

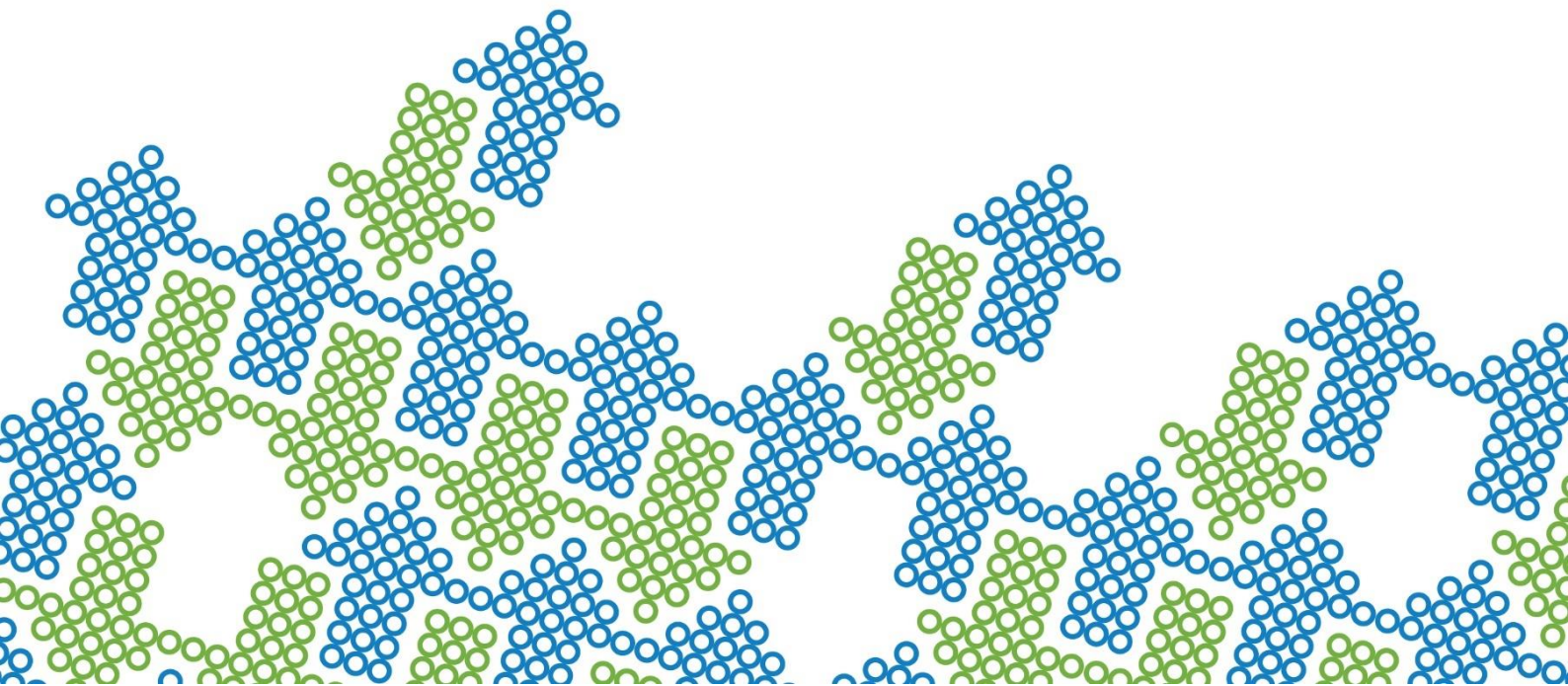
NCPC

National Competitiveness
& Productivity Council
An Chomhairle Náisiúnta
Iomaíochais agus Táirgiúlachta



Ireland's Competitiveness Challenge 2022

September 2022



Introduction to the National Competitiveness and Productivity Council

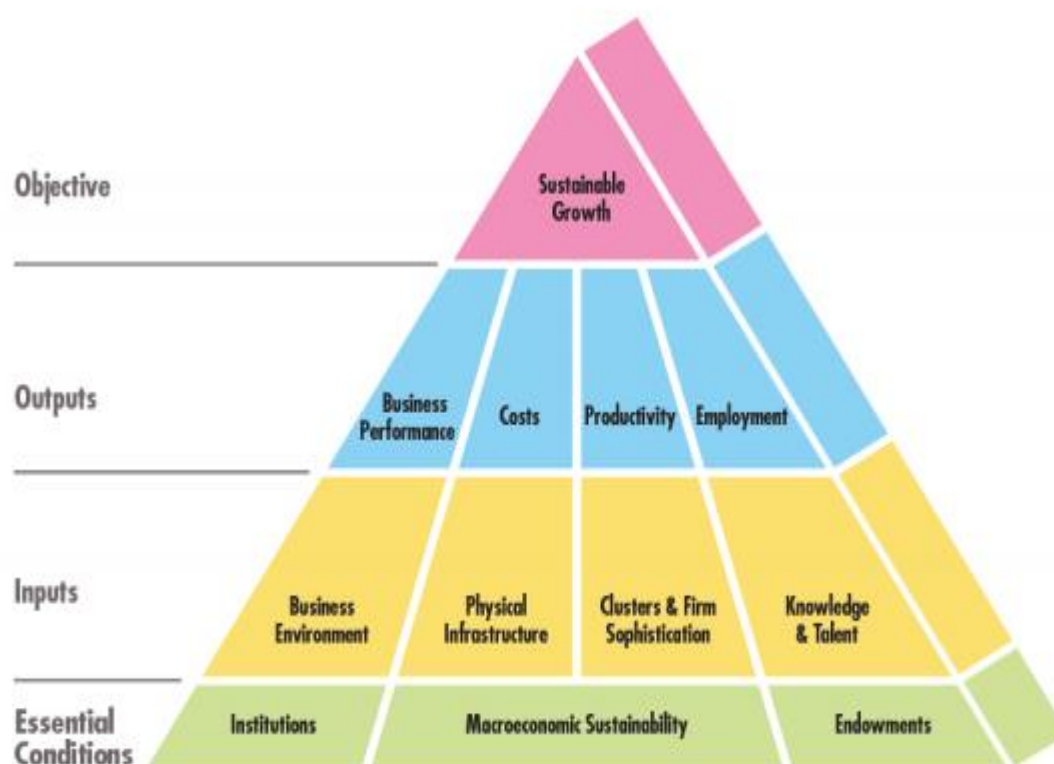
The National Competitiveness Council (NCC) was established in 1997. It reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment on key competitiveness and productivity issues facing the Irish economy and offers recommendations on policy actions required to 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 (NCPC).

Each year the Council publishes an annual report for Government on the key competitiveness and productivity challenges facing the Irish economy and suggests specific policy actions to address these challenges.

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

- A Competitiveness Scorecard;
- The Costs of Doing Business report; and,
- A series of competitiveness bulletins and other papers on specific competitiveness and productivity issues.



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Leo Clancy	Chief Executive, Enterprise Ireland
Ciaran Conlon	Director of Public Policy, Microsoft, Ireland
Jeremy Godfrey	Chair, Competition and Consumer Protection Commission
David Hegarty	Assistant Secretary, Department of Enterprise, Trade and Employment
Neil McDonnell	Chief Executive, ISME
Fergal O'Brien	Director of Lobbying and Influence, IBEC
Dirk Pilat	Former Deputy Director, Science, Technology and Innovation, OECD
Martin Shanahan	Chief Executive, IDA Ireland
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Taoiseach's Foreword



This year marks the 25th anniversary of the National Competitiveness and Productivity Council. Since its establishment in 1997, we have seen many changes, both nationally and internationally, and an ever-evolving landscape for business and enterprise. Throughout this time, the Council has consistently provided considered guidance and policy insights which have helped inform successive Governments on how we can ensure our country can be a prosperous and thriving place in which to work and do business. In recent years, the Council has continued to play an important role. As we have managed the challenges of COVID-19 and of Brexit, we have done so with their valuable input and policy advice.

This year, as the pandemic fades, we saw a very strong economic recovery take hold – most evidently in the labour market where employment levels are now at their highest ever. This rapid rebound, here in Ireland, and in our international trading partners, brought with it capacity constraints and upward pressure on prices. The subsequent illegal and reprehensible Russian invasion of Ukraine, in addition to the terrible humanitarian impact, greatly worsened the situation, so much so that inflationary pressures, in particular energy costs, have now become a very real challenge for households and businesses in Ireland – bringing with them great concern and worry.

In Budget 2023 the Government, informed by views and insights of the National Competitiveness and Productivity Council and other important partners, will take the necessary steps to address the pressures which households and businesses are now facing. The strength of our recovery from COVID-19 has positioned us better than many to weather the turbulence that lies ahead, and has provided us with the capacity to now act in the face of this new challenge.

We will also step up our efforts to address the issue of housing, and in this I welcome the input of the Council and their insights on enhancing productivity in the construction sector and on addressing planning and delivery challenges. I also welcome the views of the Council on the importance of sustainability and the climate transition, including the need to accelerate the rollout of renewable energy, as critical elements for our future economic development and prosperity.

The analysis and recommendations put forward by the National Competitiveness and Productivity Council in the *Competitiveness Challenge 2022* also include important insights into boosting productivity growth, progressing digitalisation, enhancing labour market performance, and supporting infrastructure investment. A formal Government response to the recommendations will be published.

I would like to thank the Council for their work in compiling this report, and I look forward to engaging with them over the coming months as we continue to build and support a prosperous future for all.

Micheál Martin, T.D.,
Taoiseach

Tánaiste's Foreword



This report is published at a time of great uncertainty for households and businesses in Ireland. The Government will need to make the right policy choices to help people through the winter months and make sure not to make matters worse in the medium to long-term. So, the Competitiveness Challenge report is timely, providing the Government with a set of recommendations to help sustain a competitive and productive economy.

This time last year, we were still dealing with the devastating impact of COVID-19. In my foreword, I said my "priority is to get people back to work, and businesses open and prospering again". One year on, we have record levels of employment at 2.55 million people and the lowest unemployment level since 2005. The 'tsunami' of business closures predicted by some never came to pass.

Still, surging inflation and the consequences of Putin's weaponising of energy mean we have much work to do. We must respond to short term needs, but as the Competitiveness Challenge report reminds us, those actions should not undermine our medium and long-term economic objectives.

I strongly agree with the report's recommendations that we must stay focused on the need to help small, medium and large businesses make the twin green and digital transitions. These transitions will bring about a fundamental change in the way our economy operates and whilst this will undoubtedly bring disruption, it will also present us with opportunities.

Earlier this year, I commissioned work on a new White Paper on Ireland's enterprise policy. We want our thinking to be challenged by domestic and international stakeholders to ensure that Ireland's policy stance is well-positioned to meet the opportunities and challenges arising from global economic changes over the next decade and beyond. Of course, our competitiveness and productivity are a prerequisite for a successful enterprise policy, which is where the work of the National Competitiveness and Productivity Council comes in.

Each year, the Council is tasked with the responsibility of taking a holistic look at developments across Ireland's economy and producing evidence-based policy recommendations on how to improve our competitiveness and productivity in the long-term. I welcome the Council's analysis and recommendations. The Government will take them into consideration as we approach the Budget and we will respond to the Council on the main points raised. Finally, I would like to thank Dr Frances Ruane and the Council for their continued analysis and advice.

Leo Varadkar, T.D.,
Tánaiste

Chair's Preface



Increased competitiveness and improved productivity are key to maintaining economic prosperity and to allowing Ireland build the infrastructure necessary to support economic and social wellbeing. The various international challenges faced over the past decade have competed against national priorities that would improve competitiveness and address the barriers to productivity growth. Over this period, Ireland has faced and built a strong recovery after the Global Financial Crisis. It continues to deal systematically with the long-term impacts of Brexit on its highly globalised economy, at a time of political uncertainty in the UK. The arrival of COVID-19 in March 2020 dramatically impacted on how businesses managed their affairs, how the workforce adapted to changes and how people lived their lives. Then, as we began to emerge from the pandemic at the end of 2021, ready to address outstanding Brexit issues,

and the twin economic transitions associated with climate change and digital technologies, we faced the Russian invasion of Ukraine in February 2022. This invasion has generated massive uncertainty in relation to energy and food supplies globally, with the latter being further affected by the current drought in the Northern Hemisphere. These supply constraints are contributing to Ireland, like most western economies, facing the highest inflation rates in over three decades.

The Council recognises that our Government, and governments across the EU and beyond, must do what they can to mitigate the worst impacts of cost increases in ways that do not risk inflation becoming embedded to the detriment of competitiveness, future prosperity and improved wellbeing. In Ireland, this means ensuring markets are competitive and providing targeted supports to those who are most impacted by increases in the cost of living and the cost of doing business. Some enterprises will need assistance to innovate and transform in order to enhance their future sustainability. We need to recognise that higher energy prices represent a deterioration in Ireland's terms of trade, for which the only long-term solution is greater domestic supply of sustainable energy and increased efficiency in the use of energy by businesses and households. Improved efficiency will also help us to meet our climate action targets.

At a time of high inflation, it is vital that Ireland addresses any structural weaknesses that work against long-run competitiveness and more widespread productivity growth. The Council reiterates its previous calls to Government to take consistent long-term policy approaches so that Irish businesses face as little uncertainty as possible and no less favourable operational environments than their competitors. In addition, policy must ensure that there are no impediments to the reallocation of resources to support the increased share of higher productivity activities across the whole economy, and particularly in domestically focused activities. Some of the required policies involve difficult choices, including what should be prioritised and targeted first, and how to tackle issues where the success of strong vested interests is at the expense of the wellbeing of society overall.

As in last year's report, the Council calls for the Government to commit to achieving a competitive and productive economy that delivers sustainable economic growth and benefits all of society in the years ahead. Recognising that many policies have been successfully developed in recent years, the Council now believes that it is timely to focus on their early implementation. Consequently, the Council is limiting itself here to a number of key strategic areas and to making 20 tangible, actionable policy recommendations to the Government.

Dr Frances Ruane
Chair, National Competitiveness and Productivity Council

Overview

Competitiveness against a backdrop of exceptional global uncertainty

The global economic outlook has become significantly more downbeat since last year's *Competitiveness Challenge* report was published. Ongoing supply chain disruptions and rising inflation worldwide have stifled the burgeoning recovery in the aftermath of COVID-19 related disruptions. The Russian invasion of Ukraine in February 2022, sparking a humanitarian emergency in Europe, was a further blow to confidence. In addition, it has triggered a global cost of living crisis driven by steep increases in the price of energy, food, and other commodities and has added to the exceptionally high level of uncertainty surrounding the global economic outlook.

The Irish economy has been directly impacted by these international developments and the outlook for the domestic economy has been revised downwards for 2022 and 2023. Modified domestic demand, a more appropriate measure of economic activity in the domestic economy, is expected to grow at a solid pace of around 4.3% in 2022 and 4.2% in 2023. Risks to the economic outlook have increased significantly over the course of 2022 and further downward revisions are possible as higher inflation, rising ECB interest rates and lower confidence are likely to hold back consumer spending and business investment.

National Risk Assessment

Since 2014, the Irish Government has published annually a National Risk Assessment (NRA)¹. Its purpose is to call attention to the strategic and structural risks facing Ireland. Among specific risks identified in the first NRA in 2014, and since, are Brexit, housing, and pandemics. Each NRA is published annually by the Department of the Taoiseach. The latest NRA (published in late-2021) set out a wide range of potential risks under five headings: geopolitical, economic, social, environmental, and technological which included some new risks, such as digital exclusion and economic scarring, as well as others that have been exacerbated by the COVID-19 pandemic, such as housing supply and energy security. The Russian invasion of Ukraine in February 2022 has further intensified the energy security risk and highlighted the importance of a sustainable and diversified supply. These new risks identified in the NRA are in addition to a number of pre-existing risks that remain significant for the country, including climate change, biodiversity loss, and demographic pressures (i.e., an increase in pension spending falling on a smaller share of those currently in employment).

In previous *Competitiveness Challenge* reports, the Council has also identified many of these issues as risks to Ireland's competitiveness and productivity position and has made recommendations to government on how to tackle them. In order to provide a detailed, evidence-based analysis, the Council must limit itself to a number of key strategic areas and this year's *Competitiveness Challenge* report will explore a number of the issues also identified by the NRA including the digital transition (Chapter 2), the journey to net zero carbon emissions (Chapter 2), demographic change (Chapter 3), housing supply (Chapter 4), and energy security (Chapter 4).

Carrying Capacity of the Irish Economy and the Public Sector

When considering the incidence of delays and blockages which can impede Ireland's competitiveness and productivity, it is worth considering the carrying capacity of the economy (including the public and private

¹ [National Risk Assessment 2021/2022 – Overview of Strategic Risks](#)

sectors), and the wider public service (including regulators) which supports the economy. The Central Statistics Office (CSO) carried out Census 2022² in April of this year and preliminary estimates indicate a population of 5,123,536 persons. This is the first time that a Census has recorded a population of over five million people in over 170 years. Over the past 20 years, the population of Ireland has grown by 1.2 million people, a significant increase of 31% during a period when the population of other European countries stagnated or declined³. The proportion of the population aged 65 years and over to the working age population is now one of the lowest in Europe at 22.6%, however, this ratio has grown continuously since 2012 and is expected to grow at a faster rate than other European countries over the coming decades. By 2050, it is expected that the ratio of those at-work to those aged 65 years and over will have fallen to 2:1 from 4:1⁴, with significant implications for the funding of pensions and the Exchequer overall.

The size of the economy has also increased significantly over the past 20 years. Gross Domestic Product (GDP) has grown in nominal terms by 311% between 2001 and 2021, and by 64% since 2014. Real GDP has increased by 135%⁵ and real Modified Domestic Demand⁶ expanded by 56% between 2001 and 2021. In addition, the labour force has experienced significant growth during this period, increasing by 37.8%, while the total numbers in employment increased 37.3% between 2001 Q4 and 2021 Q4 (from approximately 1.8 million to 2.5 million). These increases in population, the economy, and the labour force, have resulted in an unprecedented level of demand for physical and social infrastructure including transport, housing, electricity generation, water and wastewater, schools and childcare, as well as hospitals and other health care facilities.

The pace of expansion of the past two decades has generated challenges for the public and private sectors to meet the rapidly rising demand. In the case of the public sector, it is evident that the expansion of its capacity to respond adequately to the needs of the economy and society has not kept pace with the growth of the economy and broader demographic changes. Total nominal gross government expenditure increased by 137%⁷ between 2001 and 2021, a combination of an increase in gross current expenditure of 147%, and gross capital expenditure of 83%. The corresponding increase in real government expenditure was 79% between 2001 and 2021, a combination of an increase in gross current expenditure of 87%, and gross capital expenditure of 38%.

A feature of these two decades was the volatility of the growth rate in the economy and its implications for public expenditure. There was high growth in gross government expenditures from 2001 up to 2008 (99% or approximately 10% p.a.), followed by a fall of 13% between 2008 and 2014. Expenditure growth resumed but at a much slower rate between 2014 and 2021 (37% or approximately 5% p.a.)⁸. Indeed, capital expenditure fell substantially from 2008 to 2013 and although it has increased more recently, in real terms it has fallen when compared to 2008. Considering the substantial growth in both the Irish population and the scale and complexity of the economy, alongside the pent-up demand arising from the sharp retrenchment in capital spending post-2008, it is not surprising that backlogs in the delivery of public services in certain areas have emerged. The number of public servants reached 365,893 full time equivalents in the final quarter of 2021, a rise of 37% since 2001, which is broadly in line with the growth rates in total full time equivalent employment. However, as close to 90% of the additional public servants are in the health and education sectors, the remaining sectors have experienced much more modest changes. In addition, for many parts of the public sector, there has been a large

² [Census - CSO - Central Statistics Office](#)

³ The total population of current European Union member states has only increased by 4% since 2001.

⁴ September 2018 [Population Ageing and the Public Finances in Ireland](#)

⁵ GDP/MDD adjusted for inflation using CPI deflator

⁶ Modified (final) domestic demand, a proxy for the domestic economy, is the sum of personal and government consumption and investment, excluding investment in imported IP and aircraft for leasing. It also excludes changes in the value of stocks.

⁷ All figures represent voted government expenditure figures excluding COVID-19 related expenditure.

⁸ In the period immediately following 2008, there was a significant increase in spending by the Department of Social Protection.

growth in the requirement for more advanced skills, which represented a new recruitment challenge for the public sector while the business sector was growing rapidly. This issue of the carrying capacity of the economy and the public sector will be revisited in a future NCPC publication. The scale of growth and the year-to-year variation over the past 20 years has implications for Ireland's competitiveness.

The Council's ability to monitor the latest developments in competitiveness and productivity is dependent on the availability of timely data and official statistics. The Council welcomes the continuing commitment of the Central Statistics Office (CSO) to expanding the publication of Irish statistics that are comparable with other EU and OECD countries. The investment that the CSO has made in productivity statistics in recent years has allowed Ireland to work alongside other eurozone countries in increasing our understanding of productivity growth within the EU. These data are needed to identify areas of challenge and ways of improving the design of policies. Furthermore, the nature of competitiveness analysis is that it is whole-economy and cross cutting. This analysis is therefore a major beneficiary of linkages across administrative data sets that are at the heart of modern statistical systems. This is especially important in Ireland given the complexity of the Irish economy relative to its size. Additional resources will be essential to maximize the benefits of large administrative datasets and official statistics and the Council recognises the progress that the CSO has already made in this area, working with Government Departments and agencies. For openness and transparency, it is vital that Ireland has data that are comprehensive, reliable and trusted in monitoring developments in our economy.

This year's *Competitiveness Challenge* report contains recommendations that address both immediate competitiveness issues, and more medium-term challenges, aimed at enhancing Ireland's competitiveness and productivity performance. Chapter 1 lays out the current economic landscape in Ireland and the immediate issues that need to be addressed as the economy continues to recover in the aftermath of COVID-19 and faces new global uncertainties following the Russian invasion of Ukraine and a surge in inflation. Chapter 2 explores productivity developments in Ireland and highlights the importance of boosting productivity growth, especially amongst indigenous SMEs, as the economy undergoes a twin transition to increased digitalisation and carbon neutrality. Chapter 3 highlights the importance of a responsive and adaptable labour market, given that labour is our key resource and that our overall quality of life is linked strongly to employment. This means ensuring that lifelong learning and upskilling play an important role in preparing workers for the changing world of work and in providing enterprises with the skilled labour force they need. Chapter 4 examines how investing efficiently in the economic and social infrastructure needed can help boost the economic recovery while also meeting specific long-term needs that benefit living standards. Chapter 5 targets some areas of costs that impact on enterprises directly and indirectly and the areas where domestic policy can play a role in controlling costs. Finally, the Conclusion section provides a summary of the NCPC's findings in this *Competitiveness Challenge* report.

