goods, services, capital and people. Central to this agenda is addressing the so-called "Terrible Ten" barriers to the Single Market and reducing unnecessary regulatory complexity.

The Council welcomes these initiatives and, in particular, the proposal to appoint Single Market Sherpas within each Member State to strengthen compliance with Single Market rules and improve coordination across national administrations. It also welcomes the establishment by the Irish Government of a Single Market Office within the Department of Enterprise, Tourism and Employment, together with a cross-government Single Market Taskforce, to support Ireland's implementation of Single Market obligations and reduce barriers to intra-EU trade and labour mobility.

Innovation and investment remain central challenges for the European economy. EU expenditure on research and development stood at 2.26 per cent of GDP in 2024, remaining below the long-standing target of 3 per cent, while patenting activity continues to lag behind that of the US and China. At the same time, excessive regulatory and administrative burdens continue to constrain investment and firm growth. Through the Competitiveness Compass, the Commission has committed to reducing administrative burdens by 25 per cent, supported by a series of Omnibus simplification packages that are expected to generate annual savings of approximately €15 billion for European businesses.

Implementation of the Competitiveness Compass has progressed rapidly, reflecting the priority attached to competitiveness by the current Commission. Major initiatives include the proposed Industrial Accelerator Act, the Innovation Act, the 28th Regime (EU Inc.), the One Europe, One Market Roadmap, and further simplification measures designed to strengthen innovation, improve firm scaling, reduce regulatory burdens and deepen Single Market integration.

Collectively, these reforms represent the most ambitious EU competitiveness agenda in many years. Successful implementation has the potential to strengthen productivity, innovation and investment across the Union while reinforcing the Single Market. Ireland's forthcoming Presidency of the Council of the European Union provides an important opportunity to influence this agenda. Promoting reforms that strengthen competitiveness while preserving the principles of openness, competition and market integration that have underpinned Ireland's economic success should therefore remain a central priority.

[37] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52026DC0046: The 2026 Annual Single Market Competitiveness report, European Commission, January 2026.
[38] Single market strategy: European Commission.
[39] European institutions agree roadmap to achieve 'One Europe, One Market' by end of 2027 - Consilium: European Council, Council of European Union, April 2026.

6.2 Actions Crucial to Shaping the European Competitiveness Agenda

6.2.1 Shaping a Competitive and Open European Economy

Ireland's Presidency of the Council of the European Union provides an important opportunity to influence the future direction of European competitiveness policy. As the EU seeks to strengthen productivity, innovation, resilience and economic security, it will be important to ensure that these objectives are pursued in a manner that preserves the openness, competition and Single Market integration that have underpinned Europe's economic success. For Ireland, this includes advocating for policies that support investment and innovation while ensuring that industrial policy, strategic autonomy and resilience measures do not inadvertently disadvantage smaller Member States or weaken the integrity of the Single Market.

Recommendation 6.1: The Council recommends that Ireland actively support the EU’s competitiveness agenda by advancing reforms to strengthen the Single Market, boost innovation, and increase investment. In doing so, Ireland should advocate for approaches that recognise the role of effective, coordinated and appropriately decentralised governance in delivering economic resilience and competitiveness. Ireland should also continue to represent the interests of smaller Member States, ensuring that efforts to enhance resilience and strategic autonomy do not undermine open markets, free trade, or competition. A strong, outward-looking and globally engaged Europe remains critical to Ireland’s long-term economic growth.

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

6.2.2 Strengthening Ireland's Implementation of the Single Market

A well-functioning Single Market is one of Ireland's most important sources of long-term competitiveness, supporting trade, investment, labour mobility and productivity growth. While recent EU initiatives seek to deepen market integration and remove remaining barriers, their success will depend on effective implementation at Member State level. Strengthening Ireland's application of Single Market rules and reducing unnecessary barriers to cross-border economic activity will improve the business environment, support enterprise growth and maximise the benefits of EU membership.

Recommendation 6.2: The Council recommends that the new “Single Market Taskforce”, through concerted action by all Government Departments, works to strengthen the implementation of Single Market rules and Ireland’s compliance with its Single Market obligations, through the removal and prevention of barriers to the freedom of movement of goods, services and people within Ireland.

Responsibility: Department of Enterprise, Tourism and Employment; All Government Departments.

6.2.3 Advancing Better Regulation and Regulatory Simplification

Reducing unnecessary regulatory and administrative burdens is an important component of improving competitiveness, supporting investment and enabling firms to scale. The European Commission's simplification agenda, including the Omnibus initiatives, has the potential to improve the business environment by streamlining regulatory requirements while maintaining high standards of consumer protection, environmental sustainability and market integrity. Supporting these reforms will help reduce compliance costs for businesses and strengthen the competitiveness of both Ireland and the wider European economy.

Recommendation 6.3: The Council recommends that Government support and advance EU simplification measures in a clear and transparent way, including the Omnibus initiatives, with a view to reducing administrative burdens on firms and improving the overall business environment and competitiveness.

Responsibility: Department of Foreign Affairs and Trade, Department of Enterprise, Tourism and Employment; All Government Departments.

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