Immediate Issues Facing the Irish Economy

Inflationary pressures have been mounting globally since the latter half of 2021, due to the rapid recovery in consumption in the aftermath of COVID-19, international supply chain bottlenecks, and base effects relating to weak price trends in 2020. The Russian invasion of Ukraine in February 2022 has put further strong upward pressure on global prices, particularly in energy markets, with many countries now recording the highest rates of inflation since the 1970s. The exceptional rise in inflation in Ireland in recent months has begun to erode real wages, with disposable incomes and living standards coming under strain. The Council recognises the pressures placed on households and enterprises by rising costs. While the Government cannot control prices in international markets, it must ensure that any policy responses to international inflation do not embed

inflationary expectations into the domestic economy which would undermine our competitiveness in the longer run (**Recommendation 1.1**).

As the economy continues its recovery, enterprises are grappling with a new business environment as COVID-19 related financial supports have been withdrawn and vulnerable firms in sectors that were highly impacted by disruptions over the past two years must reposition themselves in the post pandemic environment. The Council believes any future business supports should be designed and targeted to avoid any risk that they encourage unviable businesses to remain open or delay restructuring (**Recommendation 1.2**). Such delays can negatively impact productivity by stifling the process whereby capital and labour flow from unviable entities towards new business opportunities.

The public finances have also been significantly impacted by COVID-19 related expenditure, amounting to €14.7 billion and €12.4 billion in 2020 and 2021, respectively⁹. Ongoing inflationary pressures and an upward trajectory for global interest rates now present an added challenge to fiscal planning. The Council agrees that the budgetary stance for 2023 set out in the Summer Economic Statement was appropriate. However, in future there will be a need for continued stringent management of any additional Government expenditure, beyond that already targeted at easing the cost-of-living crisis, to be focused on areas which raise the productive capacity of the economy (**Recommendation 1.3**). Government will also need to ensure that Ireland has a tax and social protection system that enhances economic potential and promotes quality employment so that living standards and quality of life improve for all of society (**Recommendation 1.4**).

Medium- to Long-Term Challenges

While there is still uncertainty in relation to COVID-19 and pandemic risks, the crisis phase has passed, and the post-pandemic recovery continues. At the same time, long-running issues which pre-dated COVID-19 require urgent attention as do additional new policy issues that have emerged in recent years, most notably the twin digital and climate transitions. Indeed, the transition to net zero carbon emissions is likely to be the principal disruptive force across all sectors of Ireland's economy over the coming years and the scale of this challenge cannot be underestimated, especially in the context of volatile international energy markets.

In relation to the longstanding issues, these include low SME productivity, skills and infrastructure gaps and cost pressures. These will require focused and coordinated consideration now as the responses required are multi-faceted and progress must be built upon in a stepwise fashion. Many of these actions and reforms will be challenging to implement and take time to deliver their desired result. Consequently, it is vital that their implementation starts soon and is monitored carefully, with any required adjustments carried out without delay. Their lack of immediate urgency must not be allowed to crowd out the need for attention now, if future economic burdens, in terms of reduced employment, living standards and productivity, are to be avoided. The Council recommends to Government that, over the next decade, the four key competitiveness and productivity strategic challenges should be to:

- **boost productivity growth in Ireland with a focus on ensuring it is as broad-based as possible.** Productivity is the engine of economic growth in the longer term, and as such is key to improvements in living standards, associated with growing and sustainable wage levels, good public services, and improved wellbeing. The Council welcomes the fulfilment of the Programme for Government commitment to

⁹ [Government Finance Statistics - Annual 2016 to 2021 \(April 2022 Results\) - CSO - Central Statistics Office](#)

establish a Well-being Framework for Ireland¹⁰ and a supporting dashboard hosted by the CSO. As is well known, productivity growth in Ireland has been highly concentrated in a small number of sectors driven by a small number of firms. Consequently, future policies must be targeted to ensure more widespread and sustained growth of productivity across enterprises and sectors in Ireland.

More widespread and sustained productivity growth is especially important as Ireland seeks to reinvigorate the domestic economy in the wake of the COVID-19 related shock and build resilience against global uncertainties following the Russian invasion of Ukraine. Two major global transformations are currently underway: the move towards a climate-neutral society by 2050, with net-zero greenhouse gas emissions; and the digitalisation of the economy. The so-called 'twin transitions' generate burdens of adjustment (involving new investments and costs) but they can also provide major opportunities for new firms to emerge and for some existing Irish firms to gain market share in new technologies and new industries. The Council acknowledges the importance of the early and systematic implementation of the *Harnessing Digital*¹¹ strategy so that the digitalisation of the enterprise sector and broader society gets the required support (**Recommendation 2.1**). Early evidence suggests that Irish enterprises, especially micro, small and medium size firms, are not yet prepared to begin their climate and digital transitions and will require Government supports (**Recommendation 2.2**) to successfully manage their transformation.

Investment in research, development and innovation is essential for Irish enterprises to develop innovative new products and services that will allow them to survive and thrive in competitive domestic and international markets. The Council welcomes the publication of *Impact 2030: Ireland's Research and Innovation Strategy*¹², which was the focus of a recommendation in last year's *Challenge* report, and now urges the Government to implement this strategy immediately with ongoing monitoring of targets (**Recommendation 2.3**).

- **enhance labour market performance.** Good labour market performance can be achieved by fostering skills and participation, while ensuring that the gains from productivity growth are broadly shared with workers, and that non-wage labour costs are kept down. The Council believes Government resources no longer required to support the recovery of the labour market in the aftermath of the COVID-19 shock should be refocused to: increase the digital skills of the labour force; develop measures that will increase labour force participation amongst currently underrepresented groups; continue to roll-out engagement programmes targeting specific cohorts including 'returners'; and increase outreach for skilled labour beyond the EU/EEA (**Recommendation 3.1**). The Council also believes that there are potential economic and social benefits from increasing labour force participation by older people and people with disabilities to be realised through the streamlining of the NDIS and CES strategies, and the continued examination of ways to improve the coordination of policy across Government (**Recommendation 3.2**).

In tandem, continuing to meet the skills requirements of the economy is key if we are to boost productivity growth, with skills coming online to match the areas of potential growth in the economy. The adoption of digital skills and the skills related to the green economy are crucial to support the twin digital and climate transition (**Recommendation 3.3 and 3.4**). Given the vital role apprentices will play in meeting Ireland's national targets under *Housing for All*, the *National Development Plan* and the *Climate Action Plan*, and the current overhaul of the apprenticeship system in Ireland, the Council believes that the implementation

¹⁰ [A Well-being Framework for Ireland \(www.gov.ie\)](http://www.gov.ie)

¹¹ [Harnessing Digital - The Digital Ireland Framework](#)

¹² [Impact 2030 - Ireland's New Research and Innovation Strategy](#)

of the *Action Plan for Apprenticeship 2021-2025* is key to deliver a modern apprenticeship system (**Recommendation 3.5**).

Over the past year, the Government has introduced or progressed initiatives to improve employee conditions, such as sick pay legislation and pension auto-enrolment, among others. These are vital for ensuring Ireland can attract and retain talent, have potential benefits to firms (for example increased productivity), and also bring Ireland in line with other OECD countries. However, the Council is cognisant that this and further measures also represent a cost to employers, for example through administrative burdens and resourcing, which could particularly encumber SMEs. Therefore, the Council believes it is important to take a comprehensive and holistic view of the impact of these newly introduced measures on Irish enterprises, particularly given the context of inflation, Brexit, supply chain challenges, and the digital and green transitions, which have increased costs and administrative burdens on firms (**Recommendation 3.6**).

- **supporting infrastructure investment for a better future.** Improving the quality of infrastructure is essential to ensure Ireland has the capacity to achieve sustainable long-term growth and plays a key role in enhancing productivity. As interest rates increase, it is important that there is a strong focus on value for money across all investment areas. The Council believes that if Ireland is to retain its competitiveness position, continued investment in our infrastructure – both physical and social – is required. To ensure that the targets set across the *National Development Plan*, and *Housing for All* are met, continued innovation which will contribute to productivity and quality improvements is required in the construction sector. This needs to take place alongside upskilling of construction workers with the skills relating to Modern Methods of Construction, particularly in the context of a constrained labour market with rising cost pressures (**Recommendation 4.1**). Improvements in the planning system are also critical in facilitating the timely delivery of key infrastructure. The Attorney General's review of the planning code, and the introduction of a planning and environmental division of the High Court will be important developments in improving the delivery of planning decisions (**Recommendation 4.2**).

The urgency with which Ireland must progress its climate commitments continues to increase. Reflecting this, it is important to identify ways to enable greater investment in green energy generation capacity, and also to ensure that the regulatory system facilitates this investment and resolves delays where they might emerge (**Recommendation 4.3**). Improved delivery is also needed in the country's water and wastewater infrastructure (**Recommendation 4.4**).

- **managing the costs of doing business.** As an open global economy, the relative cost of doing business in Ireland is a significant determinant of competitiveness and, ultimately, economic growth, employment and our standard of living. If prices in Ireland are high relative to productivity, Ireland's competitiveness position is damaged. Persistent higher prices would lead to Irish businesses finding it more difficult to export and there would be a disincentive for international firms to locate in Ireland. Ultimately, high costs make international engagement (through trading or investment) more expensive, reducing the Irish economy's beneficial exposure to the international economy. The globally connected nature of Ireland's trade, technological and financial links means that, while Ireland is a beneficiary of global growth, it is always vulnerable to external shocks. This reinforces the importance of prioritising policies and actions that are within Ireland's control to enhance cost competitiveness.

Reducing costs to business on the longstanding issues of credit costs, insurance costs and legal costs is vital to boosting the competitive position of Irish firms. Greater competition is needed in the lending market to reduce interest rates and direct costs to business (**Recommendation 5.1**) and businesses also need to be made aware of affordable financing options as the tapering of Government COVID-19 supports to businesses continues (**Recommendation 5.2**). Relatively high legal costs may be placing businesses at a competitive disadvantage compared to other jurisdictions and it is important to understand the drivers of such costs in order to best identify any appropriate policy actions that could address them (**Recommendation 5.3**).

It is also important to protect competitiveness by tackling issues that have a strong indirect impact on business costs. High housing and childcare costs can have a knock-on effect on wage demands, and to the potential creation of inflationary cycles. It remains vital, therefore, that we continue to act to address high costs in housing and childcare.

Conclusion

During times of heightened economic and political uncertainty and turmoil, it is important that policy makers take action to address current issues, but not lose sight of the medium- to long-term reforms required to increase competitiveness and achieve more widespread productivity growth. It is also important to ensure that the urgent decisions to deal with present issues are aligned with medium- and long-term policy decisions.

The Council reiterates its previous calls to Government to take a consistent long-term approach so that Irish businesses face as much certainty as possible and no less favourable operational environments than their competitors. Some of the required policies involve difficult choices, including what should be prioritised and targeted first. The Council calls for the Government to commit to achieving a competitive and productive economy that delivers sustainable and inclusive economic growth and benefits all of society in the years ahead. Recognising that many comprehensive policies have been successfully developed in recent years, the Council now believes that it is timely to focus on their implementation. Consequently, the Council is limiting itself in this year's report to a number of key strategic areas and to making 20 tangible, actionable policy recommendations to the Government. These recommendations will build towards a sustainable and inclusive economy, underpinned by broad based productivity growth, an adaptable and highly skilled workforce, adequate physical and social infrastructure, and manageable business costs.

Summary of National Competitiveness and Productivity Council Recommendations 2022

The annual *Competitiveness Challenge* identifies a specific range of recommendations that address both immediate competitiveness issues, and more medium- and long-term challenges that require urgent action, aimed at enhancing Ireland's competitiveness and productivity performance. The National Competitiveness and Productivity Council has a primary focus on competitiveness and productivity, and through this lens it identifies broad areas where reform is needed to support a sustainable and inclusive economy. The Council has focused this year's analysis and recommendations on specific issues where reforms are urgently required and acknowledges that there are other areas that will also need to be addressed but are outside the scope of this year's report. The 20 tangible, actionable policy recommendations to Government are intended to lay solid foundations today for sustainable growth in order to secure an improvement in the standard of living for all of society.

It is imperative that progress is made on these recommendations by the relevant Government Departments and State agencies over the coming year so that Ireland remains competitive. In recognition of the fact that some recommendations require the co-ordinated action of a number of bodies, the Council lists all of the key responsible actors. In these cases, the first mentioned actor is regarded as having overall responsibility for the recommendation. Last year the Council welcomed the publication of the Government's second formal response to the recommendations in *Competitiveness Challenge 2021* and looks forward this year to further fruitful engagement on the key competitiveness and productivity issues facing the Irish economy.

Chapter 1: Immediate Issues Facing the Irish Economy

Recommendation 1.1: Policymakers must ensure that any policy responses to international inflation do not embed inflationary expectations into the domestic economy which will undermine Ireland's competitiveness.

Responsibility: Whole of Government

Recommendation 1.2: As COVID-19 related supports have been withdrawn, any future scheme(s) should be targeted in such a way as to avoid distorting the redistribution of labour or capital in the economy.

Responsibility: Department of Finance, Department of Public Expenditure and Reform, Department of Enterprise, Trade and Employment

Recommendation 1.3: In light of the Summer Economic Statement, the NCPC recommends that any additional expenditure is targeted on productive spending that will reduce bottlenecks and foster growth and employment, and on highly targeted supports to assist those most affected by the increased energy and food prices.

Responsibility: Department of Finance

Recommendation 1.4: The NCPC recommends that the actions put forward by the Commission on Taxation and Welfare are immediately addressed, with a view to Ireland having a tax and social protection system that enhances economic potential and promotes quality employment so that living standards and quality of life improve for all of society.

Responsibility: Department of Finance

Chapter 2: Boosting Productivity

Recommendation 2.1: The NCPC recommends that the required resources are immediately devoted to implement systematically the *Harnessing Digital* strategy, with annual reporting on progress made and transparent identification of all barriers to progressing the implementation process.

Responsibility: Department of the Taoiseach, Department of Enterprise, Trade and Employment, IDA Ireland, Enterprise Ireland, Local Enterprise Offices

Recommendation 2.2: The NCPC recommends ongoing monitoring and evaluation of Government supports for the twin transition to ensure that adequate progress is being made and that Ireland's targets remain appropriate when viewed against what is being achieved across the EU in relation to the twin transitions.

Responsibility: Department of Enterprise, Trade and Employment, IDA Ireland, Enterprise Ireland, Local Enterprise Offices

Recommendation 2.3: The NCPC recommends that, in order to secure Ireland's position as a strong innovator, the Government should ensure that:

- (i) the *Impact 2030* strategy is implemented without delay and progress on targets is monitored on an annual basis;
- (ii) the Research Bill is passed without delay and that the new research and innovation funding agency is established with some urgency to drive and fund research, particularly interdisciplinary research.

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

Chapter 3: Enhancing Labour Market Performance

Recommendation 3.1: The NCPC recommends that resources under Pathways to Work 2021-2025 which are no longer required to deal with COVID-19 labour market recovery schemes are focused towards:

- (i) Increasing the digital skills of the labour force which are not adequate to the rapidly changing digital environment,
 - (ii) Developing measures that will increase labour force participation amongst currently underrepresented groups, and
 - (iii) Continuing to roll-out engagement programmes through INTREO targeting specific cohorts, including 'returners', (for example, Job Fairs) to re-engage those currently outside the labour force, with a focus on job and skills-matching.
-

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- (iv) Increasing outreach for skilled labour beyond the EU/EEA through INTREO by considering rolling out programmes to target potential pools of skilled labour in identified areas and countries.

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

Recommendation 3.2: The NCPC recommends that to increase participation of people with disabilities and older people in the labour force:

- (i) Finalise Final Action Plan of the CES and combine into one single strategy with the successor strategy of the NDIS, and
- (ii) Continue to examine ways to improve the coordination of policy across Government departments.

Responsibility: Department of Children, Equality, Disability, Integration and Youth, Department of Further and Higher Education, Innovation and Science, Department of Enterprise, Trade and Employment, Department of Health, Department of Social Protection

Recommendation 3.3: The NCPC recommends that the relevant entities lead, develop and implement a coherent plan to address the recommendations assigned by the EGFSN in their AI Skills report to support the digital transition.

Responsibility: Department of Enterprise, Trade, and Employment, Department of Further and Higher Education, Research, Innovation and Science, Department of Public Expenditure and Reform, Further Education and Training and Higher Education Providers, Department of Education, Industry and other stakeholders

Recommendation 3.4: The NCPC recommends that the relevant entities lead, develop and implement a coherent plan to address the recommendations assigned by the EGFSN in their Skills for Zero Carbon report to support the climate transition.

Responsibility: Department of Enterprise, Trade, and Employment, Department of Environment, Climate and Communications, Department of Further and Higher Education, Research, Innovation and Science, Department of Housing, Local Government and Heritage, Department of Agriculture, Food and the Marine, Department of Social Protection, Department of Public Expenditure and Reform, Further Education and Training and Higher Education Providers, Department of Education, Industry and other stakeholders

Recommendation 3.5: The NCPC recommends that the *Action Plan for Apprenticeship 2021-2025* adopted by Government is implemented quickly and in full in order to deliver a modern apprenticeship system with expanded programme options and increased take-up.

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

Recommendation 3.6: The NCPC recommends a comprehensive, independent evaluation be commissioned and published of the combined impact of the measures proposed to improve working conditions in Ireland, within a comparative EU framework, by 2023 Q4.

Responsibility: Department of Enterprise, Trade and Employment, Department of Social Protection

Chapter 4: Infrastructure Investment for a Better Future

Recommendation 4.1: The NCPC recommends

- (i) Continued focus on monitoring and resourcing of, initiatives such as the new Construction Technology Centre, the MMC Demonstration Park and the *Build Digital* project, to increase innovation that will contribute to productivity and quality improvements in the construction sector.
- (ii) Ensuring the upskilling of construction workers with the skills relating to *Modern Methods of Construction* to enable the sector to meet its targets as set out under HFA, NDP and CAP; and that this sectoral upskilling is monitored.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Housing, Local Government and Heritage; Department of Enterprise, Trade and Employment

Recommendation 4.2: The NCPC recommends that

- (i) Arrangements are put in place in 2022 to ensure immediate implementation of the recommendations from the Attorney General's review of the planning code in a systematic and timely manner.
- (ii) The new planning and environmental division of the High Court is established as a priority, and that it is appropriately resourced to reduce the delays inherent in the current planning system, with specialist training and support being provided for the judges appointed to this new division.
- (iii) An immediate investigation is undertaken to ensure proper resourcing of planning authorities to ensure that they are not a constraint on the meeting the Government's infrastructure targets

Responsibility: Department of Housing, Local Government and Heritage; Department of Justice

Recommendation 4.3: The NCPC recommends

- (i) Identifying ways to facilitate greater investment in, and more rapid delivery of, green energy generation capacity. This includes examining any potential blockages and sources of delay, so that Ireland can achieve the targets set under Climate Action Plan 2021.
- (ii) A critical examination be taken of the full regulatory process in relation to the delivery of strategic energy infrastructure to identify delays in the system which undermine efforts to establish a more secure energy supply through decarbonising Ireland's electricity network.
- (iii) Ongoing consideration of energy storage solutions in providing a secure supply of energy to Irish businesses and households.

Responsibility: Department of Environment, Climate and Communications; Department of Housing, Local Government and Heritage

Recommendation 4.4: The NCPC recommends that

- (i) The reasons for ongoing delays in the delivery of water and wastewater infrastructure are investigated, and
- (ii) actions are taken to remove the identified barriers to efficient delivery of a robust and efficient public utility for water and wastewater.

Responsibility: Department of Housing, Local Government and Heritage

Chapter 5: Managing the Costs of Doing Business

Recommendation 5.1: The NCPC recommends that the agreed recommendations made by the Retail Banking Review are implemented swiftly.

Responsibility: Department of Finance

Recommendation 5.2: The NCPC recommends that:

- (i) As the tapering of government supports to businesses continues, ensure that firms are made aware of the financing options available to them.
- (ii) As FGLS has expired, CCGS closed on 30 June 2022 and BILS expires in December 2022, consider the implementation of a new State backed SME loan scheme in 2023, should the need and demand arise.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 5.3: The NCPC recommends that:

- (i) The CSO continue to expand the SPPI survey with a strong focus on developing granular sectoral data in order to measure services prices.

Responsibility: Central Statistics Office

- (ii) The Department of Justice proceed to the immediate implementation of the findings from The Review of the Administration of Civil Justice

Responsibility: Department of Justice

Chapter 1: Immediate Issues Facing the Irish Economy

1.1 Introduction

The ultimate mission of the National Competitiveness and Productivity Council (NCPC) is to promote sustainable economic growth and quality employment so that living standards and quality of life improve for all of society. The Council traditionally takes a medium- to long-term focus, as the policy actions required to enhance Ireland's competitive position and productivity performance can often take many years to deliver their desired result. They need careful planning and coordination. However, it is important to set these policy discussions and recommendations in a current context. The scale of current stresses in the global, social, and economic order (particularly linked to COVID-19 and the energy crisis caused by the Russian invasion of Ukraine), necessitates an additional analysis of more immediate issues facing consumers, employees, enterprises, and Government. It is important that the urgent decisions to deal with present issues are aligned with strategic policy decisions related to the medium- and long-term. The remainder of this section explores the current global and domestic economic outlook, followed by a section highlighting the short-term challenges facing the Irish economy and the measures needed to help the economy adjust to the current global challenges.

Global Economic Outlook is highly uncertain following the Russian Invasion of Ukraine

The global economic outlook has become significantly more downbeat since last year's *Competitiveness Challenge* report was published. The world economy had begun to regain momentum in the latter half of 2021 as confidence returned with COVID-19 related restrictions being scaled back in many countries, in line with record vaccination rates and improved treatments. However, ongoing supply chain disruptions and rising inflation worldwide continue to stifle the burgeoning recovery. The Russian invasion of Ukraine in February 2022, sparking a humanitarian emergency in Europe, was a further blow to confidence and has triggered a global cost of living crisis driven by steep increases in the price of energy, food, and other commodities. China's strict zero-COVID policy and rolling lockdowns have resulted in further supply chain disruptions throughout 2022 and coupled with the slowdown in the pace of the US recovery and severe drought in many countries in the northern hemisphere¹³, has added to the exceptionally high level of uncertainty surrounding the global economic outlook.

Figure 1.1.1: Forecasts for Global GDP – percentage change Global (GDP)

	2021	2022	2023
IMF ¹⁴ (July 2022)	6.1	3.2	2.9
European Commission ¹⁵ (July 2022)	5.9	3.0	3.3
OECD ¹⁶ (June 2022)	5.8	3.0	2.8

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

¹³ [Summer 2022 droughts: What can we do? - Vox](#)

¹⁴ [World Economic Outlook Update, July 2022: Gloomy and More Uncertain](#)

¹⁵ [Summer 2022 Economic Forecast \(europa.eu\)](#)

¹⁶ [OECD Economic Outlook](#)

The international Monetary Fund, the European Commission and the Organisation for Economic Cooperation and Development have all revised downwards their forecasts for economic growth in 2022 and 2023 (see Figure 1.1.1). The Russian invasion of Ukraine, reduced household purchasing power due to higher-than-expected inflation, and tighter monetary policy drove the downward revisions compared to the outlook in early 2022. Global GDP is now expected to grow by around 3.0% in 2022, half the rate of increase recorded last year, and growth is forecast to remain modest in 2023.

Irish Economic Outlook has been revised downwards in 2022 but solid growth is still expected

Overall, Ireland is forecast to outperform global GDP across 2022 and 2023. The latest economic projections from domestic forecasters for 2022, ranging from 6.4% to 9.1%, are more upbeat compared to those forecasts for Ireland prepared by international peers, which range from 4.8% to 5.3% (see Figure 1.1.2). However, all of the recent forecasts have been revised downwards compared to estimates produced in early 2022, driven by the same factors affecting the international outlook. GDP growth is expected to remain robust in 2023 but is expected to be somewhat lower than this year.

Developments in the international economy have the potential to negatively impact Irish exports, although exports from sectors dominated by multinational enterprises, including pharmaceuticals, medical devices and ICT, have proven resilient in the past despite global downturns.

Figure 1.1.2: Forecasts for Irish GDP – percentage change

	2021	2022	2023
Central Bank of Ireland ¹⁷ (July 2022)	13.5	9.1	4.8
ESRI ¹⁸ (June 2022)	13.5	6.8	4.8
Department of Finance ¹⁹ (April 2022)	13.5	6.4	4.4
European Commission (July 2022)	13.5	5.3	4.0
OECD (June 2022)	13.4	4.8	2.7
IMF (April 2022)	13.5	5.2	5.0

Source: CBI Quarterly Bulletin, Department of Finance SPU, ESRI Quarterly Economic Commentary, IMF World Economic Outlook, OECD Economic Outlook, European Commission Summer Economic Forecast

The outlook for modified domestic demand²⁰ (MDD), a more appropriate measure of economic activity in the domestic economy, has also been revised downwards in recent months but is still set to grow at a solid pace of around 4.3% in 2022 (see Figure 1.1.3). While this is significantly below the headline GDP figure, it still highlights the strength of the underlying economy. Risks to the economic outlook have increased significantly over the course of 2022 and further downward revisions are possible as higher inflation, rising interest rates and lower confidence are likely to hold back consumer spending and business investment.

¹⁷ [Quarterly Bulletin No.3 2022 \(centralbank.ie\)](https://www.centralbank.ie/quarterly-bulletin/2022/quarterly-bulletin-no-3-2022)

¹⁸ [Quarterly Economic Commentary, Summer 2022 \(esri.ie\)](https://www.esri.ie/quarterly-economic-commentary/summer-2022)

¹⁹ [Stability Programme Update 2022](https://www.dof.gov.ie/stability-programme-update-2022). Updated forecasts from the D/Finance will be published alongside Budget 2023 in September 2022.

²⁰ Modified (final) domestic demand, a proxy for the domestic economy, is the sum of personal and government consumption and investment, excluding investment in imported IP and aircraft for leasing. It also excludes changes in the value of stocks.

Figure 1.1.3: Forecasts for Ireland's Modified Domestic Demand and GDP – percentage change

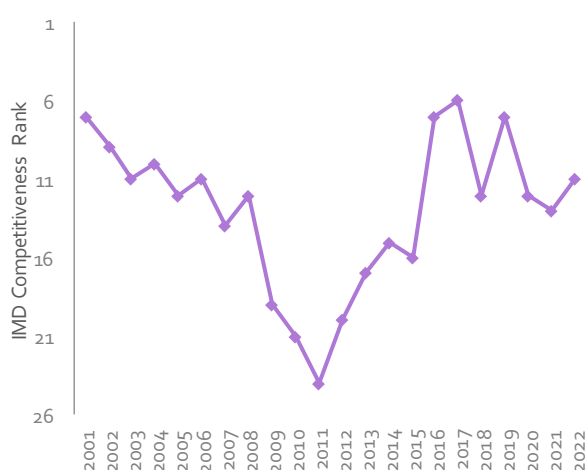
	2021	2022	2023
Central Bank of Ireland (July 2022)	6.5	4.3	4.2
ESRI (June 2022)	6.5	4.4	3.7
Department of Finance (April 2022)	6.5	4.2	3.9

Source: CBI Quarterly Bulletin, ESRI Quarterly Economic Commentary, Department of Finance SPU

Ireland's Global Competitiveness Position

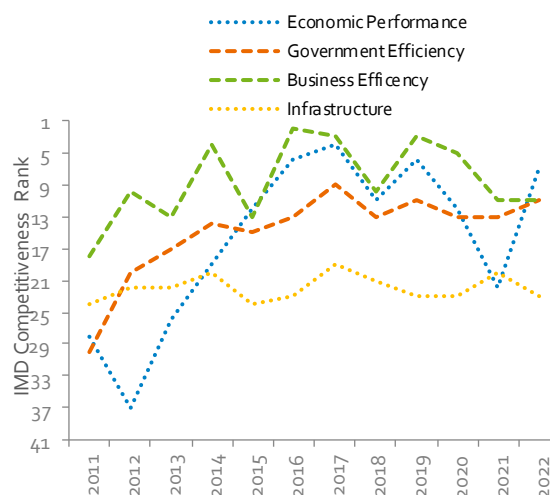
In June 2022, the NCPC published a Bulletin²¹ on the Institute for Management Development (IMD)'s World Competitiveness Yearbook 2022²². This year's report ranks Ireland as the 3rd most competitive country in the euro area and the 11th most competitive economy in the world (out of 63 economies), an improvement from 13th position last year (see Figure 1.1.4). The rankings are based on more than 330 indicators grouped under four pillars: Economic Performance, Government Efficiency, Business Efficiency, and Infrastructure. Competitiveness rankings have their limitations, and annual positions can fluctuate as a result of business perceptions or once-off factors. The use of Gross Domestic Product as an internationally comparable measure of economic activity also affects the computation of a number of indicators and generally boosts Ireland's measured performance. Ireland's higher ranking in this year's IMD World Competitiveness Yearbook is driven by relative improvements in the Economic Performance and Government Efficiency pillars (see Figure 1.1.5).

Figure 1.1.4: IMD Competitiveness Rankings²³ 2002-2022



Source: IMD

Figure 1.1.5: Ireland's Ranking across Four Pillars 2011-2022



Source: IMD

Ireland's improved fiscal position, ability to attract investment, and the strong recovery of the labour market have all contributed to the rise in the international competitiveness ranking. However, Ireland's poor

²¹ NCPC Bulletin 22-3 - IMD World Competitiveness Rankings

²² <https://www.imd.org/centers/world-competitiveness-center/rankings/>

²³ The IMD Competitiveness Yearbook assesses and ranks 63 economies around the world based on their ability to create and maintain a competitive business environment. The rankings are based on more than 330 indicators grouped across four pillars: Economic Performance, Government Efficiency, Business Efficiency, and Infrastructure.

performance in infrastructure indicators, particularly in technological infrastructure, remains a concern in the context of the growing importance of the digital economy and also of remote working. In recent years, the IMD Executive Opinion Survey has asked additional questions related to executives' concerns about the economies in which they operate. This year's report for Ireland highlights the presence of global pressures impacting prices, following Russia's invasion of Ukraine. Inflationary Pressures, Geopolitical Conflicts, and Supply Chain Bottlenecks were listed as the main challenges facing Ireland in 2022. The survey also notes challenges in relation to capacity constraints in housing, other infrastructure, and the construction sector, as well as the availability of talent to meet critical skills gaps. These issues have also been identified by the NCPC as priority areas for policy action and will be further explored in the coming Chapters.

Inflationary Pressures Intensified in 2022

Inflationary pressures have been mounting globally since the latter half of 2021, due to rapid recovery in consumption in the aftermath of COVID-19, international supply chain bottlenecks, and base effects²⁴ relating to weak price trends in 2020. The Russian invasion of Ukraine in February 2022 has put further strong upward pressure on global prices, particularly in energy markets. Whilst rising energy prices have been one of the main drivers of increases in the CPI, the contribution made by other components has also been increasing as energy costs and supply chain disruption begin to feed through into core inflation (excluding energy) resulting in rising input costs impacting on the price of food. The exceptional rise in inflation in recent months has begun to erode real wages in Ireland, with disposable incomes and living standards coming under strain. These inflationary pressures are not unique to Ireland and have been observed across the majority of advanced economies, as shown in Figure 1.1.6. In the year to July 2022, inflation in Ireland was 9.6%, above the euro area average and the United States, but below the inflation rate recorded in Spain and the United Kingdom. With respect to the latter, the most recent forecasts from the Bank of England predict inflation of 13% in 2022 Q4²⁵, while some commentators are forecasting an even higher inflation rate.

Figure 1.1.6: Inflation Rates in Select Countries

Country:	Inflation Rate – June 2022	Inflation Rate – July 2022
Ireland	9.6%	9.6%
Germany	8.2%	8.5%
France	6.5%	6.8%
Spain	10.0%	10.8%
Italy	8.5%	8.4%
Euro area	8.6%	8.9%
United Kingdom	9.4%	10.1%
United States	9.1%	8.5%

Source: Eurostat Harmonised Index of Consumer Prices; ONS CPI Index; U.S. Bureau of Labor Statistics CPI.

²⁴ The base effect can be defined as the contribution to the change in the year-on-year inflation rate in a particular month that stems from a deviation of the month-on-month rate of change in the base month (i.e. the same month one year earlier) from the usual seasonal pattern.

²⁵ [Monetary Policy Report - August 2022 | Bank of England](#)

As an open economy which is effectively a price taker on most international markets, many of the drivers of Irish inflation are outside our control. In order to better manage our exposure to international cost volatility, focus should remain on implementing domestic reforms to boost productivity and reduce costs where possible. Periods of high inflation could be damaging to the enterprise sector if a sudden rise in the costs of doing business cannot be absorbed by some firms, resulting in the closure of otherwise viable enterprises. Rising costs may also force some firms to postpone investment including innovation spending as they reallocate resources to cover higher current costs. Furthermore, domestically focused SMEs can be negatively impacted by lower discretionary consumer spending, as households are forced to allocate more of their budgets to the essential goods and services whose prices have risen.

Ensuring Ireland's international competitiveness is key to underpinning our future prosperity. The NCPC believes that it is essential that Ireland maintains a competitive cost base relative to our key competitors. Over recent months, Ireland has experienced a degree of upward price pressures not seen for nearly 40 years with rising energy prices accounting for almost half of the increase in the CPI. It remains vital, therefore, that Ireland protects previous gains in competitiveness, and that we continue to address inappropriately high costs wherever they arise. The Council recognises the pressures placed on enterprises by rising costs. While the Government can do little to control prices in international markets, it must ensure that any policy responses to international inflation do not embed inflationary expectations into the domestic economy which will undermine our competitiveness in the long run. It is also important to implement domestic reforms to boost productivity and reduce costs where possible.

Recommendation 1.1: Policymakers must ensure that policy responses to international inflation do not embed inflationary expectations into the domestic economy which will undermine Ireland's competitiveness.

Responsibility: Whole of Government

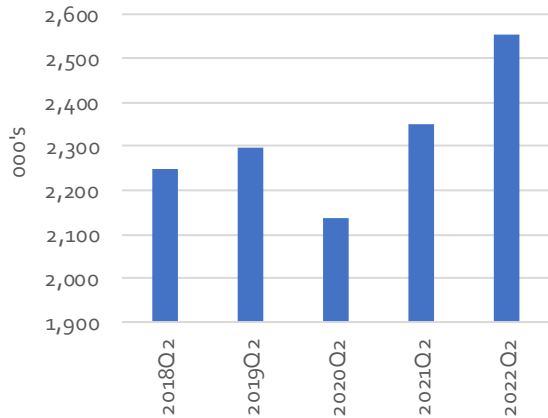
1.2 Short-Term Issues

This section considers what measures need to be taken in the short-term to help the economy continue its recovery in the post pandemic environment. It explores recent labour market developments, enterprise dynamics, budgetary policy, and interest rate developments.

1.2.1 Remarkable Recovery in the Irish Labour Market

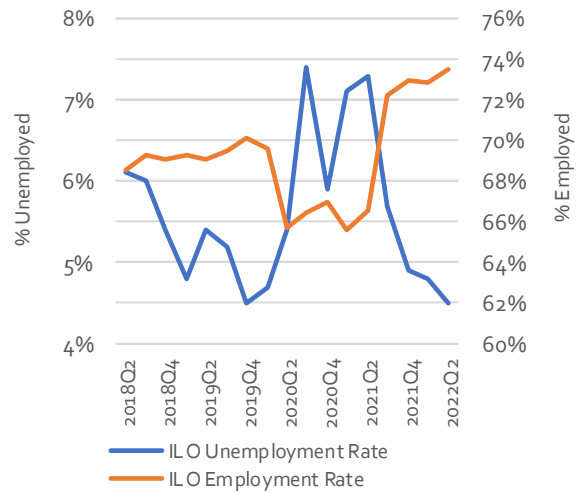
The labour market in Ireland has recovered strongly in the aftermath of the pandemic. Ireland's *Economic Recovery Plan*, published in June 2021, set a target of having 2.5 million people in work in 2024; this target was met in 2022, a full 2 years ahead of the target set (see Figure 1.2.1). The total number of people in employment reached a new high of 2,554,600 in June 2022, a significant increase from pre-pandemic levels. This strong recovery has seen the unemployment rate for July 2022 fall to 4.2%, down from 5.8% in July 2021 and 4.6% in July 2019, eight months before the pandemic (see Figure 1.2.2). This strong recovery of employment has led to tightening labour market conditions, which are exacerbating skills shortages in the labour market (see Chapter 3 for further discussion on labour market).

Figure 1.2.1: Total People Employed in Ireland 2018 Q2 – 2022 Q2



Source: CSO Labour Force Survey

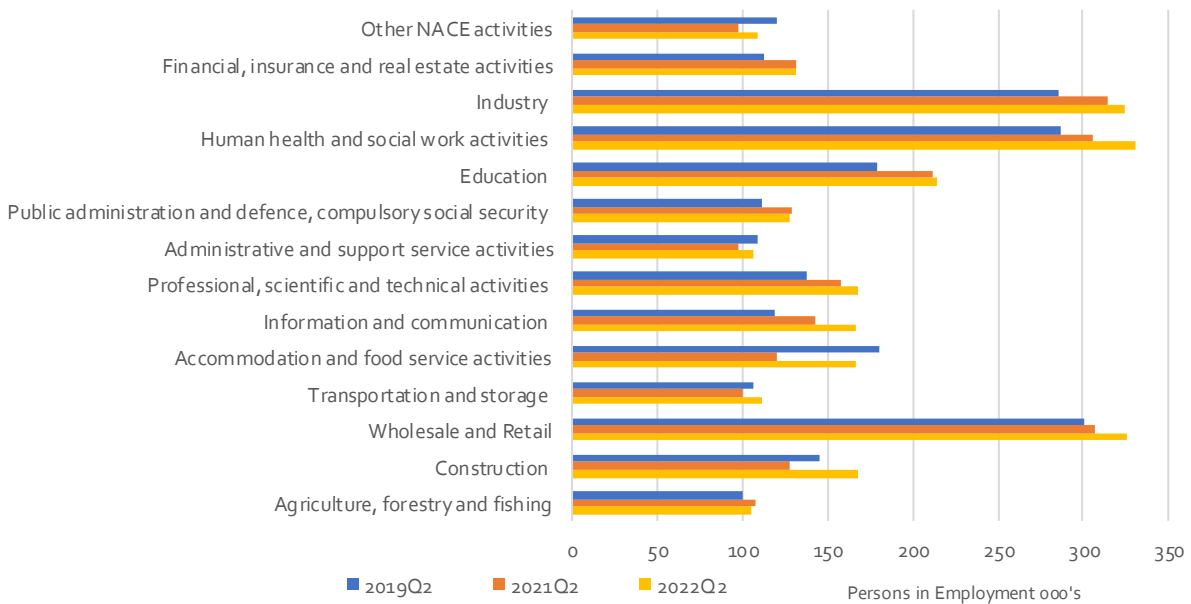
Figure 1.2.2: Employment and Unemployment Rate in Ireland 2018 Q2 – 2022 Q2



Source: Central Statistics Office

At a sectoral level, the strong rebound in employment is unevenly distributed (see Figure 1.2.3). There are risks of some scarring effects in the sectors that were most impacted by COVID-19 restrictions, such as retail, hospitality and support services. In these sectors, employment is still below pre-pandemic levels. In contrast, ICT, Financial Services, Industry, Pharmaceuticals and Public Administration all show a strong recovery, with more people now employed in these sectors in 2022 Q2 than pre-pandemic (2019 Q2).

Figure 1.2.3: COVID-19 Labour Market Impact - Sectoral Employment Overview

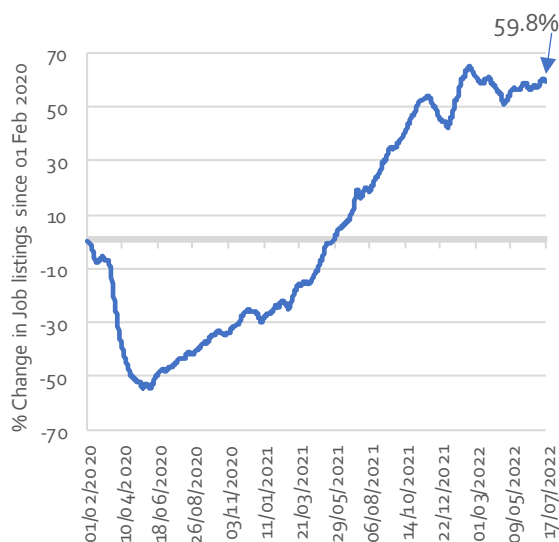


Source: Central Statistics Office

The closure of the COVID-19 Pandemic Unemployment Payment²⁶ (PUP) and the unwinding of wage subsidy schemes²⁷ have been followed by an increase of almost 20,000 in the Live Register²⁸. As of end-July, the Live Register stands at 183,300, of which 9,942 are under the EU's Temporary Protection Directive for those displaced by the war in Ukraine. As of 30 August, there has been a total of 51,060 arrivals from Ukraine into Ireland with 24,653 of these receiving income supports, including Child Benefit²⁹. This represents an increase of close to 1% in Ireland's population over a short period. While many of Ukrainian arrivals are being absorbed into the labour market, this increase in the population can only place further demand on essential services, such as housing.

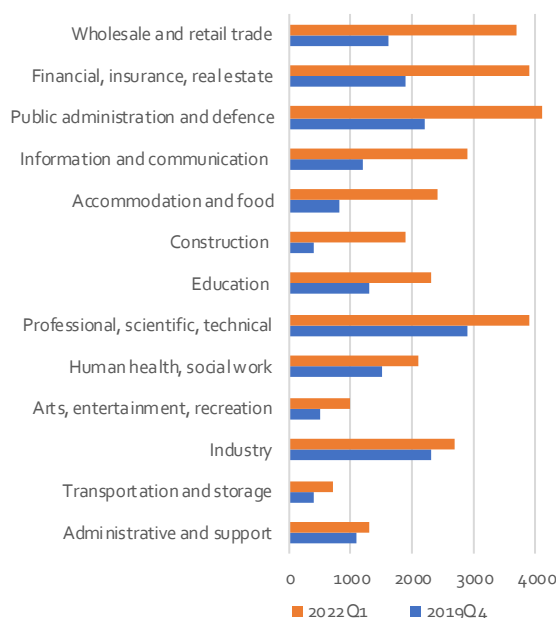
Tighter labour market conditions, whereby demand for workers by businesses continues to outstrip available supply, are evident in the high numbers of unfilled vacancies; according to the CSO, the job vacancy rate at the end of 2022 Q1 was 1.6%, up from 0.8% at the end of Q1 2020³⁰. An alternative higher frequency series of vacancy data is available from the job-search company Indeed (see Figure 1.2.4), which suggests that the total number of postings are 59.8% higher as of 1 July 2022 in comparison to 1 February 2020 (pre-pandemic). Vacancies are highest in the Retail, Financial services, Public Administration and Defence, ICT, Accommodation and Food, and Construction sector (see Figure 1.2.5).

Figure 1.2.4: % Change in Total Job Listing, Ireland



Source: Indeed

Figure 1.2.5: Number of Job Vacancies Across Sectors



Source: Central Statistics Office

COVID-19 has also disrupted employment transitions³¹. According to the Department of Social Protection³², as of 12 October 2021, some 55% of people who returned to work are currently working for their former pre-

²⁶ The COVID-19 Pandemic Unemployment Payment (PUP) was introduced in March 2020 and was a social welfare payment for employees and self-employed people who lost all their employment due to the COVID-19 public health emergency.

²⁷ The Employment Wage Subsidy Scheme (EWSS) was an economy-wide enterprise support for eligible businesses in respect of eligible employees. EWSS ended for most employers on 30 April 2022 and for everyone on 31 May 2022.

²⁸ The Live Register includes the numbers of people registering for Jobseekers Benefit (JB) or Jobseekers Allowance (JA) or for various other statutory entitlements at local offices of the Department of Social Protection. It is not designed to measure unemployment. It includes part-time workers (those who work up to three days per week), seasonal and casual workers entitled to JB and JA. [What is the Live Register - CSO - Central Statistics Office](#)

²⁹ [Arrivals from Ukraine in Ireland Series 5 - CSO - Central Statistics Office](#)

³⁰ The ratio of unemployed to job vacancies in Ireland has fallen to 3:1 in 2022 Q2, from 7:1 in 2019 Q2 (pre-pandemic).

³¹ The movement of people between employments or between employment and unemployment.

³² *Trends in Post-PUP Employment, April 2022* [post-pup-employment.pdf \(regionalskills.ie\)](#)

pandemic employer, 31% of people have moved to work with a different employer in the same broad sector of employment as that in which they worked immediately prior to opening their PUP claim, and 14% of people have moved to work with a different employer in another sector of activity. This indicates a significant level of transition activity consistent with the difficulties in recruiting reported by employers. The pandemic has especially affected sectors with largely customer-facing occupations, such as retail, hospitality and accommodation and food. These findings indicate that sectoral reallocations are largely consistent with that of other jurisdictions³³.

Further, in July 2022 the CSO reported relatively larger increases in earnings were recorded for women, younger workers and those who changed employer as the labour market tightened in the 2021 recovery period.³⁴ With the economy currently experiencing tight labour market conditions, policy actions to support additional labour supply will be important to avoid wage developments decoupling from productivity.

1.2.2 New Phase for Enterprises affected by the Pandemic

International evidence shows that new and young firms are key to boosting aggregate productivity growth through job creation and the introduction of new business models and innovations³⁵. According to the latest Company Registration Office (CRO) data on company incorporations, a total of 25,468 new start-ups were registered in 2021, the highest figure on record. The 2021 start-up figures show an impressive 16.5% growth compared to the 21,870 new incorporations in 2020 and were 12.1% higher than the 22,723 new incorporations in 2019 prior to the pandemic. While the pace of new company incorporations slowed slightly in the first half of 2022, activity remained robust, which provides a strong signal of ongoing recovery within the Irish economy.

COVID-19 related public health restrictions and rolling closures throughout various phases of the pandemic led to severe strain on the financial wellbeing of many enterprises. In some sectors, these were exacerbated by the challenges associated with Brexit. Despite these pressures, the number of company liquidations in 2020 remained lower than in 2019, as was the case in a number of other OECD countries³⁶. Early in the pandemic, the liquidation rate unexpectedly fell due to the temporary inability of company directors to convene creditors' meetings safely but returned to pre-pandemic trends in the second half of 2020. A temporary increase in liquidations was recorded in the early months of 2021 but levels subsequently fell back in line with levels recorded in 2019 and 2020, despite the more difficult economic circumstances. To date in 2022, liquidation trends have been broadly in line with previous years (see Figure 1.2.6). It seems likely that the cumulative effect of government wage supports, deferred tax liabilities, loan payment breaks, forbearance from other creditors, highly accommodative monetary policy and pre-existing financial buffers have held down the liquidation rate.

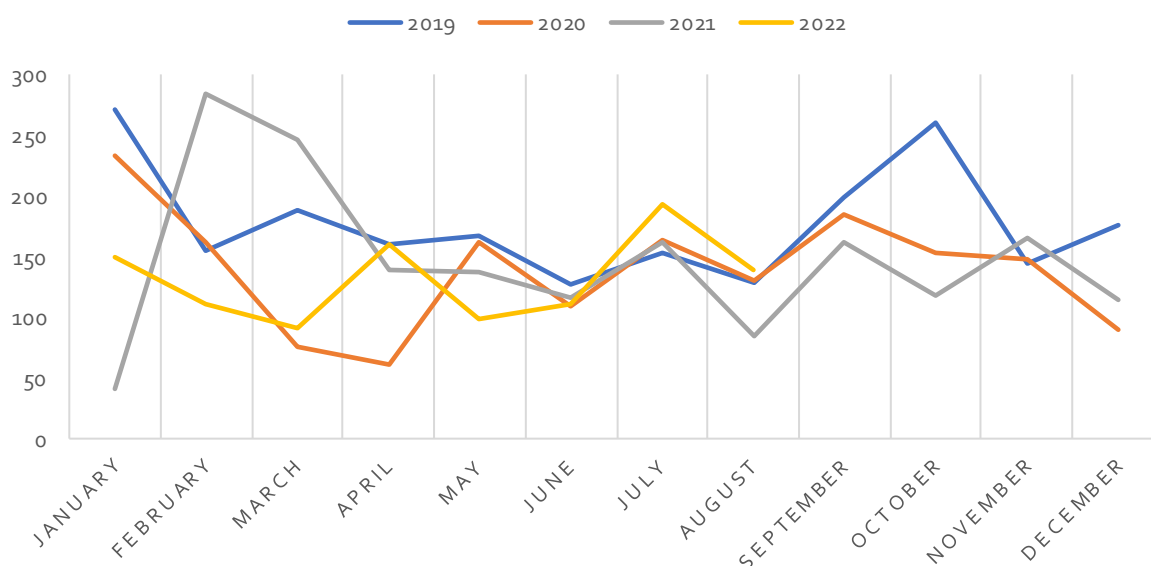
³³ [Labour markets and inflation in the wake of the pandemic \(bis.org\)](#)

³⁴ [Labour Market Recovery Boyd, Byrne, Keenan, McIndoe-Calder \(centralbank.ie\)](#)

³⁵ Romer (1986) Increasing Returns and Long-Run Growth

³⁶ [Tracking business dynamism during the COVID-19 pandemic: New cross-country evidence and visualisation tool | CEPR](#)

Figure 1.2.6: Notice of Appointment of Liquidator



Source: Company Registrations Office

While Government financial supports and amendments to insolvency law³⁷ proved successful in mitigating the immediate impacts of COVID-19 on companies, as supports are withdrawn, pre-existing financial weaknesses across small companies are likely to be amplified. In this context, there will be greater clarity on the viability or otherwise of certain firms. Thus, the levels of company liquidation are likely to rise above pre-pandemic levels. In last year's *Competitiveness Challenge* report, the Council noted the importance of having an efficient insolvency regime in place that can facilitate the reallocation of productive resources across the economy. Specifically, Recommendation 1.1 called for small and micro enterprises to be provided with accessible information on the options available to them under the Small Companies Administrative Rescue Process (SCARP) so that levels of uptake avoid the needless liquidation of viable firms, with consequent loss of jobs. In 2022, ten small enterprises have so far availed of SCARP. As part of the Financial Sector Assessments Program³⁸ in July 2022, the IMF noted that SCARP was "a welcome addition to Ireland's insolvency toolkit" and that "stakeholders were overwhelmingly positive about the prospect of a leaner, less costly alternative to examinership, particularly given the possibility of post-COVID distress in the SME sector".

The OECD³⁹ has highlighted the growing concern that generous financial supports and regulatory interventions, which have kept many businesses operating that otherwise would have contracted or closed, may negatively affect resource allocation and productivity growth in the long term if unviable businesses are kept afloat. The continuation of broad-based business supports or their replacement with untargeted schemes will likely result in unviable businesses failing to close or downsize for longer. Such an outcome will have negative impacts on the productivity of the economy, as it will stifle the process whereby capital and labour should flow from unviable entities towards new business opportunities.⁴⁰ Without market exit, less efficient firms trap resources (both financial and human capital) when they should be reallocated to more efficient use.

³⁷ The Companies (Miscellaneous Provisions) (COVID-19) Act 2020 made temporary amendments to substantive insolvency law to support companies to trade during the COVID-19 crisis. It increased the period of protection afforded by examinership to 150 days and increased the threshold at which a company may be wound up.

³⁸ [Ireland: Financial Sector Assessment Program-Technical Note on Insolvency and Creditor Rights \(imf.org\)](https://www.imf.org/en/Publications/FSAP/Technical-Notes/2022/07/ireland-financial-sector-assessment-program-technical-note-on-insolvency-and-creditor-rights)

³⁹ OECD (2021), "Business dynamism during the COVID-19 pandemic: Which policies for an inclusive recovery?", OECD Policy Responses to Coronavirus (COVID-19), OECD Publishing, Paris

⁴⁰ Schumpeter (1942) *Capitalism, Socialism, and Democracy*. Harper & Brothers, New York

Recommendation 1.2: As COVID-19 related supports have been withdrawn, any future scheme(s) should be targeted in such a way as to avoid distorting the redistribution of labour or capital in the economy.

Responsibility: Department of Finance, Department of Public Expenditure and Reform, Department of Enterprise, Trade and Employment

1.2.3 Budgetary Policy in the Aftermath of the Pandemic

Management of the fiscal position resulting from the additional expenditures required to support enterprises and households during COVID-19 remains a challenge, especially in the face of a highly uncertain climate created by the Russian invasion of Ukraine, rising inflation driven by energy prices, the phasing out of accommodative monetary policy and the European Central Bank's increases in interest rates.

Rising inflation has led to a changed budgetary stance from that planned in Budget 2022 (announced in October 2021) and indeed even from the Stability Programme Update (SPU) published in April 2022⁴¹. The Government had forecast an inflation rate of 6.2% for the year in its economic projections included within the SPU, but inflation reached 9.6% in the year to July 2022. This highlights the quickly changing pace of the current wave of inflation, leading to difficulties in the planning of fiscal policy as the Government seeks to balance the need to protect vulnerable households and areas of the economy against adding excessively to inflation.

In the Summer Economic Statement⁴², the Government set out a plan for Budget 2023 that will focus on addressing the rising cost of living. Across 2022 and 2023, there will be a total additional budgetary package of €6.7 billion. This will be composed of increased expenditure of €5.65 billion translating to total core expenditure of €85.8 billion in 2023, and a taxation package of €1.05 billion, centred on adjusting income tax bands and credits so that workers are not 'dragged' into higher levels of taxation by virtue of wage inflation.

Corporation Tax revenues stood at €8.8 billion for the first six months of 2022, which is €3 billion ahead of the same period in 2021. The continued overperformance of Corporation Tax revenues have facilitated the additional budgetary expenditure while allowing Government to deliver an expected Budget surplus for the year. In the Summer Economic Statement, the Government acknowledged the risk associated with reliance on Corporation Tax revenues. The concentrated nature of corporation tax receipts is a particular risk associated with this revenue source, with over half of receipts coming from ten firms. While it is welcome that the planned increase in current expenditure will not lead to a budget deficit, the Government must try to balance the call for additional expenditure to ease the cost-of-living crisis for those most in need, against the necessity for prudent and sustainable fiscal policy. The SPU calls out a number of these risks and challenges including: an almost certain reduction in Corporation Tax revenues in the coming years; an ageing population; climate and digital transitions; and, in the near-term, the need to finance humanitarian assistance to refugees fleeing war in Ukraine. Added to these challenges are concerns that rising expenditure may only add to inflationary pressures rather than cooling them.

While the Government notes that the rate of increase in expenditure is below the prevailing rate of inflation, there remains concerns around a significant expansion in public expenditure during an inflationary period, against a background of high public debt per head of population (see further below). The Council agrees that it is important to shield low-income households from the impact of rising energy and food prices, given this

⁴¹ [Stability Programme Update 2022 \(www.gov.ie\)](http://www.gov.ie)

⁴² [Summer Economic Statement 2022 \(www.gov.ie\)](http://www.gov.ie)

group's high spend on these categories as a proportion of total household income. However, the Government must remain live to the issue of broadening inflation and any potential second-round effects of increased expenditure as called out by the Irish Fiscal Advisory Council⁴³. It should also maintain vigilance that short-term interventions do not run counter to the medium- to long-term requirements for the economy.

The prospect of rising interest rates impacting future borrowing costs presents an added challenge to fiscal planning. The low interest burden and long average maturity on the State's current debt are positive aspects of the current fiscal position; however, rising rates mean this will not happen in the future and there is increased urgency for the State to sustainably reduce its debt-to-income ratio while in a position to do so. The Council agrees that while the budgetary stance set out in the Summer Economic Statement was appropriate, in future there will be a need for continued stringent management of expenditure. It is important that core expenditure is not reliant on tax windfalls, such that the country can facilitate a sustained and planned reduction in the country's debt. Similarly, rising inflationary pressure and interest rates highlight the need for any additional Government expenditure, beyond those already targeted at easing the cost of living, to be focused on areas which raise the productive capacity of the country.

Recommendation 1.3: In light of the Summer Economic Statement, the NCPC recommends that any additional expenditure is targeted on productive spending that will reduce bottlenecks and foster growth and employment, and on highly targeted supports to assist those most affected by the increased energy and food prices.

Responsibility: Department of Finance

The Commission on Taxation and Welfare⁴⁴ has been tasked by Government to independently consider how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity in Ireland. The Council is aware that the Commission's review will be published shortly. This will provide Government with the reasoning and evidence to address longstanding criticisms of the Irish tax system that were not subject to actions following previous reviews of the tax system in the 1980s and 2010s.

Recommendation 1.4: The NCPC recommends that the actions put forward by the Commission on Taxation and Welfare are immediately addressed, with a view to Ireland having a tax and social protection system that enhances economic potential and promotes quality employment so that living standards and quality of life improve for all of society.

Responsibility: Department of Finance

1.2.4 Interest Rate Developments and Fiscal Sustainability

The ECB announced a 50 basis points increase in its main lending rate on 21 July 2022, larger than the 25 basis point increase previously signalled⁴⁵, and raised interest rates again on 8 September 2022 by a larger than expected 75 basis points. Beyond September, the ECB anticipates that a gradual but sustained path of further increases in interest rates will be appropriate, and markets now expect an ECB interest rate around 2.0% by

⁴³ [opening-statement-sebastian-barnes-chairperson-irish-fiscal-advisory-council \(oireachtas.ie\)](https://www.oireachtas.ie/en/committees/fiscal-advisory-council/opening-statement-sebastian-barnes-chairperson-irish-fiscal-advisory-council/)

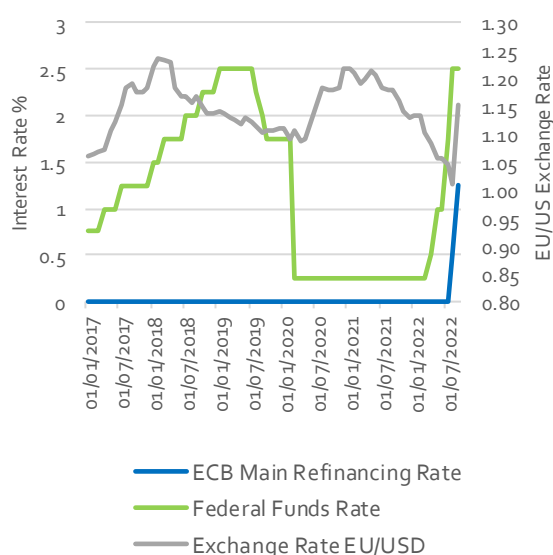
⁴⁴ [Commission on Taxation and Welfare \(www.gov.ie\)](https://www.gov.ie/en/committees/commission-on-taxation-and-welfare/)

⁴⁵ [Monetary policy decisions \(europa.eu\)](https://www.europa.eu/press-room/en/monetary-policy-decisions)

end-2023⁴⁶. This is lower than market expectations for interest rates set by the Federal Reserve and Bank of England, these are currently forecasted to reach 4.0%⁴⁷ and 3.0%⁴⁸, respectively, by end-2023.

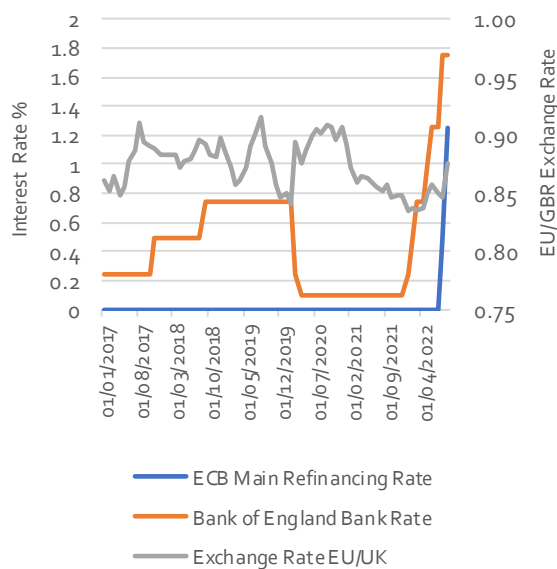
The faster pace of monetary policy tightening in the United States and the United Kingdom has contributed to a depreciation in the value of the euro, particularly against the US dollar (see Figure 1.2.7 and Figure 1.2.8). As international energy markets are typically denominated in US dollars, this depreciation of the euro is further feeding into inflationary pressures and negatively impacting competitiveness, as imports of fuel become more expensive as the value of the dollar appreciates. There is considerable uncertainty regarding future exchange rates as multiple factors, outside interest rate differentials, play a role. The most recent ECB survey of professional forecasters expects the euro to appreciate against the US dollar from 1.06 in 2022 to 1.12 by 2024.

Figure 1.2.7 Interest/Exchange Rates EU/USA



Source: ECB, Federal Reserve

Figure 1.2.8 Interest/Exchange Rates EU/UK



Source: ECB, Bank of England

Ireland is operating from a significantly indebted position currently. At the end of 2021, gross public debt was estimated at €236 billion, equal to €47,140 per capita. While this debt has a low average interest rate of 1.4% and a long average maturity profile, the debt position now combined with rising interest rates will limit the ability of the State in terms of planned infrastructure investment⁴⁹.

In its 2022 Q3 Bulletin, the Central Bank of Ireland estimated the impact of a 1.0 percentage point increase in interest rates (over current market expectations) on economic activity in Ireland and on the domestic fiscal position (see Figure 1.2.9 below). The analysis finds that a 1.0 percentage point increase in euro area interest rates would lead to a deterioration in the General Government balance by about 0.8 percentage points in 2025 relative to baseline, and General Government debt would be approximately 4.0 percentage points higher by the end of the decade (see Figure 1.2.9)⁵⁰.

⁴⁶ [ECB signals rates lift-off, eyes bigger move in September | Reuters](#)

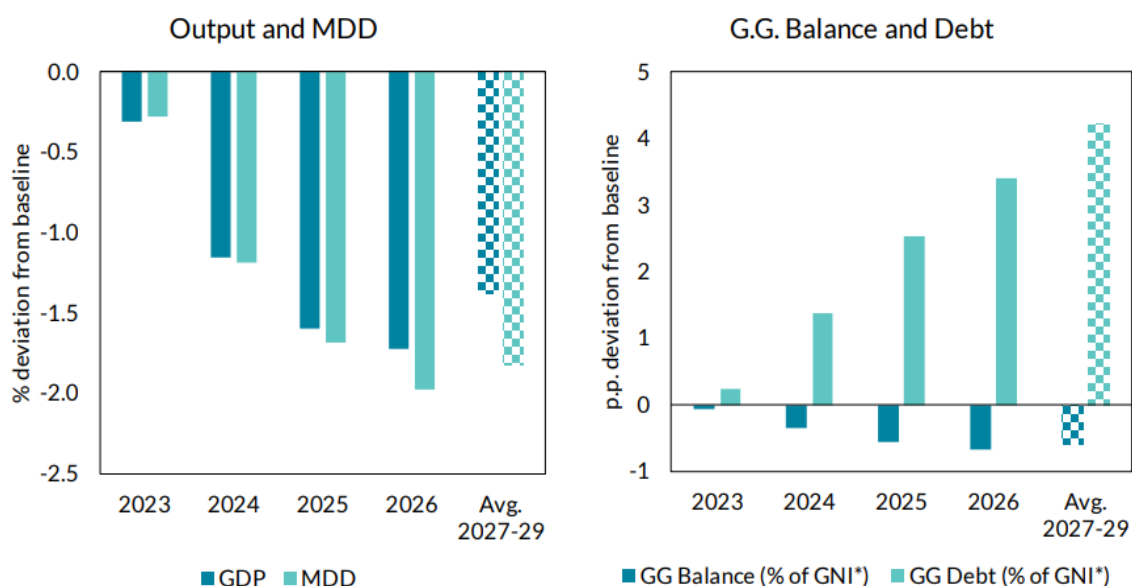
⁴⁷ [Fed to raise interest rates to 4% next year, Evans says | Reuters](#)

⁴⁸ [Projected Interest Rates In 5 Years In the UK: Will BoE Reverse Rate Hike Policy? \(capital.com\)](#)

⁴⁹ [Draft Stability Programme Update - April 2022](#)

⁵⁰ The scenario is implemented as an additional 1 percentage point increase in the main ECB policy rate and assume that such an additional increase in interest rates begins in 2023 Q3 and occurs incrementally in steps of 25 basis points per quarter.

Figure 1.2.9. Impact of 1 percentage point increase in euro area interest rates above market-implied path over a 5-year horizon, deviation from baseline



Source: Central Bank of Ireland

Ireland has been able to borrow at an exceptionally low cost in the last number of years given a combination of our improved credit rating and low international interest rates. The Central Bank and the Department of Finance have noted that while an increase in the interest rate would result in a rise in the cost of additional borrowing or the refinancing of existing liabilities, the impact is lessened in the short-term by the maturity profile of Irish debt⁵¹. However, despite perceived low impact in the short-term, we need to be conscious of the challenges this may give rise to in the medium- and long-term. According to the Department of Finance, higher interest rates now would raise debt services costs later in the decade at a time when demographic-related costs will absorb a larger share of public expenditure.⁵²

1.3 Remainder of the Report

This Chapter has provided a summary of the immediate issues that need to be addressed as the economy continues to recover in the aftermath of COVID-19 but faces new global uncertainties following the Russian invasion of Ukraine. At the same time, long-running issues which pre-dated COVID-19 require urgent attention. Furthermore, there are new major policy issues requiring attention, such as the twin digital and climate transitions. Indeed, the transition to net zero carbon emissions is likely to be the principal disruptive force across all sectors of Ireland's economy over the coming years and the scale of this challenge cannot be underestimated.

In relation to the longstanding issues, these include low SME productivity, skills and infrastructure gaps and cost pressures. These will require focused and coordinated consideration now as the responses required are multi-faceted and progress must be built upon in a stepwise fashion. Many of these actions and reforms will be challenging to implement and take time to deliver their desired result, so it is vital that their implementation starts soon and is monitored carefully, with any required adjustments carried out without delay.

⁵¹ The weighted average maturity of Irish public debt is one of the longest in Europe. Long-term debt instruments issued since 2015 have a weighted average maturity of 15 years. See: [NTMA-Investor-Presentation-December](#)

⁵² [Annual Report on Public Debt in Ireland 2021 \(www.gov.ie\)](#)

A number of Government Strategies and Action Plans, in line with successive Programmes for Government⁵³, have now been launched over the past five years, and we must now sharpen our focus on their delivery in order to support Ireland's long-run development. It is essential that the actions outlined by Government can be delivered in a coherent manner with a view to creating an inclusive and sustainable economy, enhance long-run competitiveness, and ensure widespread productivity growth. These strategies and action plans will involve difficult choices around which areas should be prioritised and targeted first, while acknowledging the fiscal realities of an already stretched general government balance sheet and a tight labour market. The Council reiterates its belief that a systemic approach is required, with careful sequencing of targeted actions that can also generate impact in the immediate term. It will also be important to identify actions and reforms that do not require an increase in public expenditure, but instead can be achieved by streamlining existing processes and procedures and achieving efficiency gains.

The Council's role is to make recommendations to Government on the best ways to improve competitiveness and productivity with a view to creating an inclusive and sustainable economy and this report lays out these recommendations in the following chapters. Chapter 2 explores productivity developments in Ireland and highlights the importance of boosting productivity growth, especially amongst indigenous SMEs, as the economy undergoes a twin transition to increased digitalisation and carbon neutrality, the principal disruptive force across all sectors of Ireland's economy over the coming years. Chapter 3 highlights the importance of a responsive and adaptable labour market, given that labour is our key resource. This means ensuring that lifelong learning and upskilling play an important role in preparing workers for the changing world of work and that enterprises can access the labour they need. Chapter 4 examines how investing efficiently in the economic and social infrastructure needed can help boost the economic recovery while also meeting specific long-term needs that benefit living standards. Chapter 5 targets some areas of costs that impact on enterprises directly and indirectly and the areas where domestic policy can play a role in reducing costs. Finally, the Conclusion section provides a summary of the NCPC's findings in this year's *Competitiveness Challenge* report.

⁵³ [Programme for Government: Our Shared Future \(www.gov.ie\)](http://www.gov.ie)

Chapter 2: Boosting Productivity

2.1 Introduction

Productivity is the engine of economic growth in the longer term, and as such is key to improvements in living standards, associated with growing and sustainable wage levels, good public services, and improved wellbeing. The European Commission has noted that Europe's future economic growth prospects will increasingly depend on its ability to raise productivity and will require well-balanced policies to support innovation, increase skills, reduce labour and product market rigidities, and allow a better allocation of resources⁵⁴. As Ireland's National Productivity Board⁵⁵, the National Competitiveness and Productivity Council (NCPC) is responsible for analysing developments and policies in the field of productivity, as well as competitiveness, and is tasked with providing the Government with recommendations on how to boost productivity.

As noted in Chapter 1, there is an exceptionally high level of uncertainty surrounding the global economic outlook following the Russian invasion of Ukraine in February 2022. The resulting higher international energy and commodity prices and ongoing supply chain disruptions are potentially stifling the burgeoning recovery. The world economy had begun to regain momentum in the latter half of 2021 as COVID-19 related restrictions were scaled back in many countries, in line with record vaccination rates and improved treatments, and as confidence returned. This confidence has suffered in recent months and consequently the outlook for productivity growth in the medium to long term is now highly uncertain. On the one hand, global productivity growth could be slowed due to lower investment, as the public and private sectors repair balance sheets in the aftermath of COVID-19 and hold concerns about a move towards more protectionist measures. On the other hand, there are possibilities for a positive impact on productivity and welfare from the profound digital transformation associated with: how certain workers, firms and sectors carry out their activities (including the shift to more flexible working patterns); the incorporation of digital technologies in manufacturing, finance, health, and education; and the onshoring of production (with greater capital intensity) of certain essential products⁵⁶. This potential for a 'productivity renaissance'⁵⁷ driven by digital innovation is welcome, as the pace of measured productivity growth in advanced economies has slowed considerably in the past decade despite technological advancements.

Another major global transformation currently underway is the move towards a climate-neutral society by 2050, with net-zero greenhouse gas emissions. This provides a whole new area for innovation and productivity growth while at the same time achieving the goals necessary to protect the planet. The twin digital and climate transitions currently underway can provide opportunities for new firms to emerge and thrive and for some existing Irish firms to gain market share in new technologies and new industries; at the same time, these transitions will also involve new investments and costs. The scale of the challenges ahead should not be underestimated, and these transitions will be highly disruptive, with fundamental behavioural and systemic changes necessary. Some firms will be better able to manage this adjustment, while others will struggle and will require assistance, and some may fail.

⁵⁴ [National Productivity Boards \(europa.eu\)](https://ec.europa.eu/economy_finance/national-productivity-boards)

⁵⁵ NPBs across EU countries are independent institutions responsible for providing their governments with recommendations on how to achieve more sustainable economic growth and improved societal wellbeing. The Boards are required to be objective and neutral, and to publish findings and recommendations, based on high-quality economic and statistical analysis of national and international evidence.

⁵⁶ Dieppe, A. and Ayhan Kose M. (2020) [The global productivity slump: What policies to rekindle? \(brookings.edu\)](https://www.brookings.edu/research/the-global-productivity-slump-what-policies-to-rekindle/).

⁵⁷ Skilling D. (2020) [Post-Covid productivity renaissance? - by David Skilling \(substack.com\)](https://www.substack.com/p/post-covid-productivity-renaissance)

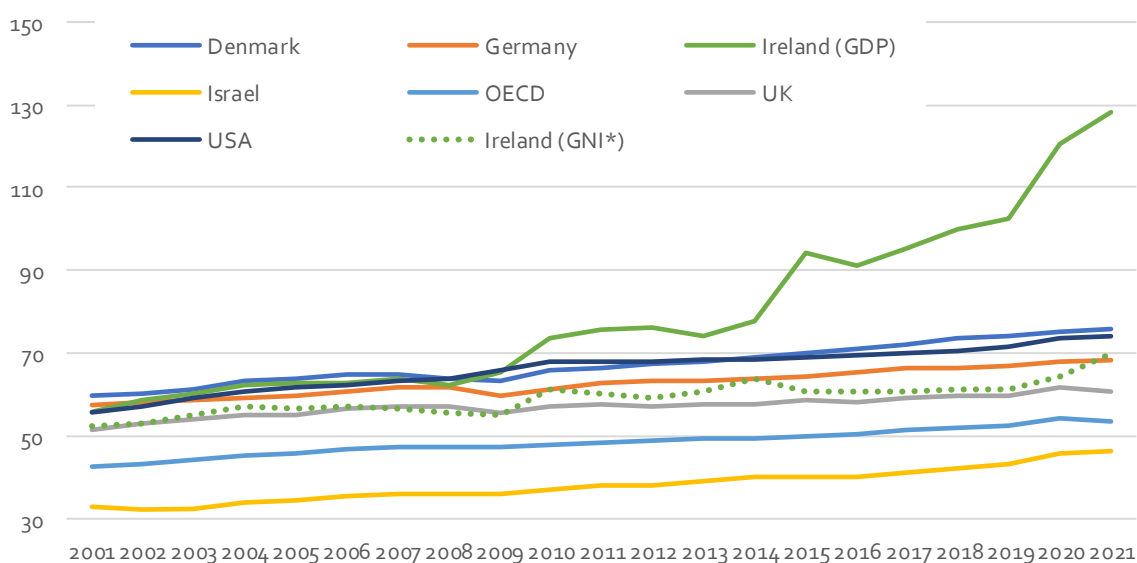
In order to seize productivity-enhancing possibilities in the wake of COVID-19 disruptions and the twin transition, it is essential that the appropriate policies are in place to support new and existing Irish enterprises as they transform. As is well known, productivity growth in Ireland has been highly concentrated in a small number of sectors driven by a small number of firms. Consequently, future policies must be targeted to ensure more widespread and sustained growth of productivity across enterprises and sectors in Ireland. The Council welcomes the CSO's continuing commitment to expanding the publication of essential productivity statistics and also welcomes the further research and analysis of productivity issues in the Irish economy that these data make possible.

The following sections of this Chapter will review the latest domestic and international evidence available on productivity developments. The role of the climate and digital transitions as drivers of future productivity growth will also be explored. The importance of consistent investment in research, development, and innovation as a means of boosting productivity growth will also be discussed. Government intervention will be needed to assist firms, especially small and medium sized enterprises, begin their twin transitions and to help displaced workers upskill and find employment in greener and more digital enterprises.

2.2 Current Situation in Ireland

Despite the global slowdown in productivity growth over the past decade, aggregate labour productivity figures for Ireland continue to show a strong performance relative to other advanced economies. This finding holds (though to a much lesser extent) even when globalisation activities are excluded from the calculations; this is done by using the CSO's adjusted Gross National Income (GNI*) rather than Gross Domestic Product (GDP) to measure economic activity. According to the latest OECD⁵⁸ and CSO data available, Ireland's GDP per hour worked in 2020 was significantly above the OECD average and some of the world's most advanced economies (see Figure 2.2.1). On a GNI* basis, which has grown more moderately than GDP in recent years, Irish labour productivity remains above the OECD average and above the UK, but below the USA and Denmark.

Figure 2.2.1: Labour Productivity, GDP and GNI* Per Hour Worked (USD 2010 PPP), 2001-2021



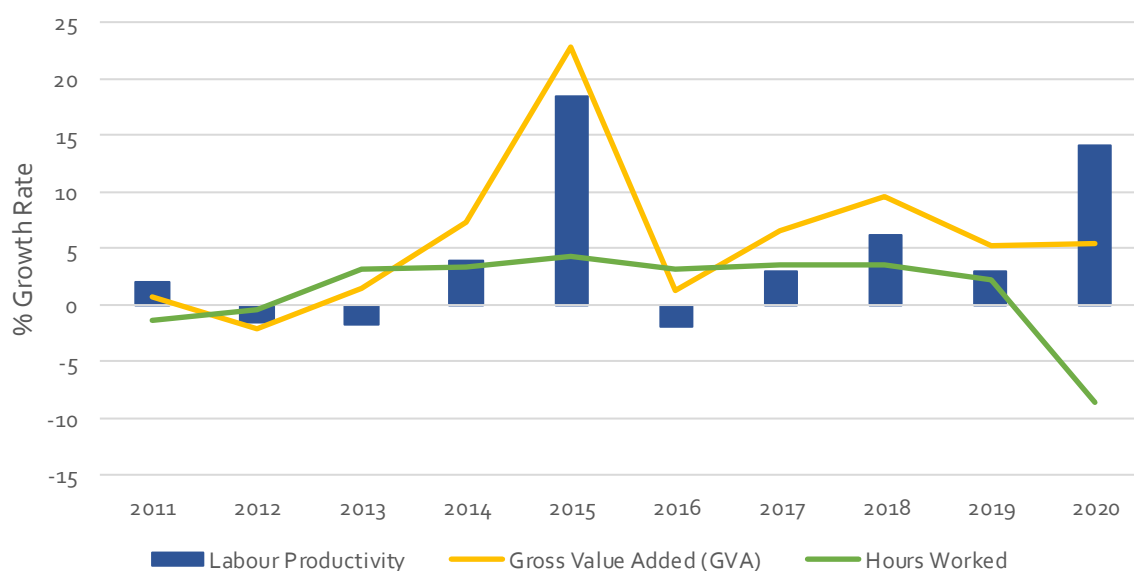
Source: OECD, Central Statistics Office and NCPC Calculations

⁵⁸ OECD (2020) [Productivity - GDP per hour worked](#)

2.2.1 Productivity Data and Research in Ireland

On 28 June 2022, the Central Statistics Office (CSO) published its latest productivity report: '*Productivity in Ireland 2020*⁵⁹. This productivity report provides a valuable in-depth analysis of productivity developments in the Irish economy. The 2020 results are heavily impacted by the COVID-19 related disruption which resulted in the complete shut-down of many businesses, particularly in the early phase of the pandemic. COVID-19 related public health restrictions had a significant impact on the number of hours worked in 2020, while gross value added in the economy continued to grow (see Figure 2.2.2). This resulted in overall labour productivity⁶⁰ increasing by 14.1% in 2020.

Figure 2.2.2: Total Economy Labour Productivity Growth, 2011 – 2020



Source: Central Statistics Office

The latest CSO report presents a wide variety of productivity statistics, ranging from basic labour productivity to productivity measures based on experimental but comprehensive KLEMS (Capital, Labour, Energy, Materials and Services) and QALI (Quality Adjusted Labour Input) related output. The report also includes additional analysis on innovation and digitalisation in Ireland, looking at expenditure on research and development.

The 2020 data confirm that Ireland's strong productivity performance can, for the most part, be attributed to the operations of a small number of large multinational enterprises in specific sectors⁶¹. This finding was also highlighted in previous NCCP publications⁶². Productivity in the Foreign⁶³ sector rose by 18.2% in 2020 and contributed 12.2 percentage points to the total economy labour productivity growth. Meanwhile productivity in the Domestic and Other⁶⁴ sector increased by 0.7% in 2020 and contributed only 1.9 percentage points to

⁵⁹ CSO (2021) [Productivity in Ireland 2019](#).

⁶⁰ Labour productivity in the CSO release is calculated using Gross Value Added in constant prices per hour worked.

⁶¹ Papa et al (2018) [Patterns of Firm Level Productivity in Ireland](#).

⁶² NCC (2019) [Productivity Statement 2019](#); NCCP (2020) [Bulletin 2020-1 Productivity](#).

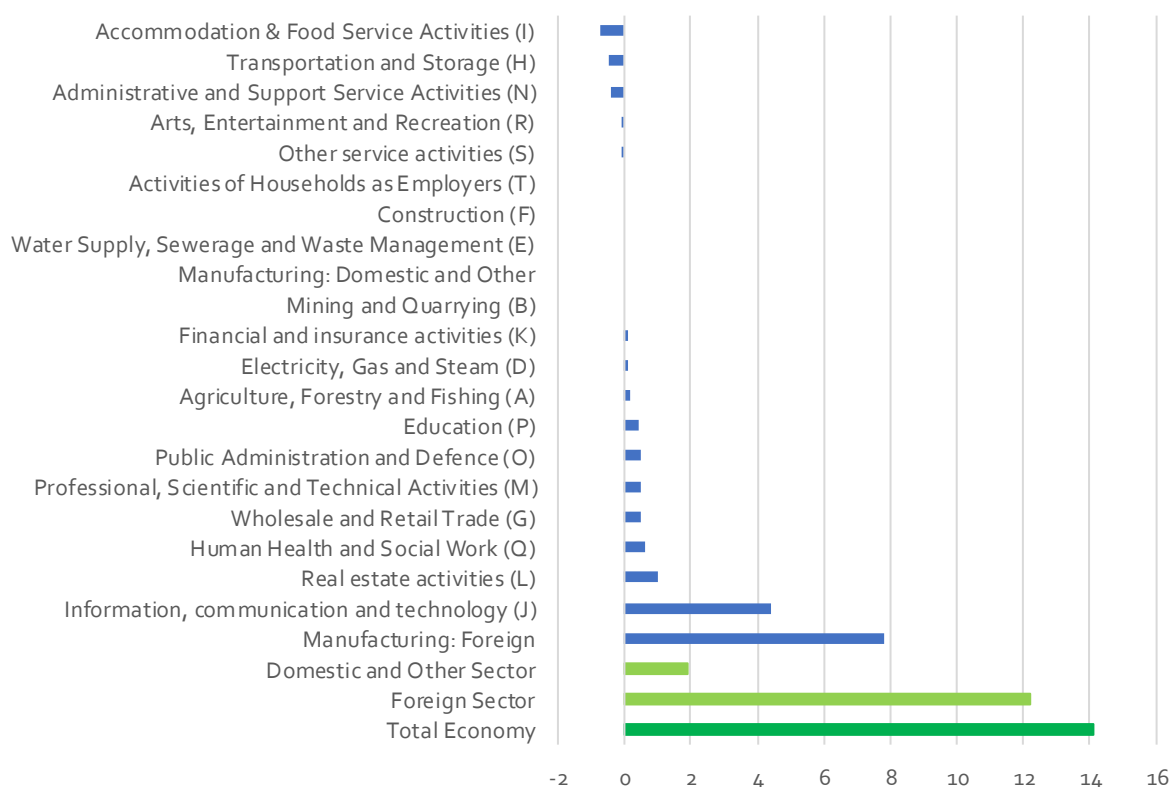
⁶³ Foreign-owned Multinational Enterprise (MNE) dominated NACE sectors occur where MNE turnover on average exceeds 85% of the sector total. These sectors are Chemicals and chemical products (NACE 20), Software and Communications sectors (NACE 58-63) and Reproduction of recorded media, Basic pharmaceutical products and pharmaceutical preparations, Computer, electronic and optical products, Electrical equipment, Medical and dental instruments and supplies.

⁶⁴ The Domestic and Other category includes all sectors excluding those listed as part of the Foreign-owned Multinational Enterprise (MNE) dominated sectors. These include the Wholesale and Retail sector including the sale and repair of motor vehicles; Administrative and support service activities; Construction; Accommodation and food services; and the Manufacture of Food, beverages and tobacco.

total productivity growth, highlighting the two-speed nature of labour productivity growth in the Irish economy (see Figure 2.2.3).

Unsurprisingly, the domestic sectors most impacted by COVID-19 related public health restrictions in 2020, including Accommodation and Food Services, and Transport and Storage, contributed negatively to total economy labour productivity growth, by 0.7 and 0.5 percentage points, respectively. The latest CSO publication introduced a new sectoral decomposition, Manufacturing: Foreign⁶⁵; this sector made by far the largest contribution to overall labour productivity growth in 2020. This was followed by the Information, Communication and Technology (ICT) sector which is also dominated by the activities of multinational enterprises. Another CSO publication⁶⁶, released in May 2022, provides a value chain analysis of the ICT sector using data from 2019. The report found that while the ICT sector's highly educated workforce was a major contributing factor to its overall productivity, it was not the most important component; rather it was the sector's significant use of capital assets, predominantly intangible assets such as patents and software, which made it so highly productive.

Figure 2.2.3: Sector Contribution to Total Economy Labour Productivity Growth, 2020



Source: Central Statistics Office

Aggregate labour productivity growth can increase if productivity within individual firms improves (for example, due to good management practices or new processes), if productivity within an entire sector improves, or if sectors with higher overall levels of productivity expand relatively. For example, if a less

⁶⁵ The Manufacturing: Foreign subsector includes the NACE Categories of Printing and Recording Services (18), Chemicals and Chemical Products (20), Basic Pharmaceutical Products and Pharmaceutical Preparations (21), Computer, Electronic and Optical Products, Electrical Equipment and Furniture (26, 27, 31-32). The Manufacturing: Domestic subsector includes all the Manufacturing sectors not included in Manufacturing: Foreign.

⁶⁶ [Information and Communications Technology: A Value Chain Analysis 2019 - CSO - Central Statistics Office](#)

productive sector becomes relatively smaller from one year to the next, this has the effect of increasing labour productivity for the total economy. In this year's *Productivity in Ireland* publication, the CSO provide a decomposition of labour productivity growth into a productivity effect and a reallocation effect. Given the extraordinary circumstances of the COVID-19 pandemic throughout most of 2020, the CSO analysis notes that there were large reallocation effects seen across the economy. This was almost entirely due to the considerable reductions in hours worked for some of the least productive sectors in the economy, such as Wholesale and Retail, and Transport. There was also relatively small growth in hours worked for the most productive sectors in the economy, namely Manufacturing: Foreign and ICT. As a result, the more productive sectors accounted for a higher proportion of total hours worked than in 2019, leading to positive reallocation effects at the sectoral level and driving up aggregate labour productivity growth in 2020.

While aggregate productivity in Ireland is strong (compared to other advanced economies), it is well recognised that its strength is driven primarily by the performance of a highly concentrated group of high-productivity MNEs. However, less is known about the productivity performance of the increasingly diverse domestic sector, where both high- and low-productivity performing Irish SMEs co-exist⁶⁷. In last year's *Competitiveness Challenge* report, Recommendation 3.1 called for further research and analysis to understand more fully how policies can be designed to enhance productivity growth in all sectors of the Irish economy. Significant progress is now being made in relation to this recommendation for more research, using a range of CSO, Eurostat, and DETE, Central Bank and Department of Finance data sets.

A number of joint research programmes are currently underway between the Economic and Social Research Institute (ESRI) and other government bodies. The ESRI programme with InterTradeIreland, is investigating topics related to productivity and the all-island economy with a particular focus on the activities of small and medium enterprises. The ESRI programme with the Department of Enterprise, Trade and Employment is examining the productivity challenge and its interaction with climate, digitalisation and human capital⁶⁸. The ESRI programme with the Department of Finance will include a paper investigating the link between firm dynamism and productivity growth. And finally, one study as part of the ESRI research programme with the Shared Island Unit in the Department of the Taoiseach will use detailed sectoral data to compare and contrast productivity levels in Ireland and Northern Ireland⁶⁹.

The NCPC is committed to supporting research on the drivers of productivity in Irish enterprises, so that we have solid evidence on which to base recommended actions to improve enterprise productivity and sectoral developments that support productivity growth. The Council welcomes the valuable joint research programmes that are currently underway and is analysing the policy implications from these research outputs. By providing increased access to data, the CSO is continuing to support research which can provide further evidence for policy development in this important area to the development of the Irish economy.

⁶⁷ OECD (2019) [SME and Entrepreneurship Policy in Ireland](#).

⁶⁸ [The Productivity Challenge and Its Interaction with Climate, Digitalisation and Human Capital Research Programme](#)

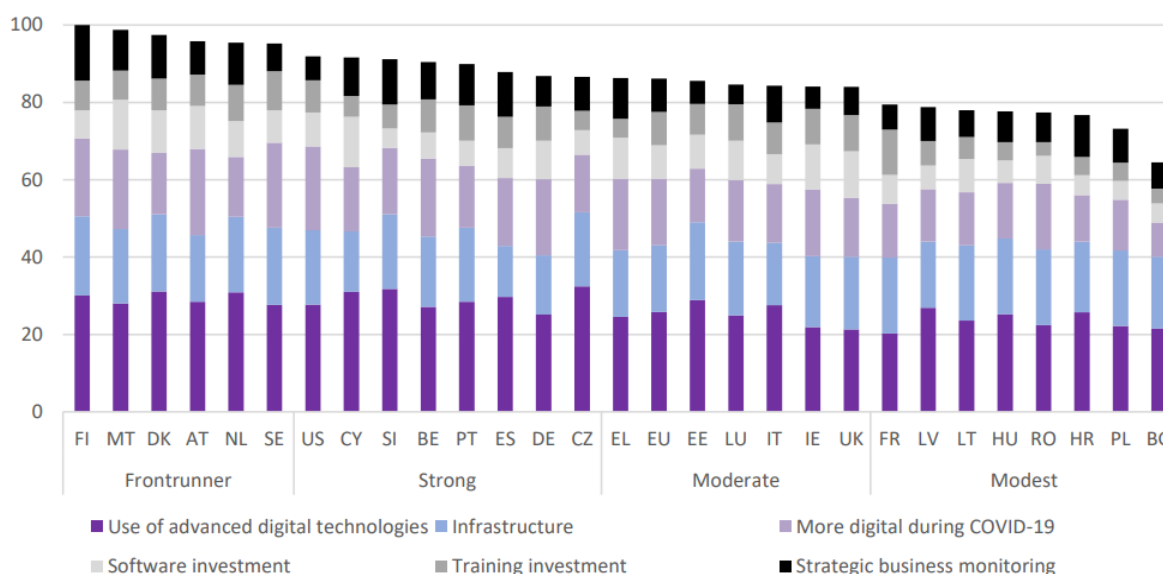
⁶⁹ [Shared Island unit & ESRI set out new research areas for 2022 | ESRI](#)

2.2.2 The Digital Transition as a Driver of Productivity Growth

Digital technologies are increasingly becoming an integral part of business activities, interactions with government, and our every-day lives. The digital transformation of our economy and society has the potential to bring new opportunities for individuals and enterprises. However, it is important that groups which are unprepared for these changes and are vulnerable to their effects are protected and assisted as they go through this transformation. The OECD *Going Digital Integrated Policy Framework* helps governments develop coherent and resilient policies to fully realise the potential of digital transformation and address its challenges. In parallel, the OECD *Going Digital Toolkit*⁷⁰ helps countries assess their state of digital development and formulate policies in response. According to the OECD, Ireland performs particularly well in terms of consumer confidence in shopping online, value added in information industries, and ICT goods and services trade. However, the OECD identifies that we lag behind in areas such as health data sharing, and ICT venture capital investment.

Research by the European Investment Bank, published in May 2022, noted that the COVID-19 crisis accelerated the digital transformation of Europe's economy, with close to half of firms reporting investment in digitalisation as a response to COVID-19. This contrasts with the period prior to the pandemic when the implementation of digital technologies was associated primarily with the most innovative and modern firms. In effect, the COVID-19 crisis made digital transformation an integral part of society and vital for firms' survival⁷¹. The shift to a digital delivery of a number of services, including health and education, the more widespread use of digital tools to communicate with customers and suppliers online, and the adoption of new digital collaboration tools to facilitate remote working has embedded digitalisation across a broader range of firms than before the pandemic. The European Investment Bank report explores the degree of digital adoption by firms in the European Union and the United States using survey response data at the firm level from its Investment Survey⁷² and found Ireland's digitalisation score, along with the UK's, to be only "moderate" (see Figure 2.2.4).

Figure 2.2.4: EIBIS Corporate Digitalisation Index, by country, 2021



Source: European Investment Bank Investment Survey 2021

⁷⁰ [OECD Going Digital Toolkit](#)

⁷¹ [Digitalisation in Europe 2021-2022: Evidence from the EIB Investment Survey](#)

⁷² The EIBIS Corporate Digitalisation Index is based on firm-level data and has a narrow focus on digitalisation in the enterprise sector. The Digital Economy and Society Index (DESI) coordinated by the European Commission, monitors Europe's overall digital performance and is referenced elsewhere in this report.

The European Investment Bank research found that Irish firms performed below the EU average for the 'use of advanced digital technologies' and 'strategic business monitoring' and will need to make significant improvements in these areas in order to compete with firms in countries such as Finland, Malta and Denmark that are frontrunners in digitalisation. The research also found that firms that had embraced digital technologies were better able to cope with the disruptions created by the COVID-19 pandemic, with more digitally advanced firms being less likely to have experienced a decrease in sales since the beginning of 2020 and being more optimistic about future business prospects. The report also found that digital firms tend to be more productive, are more likely to export goods and services to another country, and tend to invest more, especially in research, development and innovation.

Research currently underway as part of the Department of Enterprise, Trade and Employment's Joint Research Programme with the ESRI is examining the impacts of the adoption and usage of digital technologies on the innovation and productivity performance of enterprises in Ireland. The project titled *Digital Technologies and Firm Productivity*⁷³ will provide novel evidence on the factors influencing the adoption and usage of digital technologies across enterprises; the impact of digital technologies on enterprise innovation and productivity; and the effects of complementary investments in knowledge-based-capital (intangibles) that condition the effect of digital technologies on enterprise innovation and productivity. The evidence from this research project will inform enterprise policies aimed at fostering productivity growth via the adoption and usage of digital technologies.

2.2.3 The Climate Transition as a Driver of Productivity Growth

The Climate Action and Low Carbon Development (Amendment) Act 2021⁷⁴, commits Ireland to a legally binding target of net-zero greenhouse gas emissions no later than 2050, and a 51% reduction in emissions by 2030. The national climate objective and 2030 targets are aligned with Ireland's obligations under the Paris Agreement and with the European Union's Green Deal which commits to delivering net-zero greenhouse gas emissions at EU level by 2050. The Green Deal also increases the EU-wide GHG emissions reduction target to at least 55% for 2030 in order to limit global warming to 1.5 degrees Celsius and align with the goal of the Paris Agreement.

The long-term goal for Ireland and the EU is the transformation into a fair and prosperous society, with a modern, resource-efficient, and competitive economy where economic growth is sustainable. In order to achieve this goal, major change will be needed across all of society including at individual, enterprise, and industry level, as well as across government.

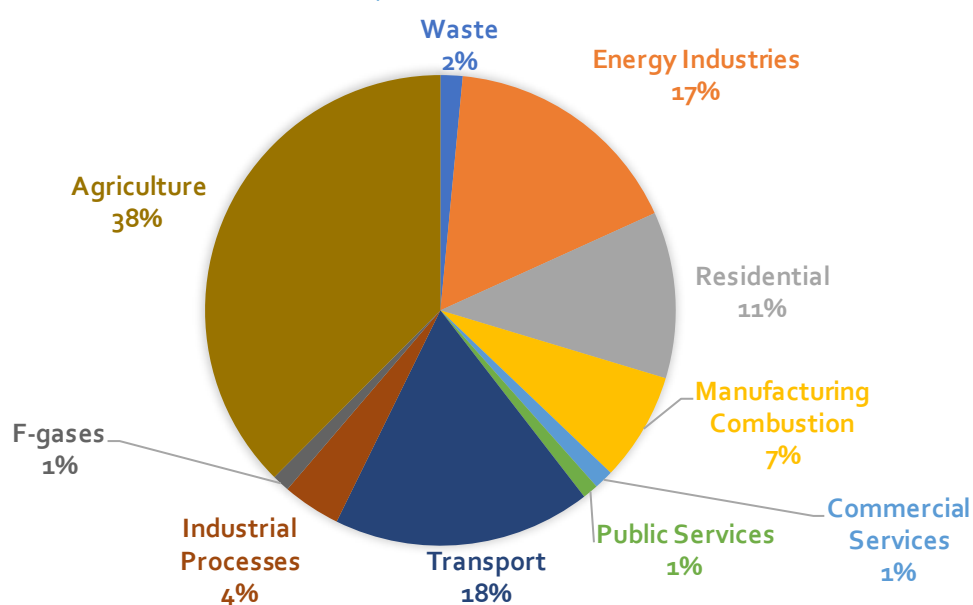
Greenhouse gas emissions arise from enterprises through manufacturing combustion, industrial processes, industrial gases (F-gases)⁷⁵ and commercial services (see Figure 2.2.5). Businesses operating in Ireland also contribute to national emissions through their use of transport, energy and the built environment, in addition to emissions that arise from supply chains and waste. The largest share of enterprise emissions comes from the manufacturing sector, primarily in chemicals, food processing, beverages, and cement and most of these are covered by the EU Emissions Trading Scheme (ETS). Enterprise emissions that fall outside the EU ETS are highly diverse, with a large proportion arising from Small and Medium Enterprises (SMEs), in particular those working with industrial gases.

⁷³ [Digital Technologies and Firm Productivity | ESRI](#)

⁷⁴ [Climate Action and Low Carbon Development \(Amendment\) Act 2021, Section 15 \(irishstatutebook.ie\)](#)

⁷⁵ F-gases comprise of HFCs (Hydrofluorocarbons), PFCs (Perfluorocarbons), SF₆ (Sulphur Hexafluoride) & NF₃ (Nitrogen Trifluoride) & are largely emitted through enterprise. See <https://www.epa.ie/ghg/manufacturing/> for further information.

Figure 2.2.5: Greenhouse Gas Emissions Share by Sector, 2021



Source: EPA

Under the sectoral emissions ceilings, agreed by Government in July 2022, the Enterprise⁷⁶ sector committed to a 35% reduction in emissions by 2030. A major concern for enterprises in the context of the green transition is the potential impact of environmental policies on the costs of production and the implications for the enterprises' competitiveness. A 2021 OECD study⁷⁷ determined that short-term effects of environmental policies on aggregate economic outcomes have been modest so far. The report found that a 10% increase in energy prices generates a decrease in manufacturing employment of less than 1%, a small increase of around 1.5% in foreign investment relative to total investment, no net effect on trade, and a slight increase in productivity. At the same time these environmental policies lead to a reduction in emissions.

While the OECD evidence suggests that well-designed environmental policies do not have large negative effects on the economy, the climate transition will generate winners and losers and it is vital that adequate supports are in place to assist enterprises and displaced workers adjust to the changes. The ambitious targets set out in the *Climate Action Plan 2021* also provide potential new opportunities for enterprise as green innovation will become a key driver of sustainable, long-term economic growth, with consumers and employees all seeking green credentials and more sustainable business practices. Business opportunities in green technology, sustainable product design, green finance and digital services can offer high quality employment while contributing to the decarbonisation of the economy. Venture capital investment in envirotech in Ireland in recent years has included renewable and clean energy projects, biomass production, and carbon monitoring platforms⁷⁸.

As part of the Department of Enterprise, Trade and Employment's Joint Research Programme with the ESRI, a project is currently underway to examine *The Costs to Irish Firms of the Transition to a Low Carbon Economy*⁷⁹. The study will apply the I3E model to quantify the impacts different firms will face in terms of increased input costs, decreased consumer demand, increased labour costs, and decreased exports. The project will help gain insights into how firms in different production sectors may be affected by national and EU climate policies and

⁷⁶ The Environmental Protection Agency defines emissions from the Enterprise sector as those arising from manufacturing combustion, industrial processes and F-gases.

⁷⁷ OECD (2021), *Assessing the Economic Impacts of Environmental Policies: Evidence from a Decade of OECD Research*.

⁷⁸ [IVCA | Research & Publications - IVCA](#)

⁷⁹ <https://www.esri.ie/current-research/the-productivity-challenge-and-its-interaction-with-climate-digitalisation-and>

pinpoint key sectors that will need additional support to be able to successfully transition to low carbon production. The Council looks forward to examining the findings of the study and its implications for policy following its publication later this year.

2.2.4 Innovation as a Driver of Productivity Growth

As discussed in last year's *Competitiveness Challenge* report, there is a rich international academic literature examining the role of innovation in explaining aggregate economic performance and firm level productivity⁸⁰. Commonly used measures of innovation are expenditures on research and development or patent counts. While both are useful as international measures, they are limited insofar as research and development is a simple measure of inputs and takes no account of the productivity and effectiveness of effort, while patents are a crude measure of outputs, capturing only some sorts of invention, and the value of patents can vary significantly⁸¹. As noted by the CSO analysis earlier in this chapter, there is evidence that the sectors devoting the largest resources to innovation expenditure have been the main drivers of productivity growth in Ireland over the past two decades while the sectors with more limited expenditure have not contributed meaningfully to productivity growth over the same period. The domestic academic literature⁸² indicates that innovation is positively linked to productivity at the firm level.

Figure 2.2.6: Type of Innovation expenditure by enterprises, 2018 and 2020

	2018	2020	2018-2020
	€m	€m	% Change
In-house Research and Development	3,031.1	6,081.0	100.6%
Purchase of External Research and Development	853.3	810.9	-5.0%
Acquisition of machinery, equipment and software	1,126.5	336.4	-70.1%
Acquisition of other external knowledge	185.0	31.6	-82.9%
All other innovation activities	258.9	174.3	-32.7%
Total innovation expenditure*	5,454.8	7,434.3	36.3%

* Expenditure for enterprises with 10 or more employed in Industry and Selected Services sectors

Source: Central Statistics Office

Total innovation spending by enterprises in the Irish economy in 2020 stood at €7.4 billion⁸³ compared with €5.5 billion in 2018 (see Figure 2.2.6). The main driver for this increase was a more than doubling of expenditure for in-house Research & Development from €3 billion in 2018 to €6.1 billion in 2020, which remains the most important category of innovation expenditure for enterprises⁸⁴. Irish-owned enterprises accounted for 27% of innovation expenditure in 2020 while foreign-owned enterprises accounted for the remainder. The most common factors identified by the CSO survey as hampering innovation in 2020 was having different priorities within the enterprise, followed by the lack of skilled employees. The challenge of boosting innovation is intrinsically linked to the challenge of attracting and retaining employees with the necessary talent and skills, which will be further explored in Chapter 3. There may be benefits to considering specific incentives for SMEs and small mid-cap companies in attracting research, development and innovation talent, to provide these

⁸⁰ Recent evidence reviewed by Ruane & Siedschlag (2013): "Boosting Innovation and Productivity in Enterprises: What Matters? What Works?" in Pete Lunn & Frances Ruane, *Using Evidence to Inform Policy*: Gill & MacMillan, pp. 96-117.

⁸¹ Griffith et al. (2006) [Innovation and Productivity Across Four European Countries](#).

⁸² Di Ubaldo M. and Siedschlag I (2017) [The impact of investment in innovation on productivity: firm-level evidence from Ireland | ESRI](#); Crowley F. and McCann P. (2015) *Innovation and Productivity in Irish Firms*. *Spatial Economic Analysis*, Vol 10, Issue 2.

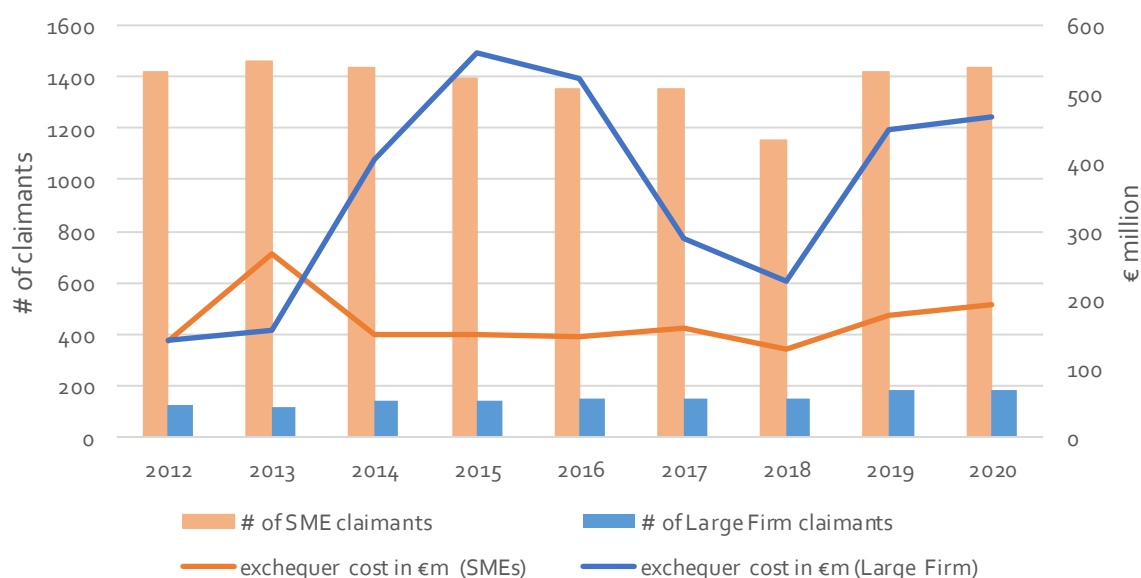
⁸³ <https://www.cso.ie/en/releasesandpublications/ep/p-ii/innovationinirishenterprises2020/>

⁸⁴ Care should be taken while interpreting the results from the Community Innovation Survey used to populate the *Innovation in Irish Enterprises* publication as the survey is only carried out every two years and innovation spending in any given calendar year can vary greatly.

smaller employers with better ways to incentivise employees at the hiring level, enabling them to compete for talent to drive innovation and the twin transition more effectively.

Large firms dominated innovation spending in 2020, accounting for 72.7% of total expenditure with medium and small firms accounting for 20.5% and 6.8%, respectively. In order to encourage small and medium enterprises to engage in more research and development activities, more needs to be done to simplify the current corporation tax credits system, including the R&D Tax Credit and the Knowledge Development Box, which currently involves significant compliance and documentation burdens and considerable uncertainty surrounding qualifying projects⁸⁵. In 2020, 1,433 SMEs availed of the R&D Tax Credit, representing just 0.5% of the SME population⁸⁶, with a total cost to the Exchequer of €192 million. Meanwhile, 183 large firms availed of the R&D Tax Credit in 2020, representing 27.5% of the large firm population, with a total cost to the Exchequer of €466 million, highlighting the scale of the projects undertaken by the large firm cohort. Put another way, large firms accounted for 11% of participants in 2020 but 71% of the cost.

Figure 2.2.7: R&D Tax Credit by firm size, number of claimants and cost to Exchequer, 2012-2020



Source: Revenue Commissioners

A consultation process was held on the R&D Tax Credit and the Knowledge Development Box earlier this year, closing on 30 May 2022⁸⁷. Twenty-one submissions were received from a range of respondents, including companies engaged in Research and Development activities, advisory firms, and Government Departments. The submissions are currently being evaluated by the Department of Finance. There may be value in considering measures to further incentivize SMEs to engage with the R&D Tax Credit, including any proposals submitted in the recent consultation. The Council looks forward to the future publication of these responses and more in-depth analysis of the feedback received, as part of the ongoing review of the credit

OECD analysis⁸⁸, published in March 2022, found that the recent crisis marked the first time on record in which a global recession did not translate into a drop in investment in research and development, with many

⁸⁵ [sme-taskforce-national-sme-and-entrepreneurship-growth-plan.pdf](https://www.enterprise.gov.ie/sites/default/files/2022-03/sme-taskforce-national-sme-and-entrepreneurship-growth-plan.pdf) (enterprise.gov.ie)

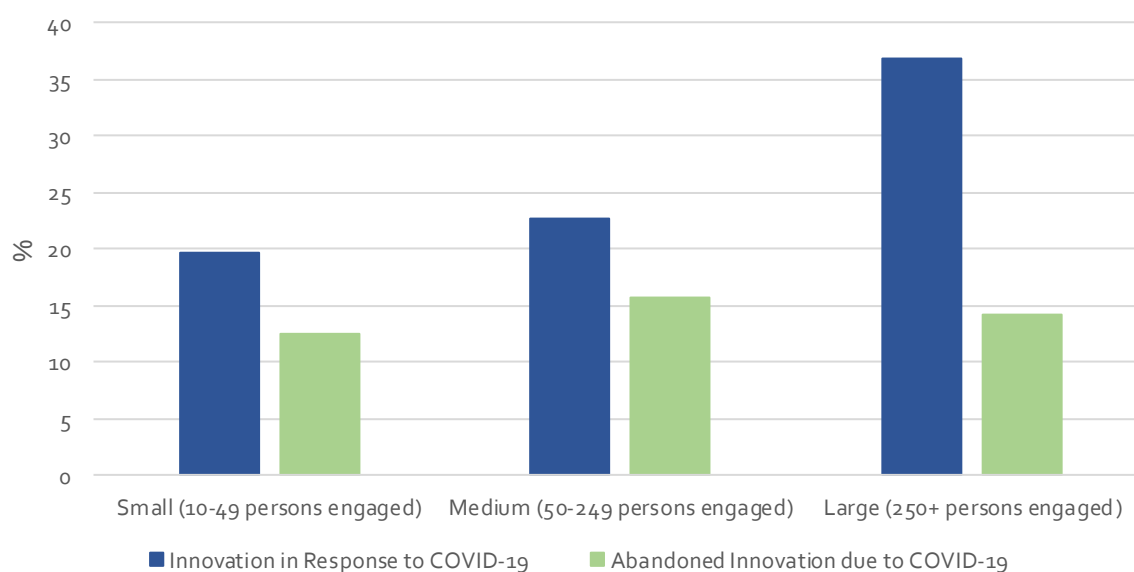
⁸⁶ According to the CSO's [Business Demography 2020](https://www.cso.ie/en/press-releases/2021/business-demography-2020) statistics, there were 278,196 active enterprises in the Irish economy with less than 250 employees. There were 666 active enterprises with more than 250 employees.

⁸⁷ [Public Consultation on the Research & Development Tax Credit and the Knowledge Development Box - April 2022](https://www.gov.ie/en/public-consultation-on-the-research-development-tax-credit-and-the-knowledge-development-box-april-2022/) (www.gov.ie)

⁸⁸ OECD (2022) <https://www.oecd.org/sti/msti-highlights-march-2022.pdf>.

enterprises increasing expenditure, notably in the ICT and pharmaceutical sectors. In Ireland, more than 22% of enterprises introduced a product or process innovation in response to the COVID-19 pandemic in 2020, while nearly 14% abandoned or suspended an innovation due to the pandemic (see Figure 2.2.7). Large enterprises reported the highest rate of innovation in response to the COVID-19 pandemic (36.8%), while enterprises of all sizes reported similar rates of abandoned innovation due to the pandemic (ranging from 12.4% of small enterprises abandoning an innovation to 15.6% for medium enterprises). Looking ahead, more than 88% of enterprises stated that they plan to keep the COVID-19 related innovation after the pandemic has ended, suggesting that innovations introduced during the crisis phase could have long-lasting benefits to enterprises. While COVID-19 related disruption had numerous negative effects on individuals and firms, it may have compelled some enterprises to innovate that traditionally would not have been expected to. In 2020, the percentage of Irish enterprises active in innovation was 57.7% compared to 45.5% in 2018; this augurs well for improved productivity and growth outcomes in the long run, especially if this pattern continues.

Figure 2.2.7: Impact of COVID-19 on Innovation Activities, 2020



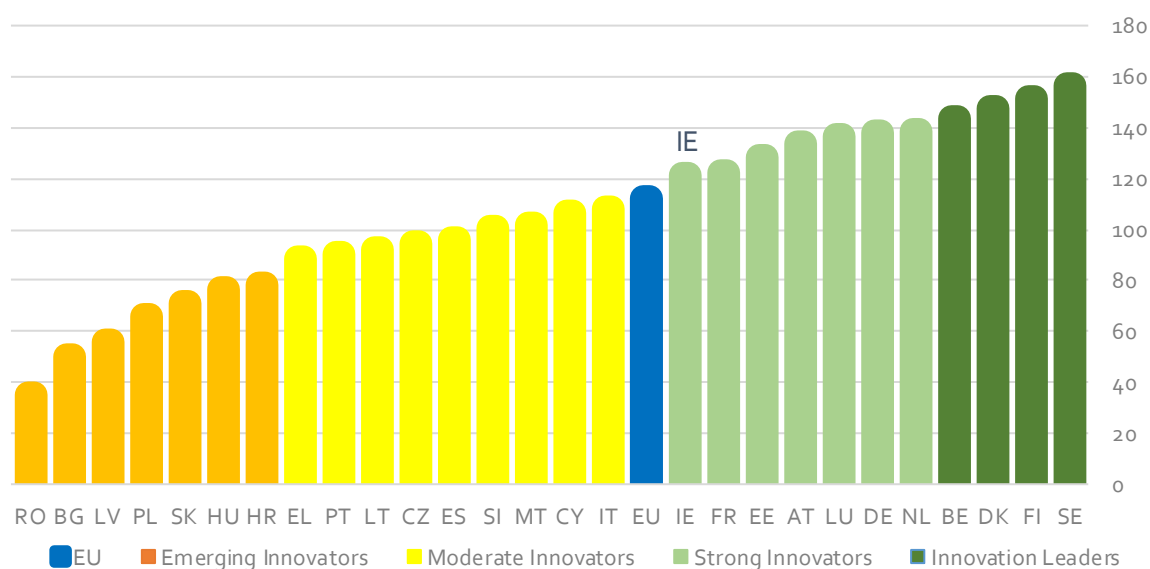
Source: Central Statistics Office

The EU Innovation Scoreboard for 2021⁸⁹ shows Ireland⁹⁰ is identified as a 'strong innovator', ranking eleventh in the EU (see Figure 2.2.8). While Ireland's score in 2021 was above the EU average, it is concerning that Ireland's innovation performance ranking fell by two places from 2020 especially in the context of radical global change and uncertainty when innovative solutions have never been more important. Ireland's weaker position reflects its having lost its place as an EU leader in both 'employment impacts of innovation' and 'sales impacts of innovations'. Ireland performs well in Linkages, Human Resources and Attractive research systems, having achieved overall scores above 125% of the EU average in each of these categories. The European Commission also produced a Regional Innovation Scoreboard in 2021 which found that the Northern and Western region in Ireland fell behind the Eastern and Midland, and Southern regions in terms of innovation, primarily due to lower scores in employment in knowledge-intensive sectors and employed ICT specialists; this further highlights the lack of regional dispersion of Ireland's most innovative firms and activities.

⁸⁹ [European innovation scoreboard](#). The European Innovation Scoreboard 2022 will be published in September 2022 and was unavailable at the time of drafting this year's *Ireland's Competitiveness Challenge report*.

⁹⁰ A degree of caution is warranted when interpreting Ireland's relative position in international indices due to the distortionary impact of using Gross Domestic Product as a measure of economic activity.

Figure 2.2.8: EU Innovation Scorecard



Source: Eurostat

In July 2022, Knowledge Transfer Ireland (KTI), the body that connects businesses to publicly funded research opportunities, published its Annual Knowledge Transfer Survey⁹¹ results, which found that spending by universities, institutes of technology and other publicly funded research institutions reached a record €672 million in 2021. The continued increase in research expenditure since KTI first began collating data in 2014 highlights the significant opportunities available for Irish and multinational businesses of all sizes to engage with Irish publicly funded research. The survey found that companies continue to have a strong appetite for engaging in research, development, and innovation with 80% of agreements monitored by KTI last year being with Irish companies, and 66% of companies that engaged with Irish publicly funded research last year were SMEs. Collaboration between public research and expertise and the enterprise sector that can commercialise these findings is an important driver of innovation that can deliver both economic and societal benefits.

2.3 Actions Crucial for Boosting Productivity

As highlighted in the preceding section, boosting productivity is key to ensuring the long-run competitiveness and sustainability of Irish enterprises. In order to achieve the productivity-enhancing possibilities in the wake of COVID-19 disruptions and the twin transition, it is essential that the appropriate policies are in place to support Irish enterprises as they transform. By supporting public and private investment in the skills, technology and infrastructure required for the twin climate and digital transitions, government and enterprises can seize opportunities offered by new green sectors (including renewable energies and resource efficiency, sustainable manufacturing, eco-construction and environmental consultancy services), new digital sectors (including artificial intelligence, robotics, and big data and analytics), and flexible working arrangements.

Investing in research and development is also essential for Irish enterprises to develop innovative new products and services that will allow them to survive and thrive in competitive domestic and international markets. The remainder of this section explores the digital policy landscape in Ireland, the potential implications for

⁹¹ [Annual-Knowledge-Transfer-Survey-2021.pdf \(knowledge-transferireland.com\)](#)

productivity of the twin digital and climate transitions, as well as highlighting the important role of research, development, and innovation in boosting productivity growth.

2.3.1 Domestic Digital Policy

The Council welcomes the Government's publication in February 2022 of its strategy *Harnessing Digital – The Digital Ireland Framework*⁹² which has been called for in Council recommendations in past *Challenge* reports. The Framework sets out a high-level plan to support the Government's ambition for Ireland to be a digital leader, while helping to maximise the well-being of citizens, the efficiency of public services, the productivity and innovation of enterprises, as well as overall competitiveness and sustainability. *Harnessing Digital* includes targets, high-level work streams and associated deliverables across four core dimensions: Digital Transformation of Business; Digital Infrastructure; Skills and the Digitalisation of Public Services. The Enterprise dimension includes: driving a step-change in the digitalisation of business, with a focus on SMEs; sustaining Ireland's attractiveness as a leading location for digital enterprises; and ensuring that we maximise the benefits from the wider gains that digitalisation offers for the broader ecosystem, in terms of productivity, innovation and competitiveness. Now that this long-awaited strategy is published, the Council would wish to see its early and systematic implementation so that the digitalisation of the enterprise sector and broader society gets the required support.

Recommendation 2.1: The NCPC recommends that the required resources are immediately devoted to implement systematically the *Harnessing Digital* strategy, with annual reporting on progress made and transparent identification of all barriers to progressing the implementation process.

Responsibility: Department of the Taoiseach, Department of Enterprise, Trade and Employment, IDA Ireland, Enterprise Ireland, Local Enterprise Offices

Digital issues are relevant to many areas of Government, leading to responsibilities spread across many Government Departments. However, international best practice shows that highly digitalised countries base their success on a national and well-coordinated strategy⁹³. In order that Ireland remains an attractive location to live and do business, it is important that starting from now Government's digital programmes and policies are highly coordinated. The Council welcomes the Government's commitment in *Harnessing Digital* to a coordinated and coherent approach to digitalisation across Government Departments and agencies with active stakeholder engagement and commends the oversight of the implementation of *Harnessing Digital* by the Cabinet Committee on Economic Recovery and Investment, which is chaired by the Tánaiste.

The Council recognises that effective regulation of the digital environment will be essential to achieve the aims set out in the National Digital Strategy. The Digital Regulators Group (comprising the Broadcasting Authority of Ireland, Competition and Consumer Protection Commission, Commission for Communications Regulation, and the Data Protection Commission) will need to play a vital role in ensuring that Ireland's regulatory structures become and remain fit for purpose. The Digital Regulators Group has highlighted⁹⁴ the importance of appropriate cooperation and coordination across the various bodies and welcomed the enhanced engagement with the Digital Issues Senior Officials Group envisaged under the *National Digital Strategy*,

⁹² [Harnessing Digital - The Digital Ireland Framework \(www.gov.ie\)](http://www.gov.ie)

⁹³ [The digitalisation of small and medium enterprises in Ireland - Models for financing digital projects - Executive Summary.](#)

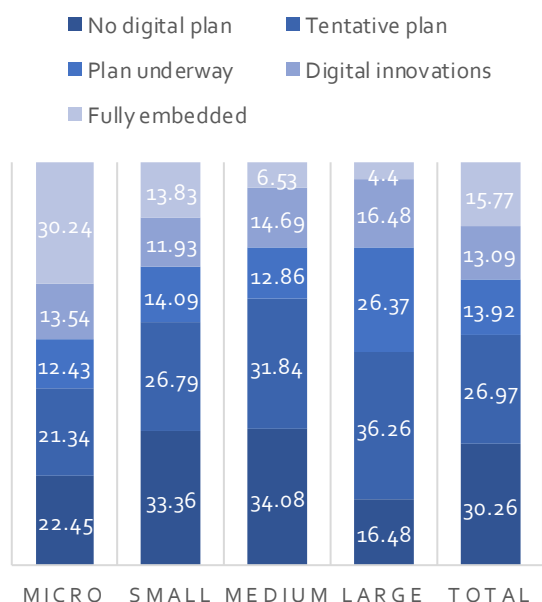
⁹⁴ [Regulators welcome National Digital Strategy | 01/02/2022 | Data Protection Commission](#)

ensuring clarity, coherence and cooperation in digital regulation. In the Council's view, failure to achieve the necessary coordination will undermine the country's digital transformation.

2.3.2 The Twin Transition

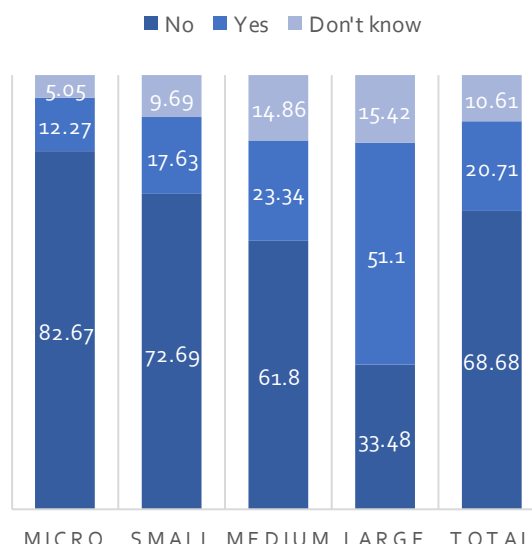
Both the climate transition and the digitalisation of the economy will involve challenges and opportunities for enterprises, and it is important to understand the impact of the twin transitions in the Irish context. Forthcoming research from the ESRI, in partnership with the Department of Enterprise, Trade and Employment entitled *Productivity, Digitalisation and Climate Adaption: Complements or Costs?*, based on the Annual Business Survey of Economic Impact (ABSEI) data (compiled by the Department of Enterprise, Trade and Employment), explores this issue using enterprise level data from the Irish-owned and foreign-owned client firms of the enterprise agencies. The interim findings of the study show that all indicators of digitalisation and adoption of climate action plans are significantly related to firm size and productivity, with larger firms being more likely to invest and to gain greater benefits from their investments. This finding, based on 2021 data, suggests particular challenges of the twin transition for SMEs. A significant proportion of micro, small and medium enterprises (22%, 33% and 34%, respectively) have no digital plan in place compared to just 16% of large firms (see Figure 2.3.1). Irish enterprises are even less prepared for the climate transition with 83% of micro firms having no climate plan in place (see Figure 2.3.2). This percentage decreases gradually as firm size increases, but it is of concern that 33% of large enterprises have no climate plan in place.

Figure 2.3.1: Digital readiness by firm size group (% of responses)



Source: ESRI

Figure 2.3.2: Business climate action plan by firm size group (% of responses)



Source: ESRI

These results indicate that Irish enterprises, especially micro, small and medium size firms, are unprepared to begin their climate and digital transitions. There are some developments which point to possible improvement. The first is in relation to the Climate Toolkit 4 Business⁹⁵, a new web based advisory tool which provides

⁹⁵ [Climate Toolkit 4 Business | Zero Carbon Journey Toolkit for Businesses](#)

enterprises with practical and cost-effective actions to reduce their carbon emissions, support their climate transformation, and build their resilience. Between December 2021 and August 2022, there were more than 26,000 users of the Toolkit, with 1,664 users creating a personalised action report by entering metrics and completing the carbon calculator. More than 255 users have registered with the Climate Toolkit⁴ Business to create an account which enables them to download and share their tailored report and save their metrics so they can return and re-enter metrics in future to follow their carbon reduction journey. This is a significant first step in terms of engagement, but more enterprises still need to be reached. In addition, the Local Enterprise Offices have included engagement with the Toolkit as a pre-requisite in their application process for the Green for Micro⁹⁶ support scheme which should encourage increased usage amongst micro-enterprises. Furthermore, a pilot project is also currently underway with Fáilte Ireland in relation to the Tourism sector which is showing promising results.

In June 2022, the Government announced a new €55 million *Green Transition Fund* as part of Ireland's *National Recovery and Resilience Plan*, which is funded by the European Union, to help businesses move away from fossil fuels and towards more sustainable, cheaper alternatives⁹⁷. The Fund comprises two elements. Firstly, the Climate Planning Fund for Business (€25 million) will give businesses funding to prepare a personalised plan to identify how best to remove reliance on fossil fuels in their business. The available grants include a €1,800 grant to develop a plan and up to €50,000 matched funding to go towards specific capacity building within an enterprise. Secondly, the Enterprise Emissions Reduction Investment Fund (€30 million) will give manufacturing businesses funding to invest in carbon neutral heating processes, smart metering and energy monitoring, and research and development. Up to €1 million is available for businesses to upgrade their processes.

On 20 June 2020, the Government launched *Grow Digital* and the *Digital Transition Fund*⁹⁸ to help businesses go digital. The Fund has been allocated €85 million for the period to 2026 as part of Ireland's *National Recovery and Resilience Plan*, with €10 million available in 2022. The Fund will be administered by Enterprise Ireland and will be used to help companies use digital technologies such as AI, cloud computing and big data to improve their products, processes, supply chains and services. The funding will help companies at all stages, from going online to facilitating exporting and to using digital technologies to reach new markets and improve their productivity and competitiveness. A new website is also being developed which will allow companies assess what their needs are and point towards their next steps to improve their offering through digital technology.

Later in June 2022, the first of a series of *Grow Digital* regional workshops was launched at the Technical University of the Shannon, Athlone, which featured Digital Transition Clinics to assist businesses as they navigate the process of digitalisation. The goal of *Grow Digital* is to help drive a step-change in the level of digital uptake by enterprises right across the country. A key focus for the workshops is to support businesses in identifying the next steps which they can take as they look towards adopting new digital technologies. These clinics are run by representatives from the network of Local Enterprise Offices, Enterprise Ireland and IDA Ireland. Further workshops were held in Sligo and Kildare in July 2022 and will continue around the country throughout Autumn.

As part of the EU Recovery and Resilience Fund, to accelerate the green and digital transitions, each member state must dedicate at least 37% of the expenditures of its recovery and resilience plan (RRP) to measures

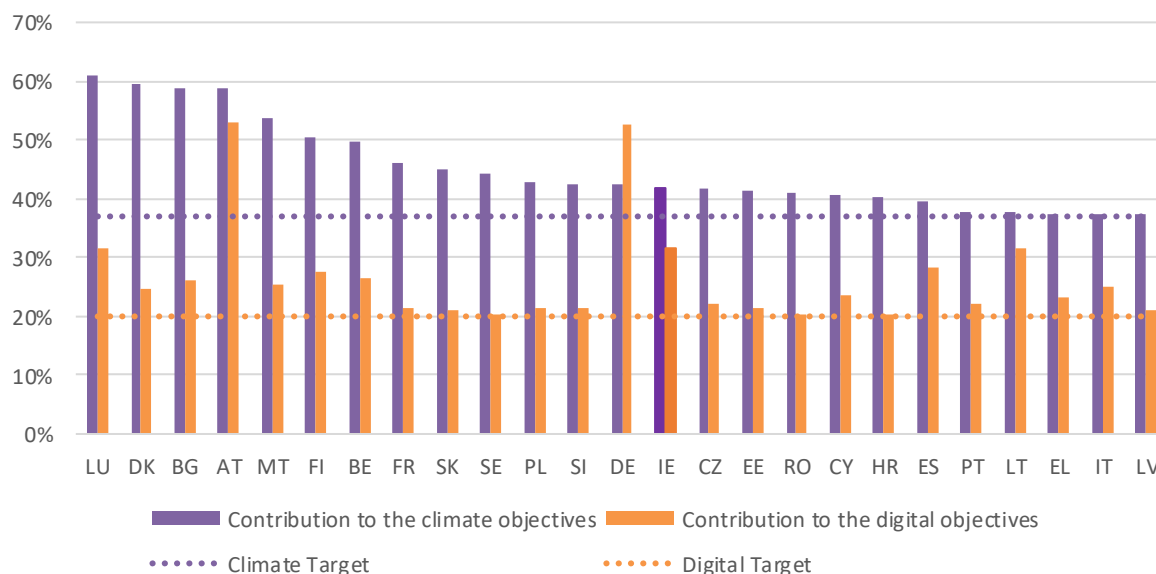
⁹⁶ [Green for Micro - Local Enterprise Office](#)

⁹⁷ [Government announces new funding to help businesses move away from fossil fuels \(www.gov.ie\)](#)

⁹⁸ [Digital Transition Fund](#).

contributing to climate objectives and at least 20% of the expenditure to digital objectives. The reforms and investments proposed by Ireland as part of the *National Recovery and Resilience Plan*⁹⁹ estimate that climate measures will amount to 42% of expenditure and digital measures will make up 32% of expenditure (see Figure 2.3.3). While these proposed measures exceed the EU targets, the Council notes that they fall behind the ambitious proposals put forward by other EU member states, particularly in relation to climate objectives, where Luxembourg, Denmark, Bulgaria and Austria have committed almost 60% of RRP funding to climate initiatives, almost double Ireland's proposals.

Figure 2.3.3: Share of RRP's estimated expenditure towards climate and digital objectives¹⁰⁰



Source: Recovery and Resilience Scoreboard, European Commission

Recommendation 2.2: The NCPC recommends ongoing monitoring and evaluation of Government supports for the twin transition to ensure that adequate progress is being made and that Ireland's targets remain appropriate when viewed against what is being achieved across the EU in relation to the twin transitions.

Responsibility: Department of Enterprise, Trade and Employment, IDA Ireland, Enterprise Ireland, Local Enterprise Offices

2.3.3 Investment in Innovation

In May 2022, the newly established Department of Further and Higher Education, Research, Innovation and Science published *Impact 2030: Ireland's Research and Innovation Strategy*¹⁰¹. The Council welcomes the publication of the updated Strategy which was the focus of a recommendation in last year's *Challenge* report. *Impact 2030* aims to promote the role of research and innovation in addressing Ireland's social, economic and environmental challenges. The strategy hopes to progress the objectives shared across the Irish research and innovation system, such as maximising its impact on public policymaking and implementation, and nurturing and attracting talent.

⁹⁹ [Ireland's National Recovery and Resilience Plan 2021 \(www.gov.ie\)](http://www.gov.ie)

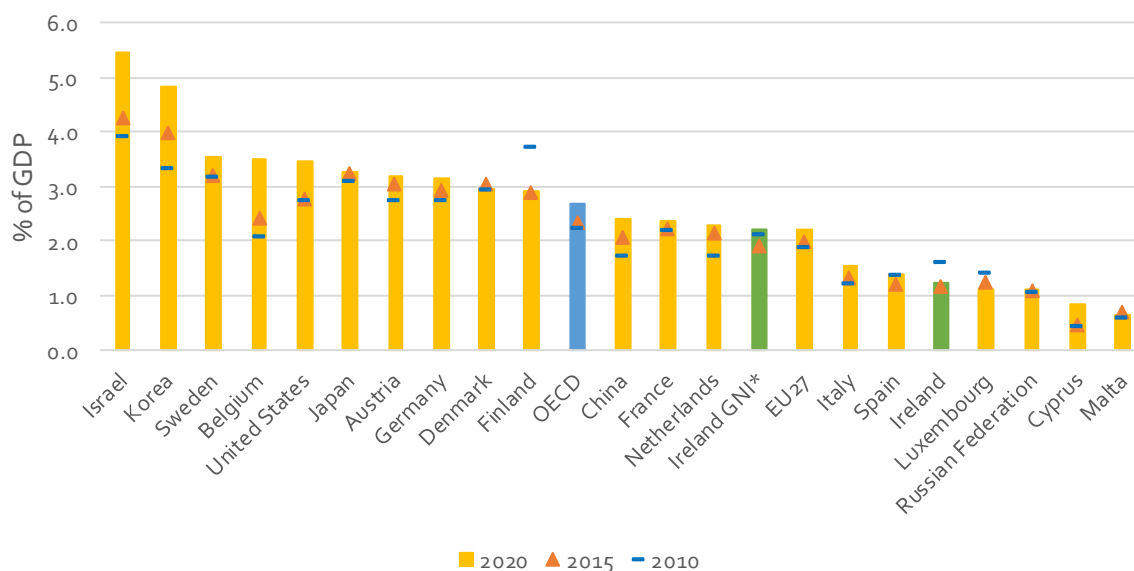
¹⁰⁰ Note such expenditure data is *proposed* expenditure, *actual* expenditure data is not yet available.

¹⁰¹ [Impact 2030 – Ireland's New Research and Innovation Strategy](#)

Impact 2030 is composed of five pillars which aim to maximise the impact of: research and Innovation on our economy, society and the environment; research and innovation structures on excellence and outcomes; innovation on enterprise success; talent at the centre of the research and innovation ecosystem; and research and innovation on Ireland's all-island, EU and global connectivity. The Department of Further and Higher Education, Research, Innovation and Science will establish new structures to support implementation of the strategy including a Steering Group, an Implementation Forum and a Research and Innovation Policy Advisory Forum which will bring together all of the relevant stakeholders.

Key metrics have been developed that will inform monitoring of the Strategy's implementation. One of these metrics has targeted an increase in gross investment¹⁰² in research and development by the public and private sector to at least 2.5% of GNI* before end 2030¹⁰³. A significant increase in the value of total expenditure on research and development was recorded in Ireland in the past decade, increasing from €2.7 billion in 2010 to €4.6 billion in 2020¹⁰⁴. As part of the Europe 2020 Strategy¹⁰⁵, the EU confirmed a research intensity target of investing 3.0% of EU GDP in research and development annually. The EU has yet to achieve this target, with total R&D expenditure in 2020 coming in at 2.2% of GDP, although some progress has been made since 2010 (see Figure 2.3.4).

Figure 2.3.4: Gross R&D Expenditure as a percentage of GDP/GNI*, 2020



Source: OECD, Research and Development Statistics

Ireland's research intensity is more appropriately measured as a proportion of GNI* given the distortionary impact of the activities of multinationals on GDP. In 2020, gross R&D expenditure was 2.2% of GNI*, a marginal increase since 2010¹⁰⁶, and remains significantly below the performance of the US and other European leading

¹⁰² Gross Expenditure on Research and Development (GERD) is the sum of Government Expenditure on R&D undertaken in house in Government institutions, Business Expenditure on R&D, and Higher Education Expenditure on R&D.

¹⁰³ This has been defined in *Impact 2030* as an increase in Gross (public and private) Expenditure on R&D as % of GNI* to 2.5%.

¹⁰⁴ The Eurostat and OECD Research and Development Statistics are based on the CSO's [Business Expenditure on Research and Development \(BERD\)](#) statistics published in March 2021 and are estimates. The [Innovation in Irish Enterprises](#) survey on R&D spending, published in June 2022, contains more recent information and reported In-House R&D spending of €6.1 billion in 2020. For consistency, the data used in Figure 2.3.4 is taken from the OECD database.

¹⁰⁵ [Europe 2020 - A European strategy for smart, sustainable and inclusive growth](#)

¹⁰⁶ See [Ireland's Competitiveness Challenge 2021](#) Chapter 3 for further discussion.

investors in research and development. This poses a threat that Ireland's investment in research and development may be insufficient to support future productivity growth. The *Impact 2030* strategy acknowledges that "failing to keep pace with other small, advanced economies in terms of investment in R&I represents a significant risk to the competitiveness of our economy, to our labour market productivity, to the growth of high-value employment, to our attractiveness to FDI and to our global standing as a strong innovator". A new statutory research and innovation funding agency will be established under the Research Bill which will bring together the functions and activities of the Irish Research Council and Science Foundation Ireland. The new agency will support a fuller range of research disciplines, working collaboratively with other research funders and enterprise, nationally and internationally.

Recommendation 2.3: The NCPC recommends that, in order to secure Ireland's position as a strong innovator, the Government should ensure that:

- (i) the *Impact 2030* strategy is implemented without delay and progress on targets is monitored on an annual basis;
- (ii) the Research Bill is passed without delay and that the new research and innovation funding agency is established with some urgency to drive and fund research, particularly interdisciplinary research.

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

2.4 Summary

Boosting productivity is key to ensuring the long-run competitiveness of Irish enterprises and is especially important as Ireland seeks to reinvigorate the domestic economy in the wake of the COVID-19 related shock and build resilience against global uncertainties following the Russian invasion of Ukraine. The pandemic and the current geopolitical turmoil has resulted in unprecedented disruption to the global economy, with the potential for investment, labour market, and trade channel scarring effects to negatively impact on long-run productivity growth. However, times of great upheaval also present opportunities to evaluate the status quo and find innovative solutions which could help re-invigorate global productivity growth.

This potential productivity renaissance in the aftermath of these global disruptions can be further supported by the twin digital and climate transition currently underway. While these transitions can provide opportunities for Irish firms to gain market share in new technologies and new industries, the associated costs will need to be managed carefully in an increasingly constrained fiscal environment with rising interest rates. In order to seize productivity-enhancing possibilities in the wake of COVID-19 disruptions and the twin transition, it is essential that the appropriate policies are in place to support Irish enterprises as they transform. Significant investment in skills and training (see Chapter 3) will be necessary and require investment by the public and private sector in infrastructure and capital (see Chapter 4), as well as in research, development, and innovation.

More widespread and sustained productivity growth is key to improvements in living standards. The Council acknowledges the importance of further research and analysis to more fully understand how policies can be designed to enhance productivity growth, especially amongst the increasingly diverse domestic sector, and welcomes the breadth of new research underway.

Chapter 3: Enhancing Labour Market Performance

3.1 Introduction

The climate/digital twin transition and the lasting effects of the pandemic are transforming Ireland's labour market in tandem with other EU countries who are dealing with the same challenges. Additional unique challenges to Ireland are those related to Brexit and demographic changes¹⁰⁷. For Ireland to increase productivity and maintain its competitiveness into the future, it is crucial that we focus on enhancing the performance of our labour market. Good labour market performance can be achieved by increasing participation and fostering skills, while ensuring that the gains from productivity growth are broadly shared with workers and that non-wage labour costs are kept down.¹⁰⁸

As described in Chapter 1, tighter labour market conditions have led to labour supply shortages across many sectors. The level of demand across the economy is increasing reliance on meeting Ireland's labour and skills needs through inward migration, reflected in a significant increased demand for work permits. Ireland is competing in the same labour pool with other countries, particularly across the EU, where countries which are also seeking the skills needed to meet current demand alongside the demands of the climate/digital transitions. Consequently, it is more important than ever to engage Ireland's domestic labour force to its fullest potential, in particular those groups currently underrepresented in the workforce, such as females¹⁰⁹, older people, and people with disabilities.

We need a skilled, agile labour force if we are to have productivity growth where the skills match the areas for potential for growth in the economy. Hence, we need to enhance skills overall (particularly in Construction, the Green Economy and Digital). While the issue of skills gaps has been raised by the NCPC previously^{110 111}, the Council believes that in spite of the progress made to date it is necessary to re-emphasise the need for Ireland to build the new skills which are crucial to meeting the targets set out under the *National Development Plan*, *Housing for All*, the *Climate Action Plan* and the national digital strategy, *Harnessing Digital*.

The Government has introduced or progressed several policy and legislation initiatives over the past year seeking to improve employee conditions in Ireland: the right to request remote work; the introduction of sick pay legislation; pension auto-enrolment; parent's leave and parent's benefit; the introduction of an additional bank holiday; and the move to a living wage (see Box A). The Council welcomes the introduction of these measures to promote the quality of employment conditions, moving us more in line with employment rights across Europe. Improved conditions of employment will help Ireland to attract as well as retain workers and can support productivity growth. However, these measures also represent potential increases in costs for businesses in Ireland. The Council believes that it is important to take a holistic view of the impact of these measures on Irish businesses, which are also dealing with rising costs from: increased input prices, more difficult supply chain requirements, measures required to adapt to Brexit, facilitating the digital and green transitions, and continued recovery from the COVID-19 pandemic.

¹⁰⁷ Relative to other Member States, Ireland's population ageing will be relatively rapid over the coming decades. [gov.ie - Population Ageing and the Public Finances in Ireland - Summary \(www.gov.ie\)](https://www.gov.ie/en/publications-and-resources/other-publications-and-resources/gov-ie-population-ageing-and-the-public-finances-in-ireland-summary/)

¹⁰⁸ [Good Jobs for All in a Changing World of Work \(oecd-ilibrary.org\)](https://www.oecd-ilibrary.org/publications/good-jobs-for-all-in-a-changing-world-of-work/)

¹⁰⁹ Including women, mothers and the spouse/partners of men.

¹¹⁰ [ireland's competitiveness challenge 2021.pdf](#)

¹¹¹ [ireland's competitiveness challenge 2020.pdf](#)

In Section 3.2, we analyse three dimensions of Ireland's labour market: quantity of labour, quality of labour and compensation of labour. Section 3.3 sets out the actions underway to enhance Ireland's labour market performance and associated recommendations. Section 3.4 provides a brief chapter summary.

3.2 Current Situation in Ireland

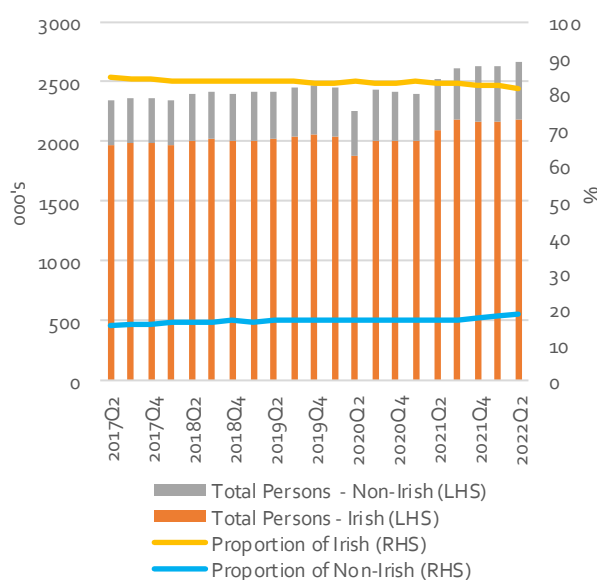
This section will discuss the current situation in Ireland with a focus on labour quantity (labour market participation and migration), labour quality (skills, lifelong learning, apprenticeships) and labour compensation.

3.2.1 Quantity of Labour

Size of Ireland's Labour Force

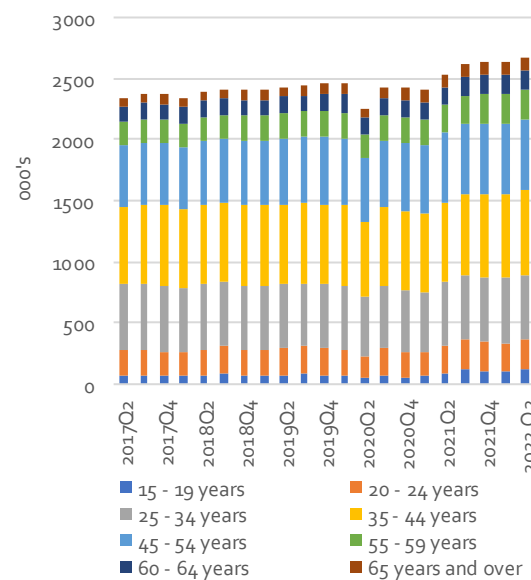
The number of people in the labour force at any point in time is determined by three elements: the numbers in the working age cohort from the Irish born population, the participation rates of those in the working age cohort, and net migration.

Figure 3.2.1: Size of Ireland's Labour Force (Persons aged 15 years and over) 2017 Q2 – 2022 Q2



Source: CSO Labour Force Survey

Figure 3.2.2: Composition of Labour Force by Age 2017 Q2 – 2022 Q2



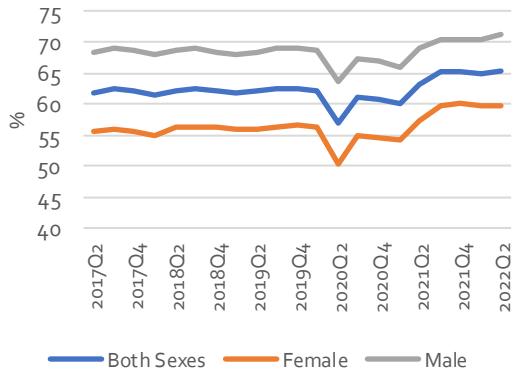
Source: CSO Labour Force Survey

The total size of Ireland's labour force has increased over the past decade from a total of 2,338,400 persons in 2017 Q2 to a total of 2,674,500 persons in 2022 Q2 (see Figure 3.2.1), with the share of Irish nationals in the labour force declining from 84.7% to 81.5% and the share of non-Irish increasing from 15.3% to 18.5% over the same period, reflecting the increased reliance in the labour force on international workers. The majority of the labour force is made up of workers between 25 and 54 years old (Figure 3.2.2). The number of workers above 55 years old has increased, reflecting the increasing older cohort in the labour force. Further discussion on participation rates and net migration follows below.

Participation Rates¹¹²

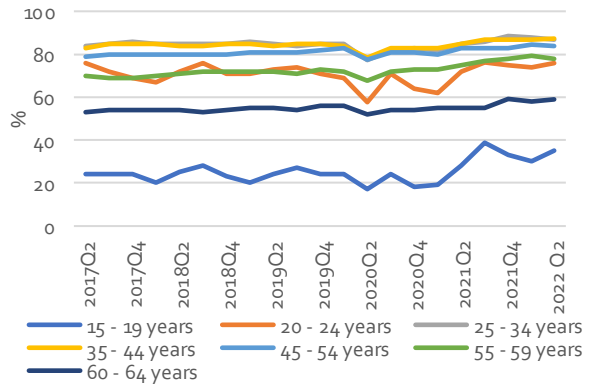
Overall, participation rates in Ireland remained relatively static until the impact of COVID -19 caused a significant decline in 2020 (see Figure 3.2.3). Participation rates have since recovered well and as of 2022 Q1 are exceeding pre-pandemic levels.

Figure 3.2.3: ILO Participation Rates 15 Years and Over by Gender



Source: CSO Labour Force Survey

Figure 3.2.4: ILO Participation Rates 15 Years and Over by Age

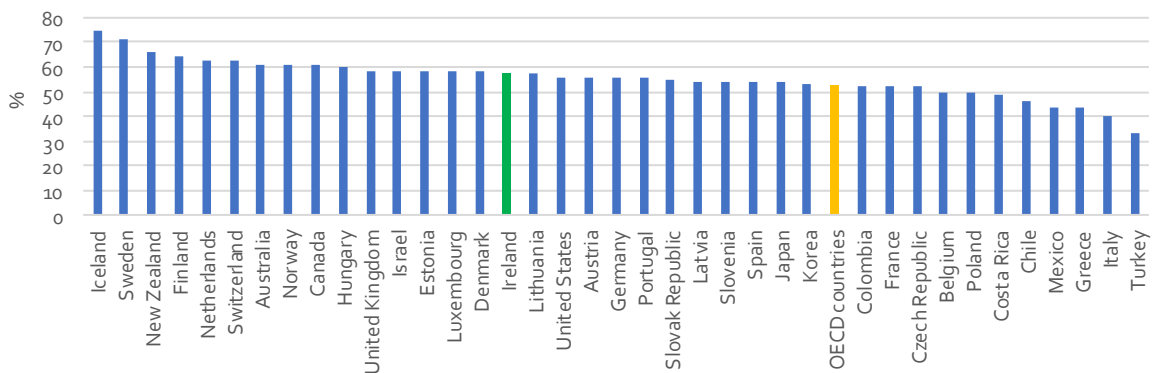


Source: CSO Labour Force Survey

Participation Rates - Gender

Male participation fell considerably in the aftermath of the Global Financial Crisis (GFC) in 2008, due to their high concentration in the construction sector and subsequent outward migration. The participation rate for males and females has remained relatively steady over the past five years (see Figure 3.2.3), with the exception of the impact of the pandemic. As shown in Figure 3.2.3, according to the CSO, female labour market participation (FLMP) in Ireland reached record levels in 2021 Q4 (60.1%). However, FLMP rates in Ireland remain well below those elsewhere in northern Europe (see Figure 3.2.5). According to the OECD, Ireland's FLMP rate for the year 2021 was 57.5%, in comparison with 75.1% in Iceland, 70.9% in Sweden and 64.6% in Finland.

Figure 3.2.5 Female Labour Force Participation Rates (15 years and over) 2021



Source: OECD

It has been noted in public discourse that the shift towards remote working appeared to allow people to work more easily around childcare requirements, and that this disproportionately benefited women by increasing

¹¹² The labour force participation rate (LFPR) is calculated as the labour force divided by the total working-age population.

their ability to participate in the labour market. Research published by the Central Bank¹¹³ in July 2022 finds no strong evidence to date that pandemic-related changes such as remote working are the dominant factors supporting the spike in employment (as can be seen in Figure 3.2.3). Instead, the increase is attributed to a 'cohort' effect¹¹⁴, reflecting long-run societal and structural changes in the economy which were evident pre-pandemic, in particular for women under the age of 35. In contrast, a Bulletin¹¹⁵ by SOLAS published in August 2022 found that both demographic factors and remote working have played a key role in the growth in FLMP, noting that the sectors with the largest increase in the number of females working from home were also the sectors that have seen the largest growth.

An earlier Bulletin¹¹⁶ published by SOLAS in 2019 found there were 218,000 women on 'home duties', not participating in the labour force, and the majority of these women – regardless of their education level – said they did not wish to return to the labour force. Engaging these potential 'returners'¹¹⁷ is key for increasing FLMP. One of the main barriers to FLMP in Ireland is the availability and affordability of childcare¹¹⁸ (see section 5.2.4) and elder care. Further, there is an interaction between excessive childcare costs in Ireland and a high share of low wage and precarious employment disproportionately worked by women in Ireland.

Participation Rates - Age

Participation in Ireland has increased across all age groups over the past decade. The lower participation of younger workers aged 15-19 and 20-24 years (see Figure 3.2.4) reflects longer engagement in education and training by these age groups. Participation for workers aged 60-64 years old is the second lowest rate (58.5% in 2022 Q2), while the highest rate is workers aged 25-34 years old (87.2%).

The demographic structure of Ireland's population is set to change significantly over the coming decades. People are living longer and the population aged 65 and over is set to grow significantly so that Ireland's old-age dependency ratio is set to nearly double over the next 30 years (from 24% at present to 47%).¹¹⁹ People are also having fewer children; fertility rates in Ireland have declined from 2.1 in 2009 to 1.6 in 2020^{120 121} (albeit which should potentially contribute to increased rates of FLMP).¹²² These factors, coupled with the fact that younger people are staying in education longer, means that without extending working lives, the domestic working age population will continue to become smaller. Therefore, examining how the State can facilitate ways to extend working lives is an important element of addressing the needs of an ageing population, and is crucial for Ireland's productivity and competitiveness in the medium to long-term.

While there has been some increase in employment rates of older workers in recent years, there is considerable scope to increase participation further. According to analysis of older workers by SOLAS, in quarter 4 2018 there were 935,000 persons aged 60 years or more resident in the State with only 22% (205,000 persons) of these in

¹¹³ [Labour Market Recovery Boyd, Byrne, Keenan, McIndoe-Calder \(centralbank.ie\)](#)

¹¹⁴ Older age groups, with lower propensities to participate in the labour force, are replaced by younger cohorts, with higher rates of labour force participation.

¹¹⁵ [Summer Skills Bulletin 2022 - Solas](#)

¹¹⁶ [Quarterly Skills Bulletin, Women on Home Duties - Solas 2019](#)

¹¹⁷ A potential returner is defined as an individual who is currently economically inactive due to caring for others and is looking to return to the labour market.

¹¹⁸ [Headline Poverty Target Reduction in Ireland and the Role of Work and Social Welfare \(esri.ie\)](#)

¹¹⁹ [gov.ie - Population Ageing and the Public Finances in Ireland - Summary \(www.gov.ie\)](#)

¹²⁰ [Fertility rate, total \(births per woman\) - Ireland | Data \(worldbank.org\)](#)

¹²¹ New fertility rate projections are expected to be published by the Central Statistics Office in 2023.

¹²² Projections for labour force participation assume increases in the participation rate of working age people, but the overall participation rate as a proportion of the total adult population falls as the population ages. Although, recent evidence indicates that higher female participation rates may lead to higher fertility rates in higher income countries: see: [w29948.pdf \(nber.org\)](#).

employment.¹²³ Furthermore, although retention rates¹²⁴ are above the OECD average¹²⁵, recent analysis by the ESRI¹²⁶ found that a key group of early leavers (aged 54 to 59) exists in Ireland, with almost one in five deciding to exit the labour force early because of illness and a similar proportion leaving because of job loss. This would suggest these are possible areas where upskilling/reskilling could lead to increased participation. Additionally, the report highlights that women were five times more likely than men to leave employment for family care, suggesting that working lives cannot be extended without some acknowledgement in the organisation of employment options of women's disproportionate role in providing care. This points to the value of mechanisms that allow more flexible labour force engagement.

In the context of an aging workforce, upskilling older workers (aged 55 and over) could see this cohort contribute to an increased labour force in a rapidly changing labour market. Technological change is expected to particularly impact those employed in lower and mid-lower skilled occupations (e.g. administrative, sales and operative roles), and according to SOLAS¹²⁷, there were 146,300 people aged 50 to 59 employed in these occupations in 2018 Q4, representing over one third of this cohort. Furthermore, 50,000 of this cohort were employed in industry which is among the fastest changing sectors. Given changing skills requirements, this makes it more difficult to maintain employability and keep these workers in the labour market. At present, older workers as well as those with lower educational attainment tend to have lower participation in lifelong learning. According to SOLAS¹²⁸, in 2019 Q4 there were 55,000 people aged 55-64 years participating in lifelong learning. This declined to 38,000 in 2020 Q4 before increasing to 44,000 in 2021 Q4. Over 176,000 persons aged 50-59 in employment had upper secondary or less as their highest educational attainment.

Participation Rates - People with Disabilities

According to the National Disability Authority¹²⁹, the labour force participation rate for people with a disability aged 20-64 in Ireland in 2016 was almost half (49.7%) that for people without a disability (82.3%).¹³⁰ The NDR also reports that most people with a disability are out of the labour force due to permanent sickness or disability (65%), looking after a home or family (16%), or in education (9.4%).

In September 2021, the ESRI published a paper titled 'Identification of Skills Gaps Among Persons with Disabilities and their Employment Prospects'.¹³¹ Its findings showed that in 2016, only a third of the working age people with disabilities indicated that their main economic status was employment, compared with two-thirds of those without disabilities. Furthermore, there was considerable variation in employment participation by disability type: only 15% of individuals with an 'intellectual disability' were employed in 2016, compared to 46% of people that reported having 'deafness or a serious hearing impairment' and 34% for those with 'blindness or a serious vision impairment'.

¹²³ [Quarterly Skills Bulletin, Older Workers \(Solas 2019\)](#)

¹²⁴ The percentage of employees who remain employed over a specific period.

¹²⁵ In 2015, the retention rate for employees aged 60 to 64 was 58% in Ireland compared to 49% across the OECD [The ageing workforce in Ireland: Working conditions, health and extending working lives \(esri.ie\)](#)

¹²⁶ [The ageing workforce in Ireland: Working conditions, health and extending working lives \(esri.ie\)](#)

¹²⁷ [Quarterly Skills Bulletin, Older Workers \(Solas 2019\)](#)

¹²⁸ [lifelonglearning2022_final.pdf \(solas.ie\)](#)

¹²⁹ [NDA Factsheet 2 Employment](#)

¹³⁰ The sources of data for employment and unemployment of people with a disability in Ireland are: the Census, the Labour Force Survey, and the Survey on Income and Living Conditions (SILC). These data sources use different sets of questions to identify persons with disabilities. Despite the differences in measurement, the sources give headline figures that are largely consistent with one another and complement each other.

¹³¹ [New research highlights the education and employment disadvantages experienced by people with disabilities | ESRI](#)

To give an international context, the OECD published a paper titled 'Disability, Work and Inclusion in Ireland'¹³², in September 2021, which highlighted that the employment rate of persons with disabilities in Ireland in 2016 was about half of the rate for persons without disabilities (36.5% vs. 72.8%). This employment rate gap is much larger than in most other EU-OECD countries, and also slightly larger than the gap in Ireland ten years earlier. The OECD also pointed to the considerable risk of COVID-19 increasing this gap further. Persons with disabilities in Ireland tend to have lower levels of formal education¹³³, are under-represented in full-time employment and over-represented in involuntary part-time employment. Furthermore, they are also slightly over-represented in the economic sectors hit hardest by the pandemic. This may significantly impact the ability for Ireland to achieve its target of an employment rate for persons with disabilities of 38% by 2024¹³⁴. At the start of the *Comprehensive Employment Strategy (CES)*¹³⁵ in 2015, the employment rate was 33%. To achieve this, the NDA has indicated that there must be 15,000 additional disabled people between the ages of 20 and 64 in work by the end of 2024. The Council look forward to an update of the progress towards this target following the results of the 2022 census.

Net Migration

COVID-19 significantly hindered international migration and thus, the flow of skilled workers to Ireland. Net migration declined from 28,900 in the year to April 2020 (85,400 immigration, 56,500 emigration), to 11,200 (65,200 immigration, 54,000 emigration) in the year to April 2021. This decrease of 23.7% was mainly driven by a fall of 53.6% in inflows of non-EU nationals (14,100 in the year to April 2021 from 30,400 the previous year). This has had negative consequences for Ireland's labour market as Ireland relies on inward migration to source many of the skills it needs. However, net migration has recovered; in April 2022 net migration stood at 61,000, while the number of immigrants into Ireland stood at 120,700, the highest since 2007¹³⁶.

There were strong migration flows between Ireland and the UK in the year to April 2021; 18,200 persons left Ireland to live in the UK and 19,100 persons moved to Ireland from the UK. Following the UK's departure from the EU, the EU regime for the mutual recognition of professional qualifications¹³⁷ (MRPQ) no longer applies (as of 1st January 2021) between the UK (including Northern Ireland) and the EU. This means that UK nationals and EU citizens with qualifications acquired in the UK after the 1st January 2021 can no longer rely on EU law for the recognition of their professional qualifications¹³⁸. The Government of Ireland has encouraged national regulatory authorities, some of which operate on an all-island basis, to engage with their counterparts in the UK in order to manage the process of continued recognition of UK qualifications in line with Irish national law.

The increased demand for mobile workers internationally, especially across the EU, alongside the lack of availability of affordable housing (see Chapter 4) and relatively high cost of living, may lead to migrants choosing other countries over Ireland to live and work. We are competing with these other EU countries for skilled labour and these countries are also dealing with tightening labour market conditions and the same future challenges to the labour market, i.e. the digital and climate transitions.

¹³² [Disability, Work and Inclusion in Ireland: Engaging and Supporting Employers | en | OECD](#)

¹³³ There has been increases in participation rates of students with disabilities in specific disability categories, see: [Layout 1 \(hea.ie\)](#)

¹³⁴ [Comprehensive Employment Strategy for People with Disabilities 2015-2024 \(Government of Ireland\)](#)

¹³⁵ [gov.ie - Comprehensive Employment Strategy for People with Disabilities \(www.gov.ie\)](#)

¹³⁶ [Population and Migration Estimates, April 2022 - CSO - Central Statistics Office](#)

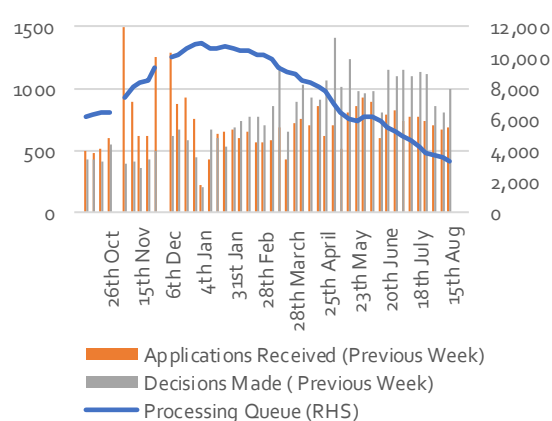
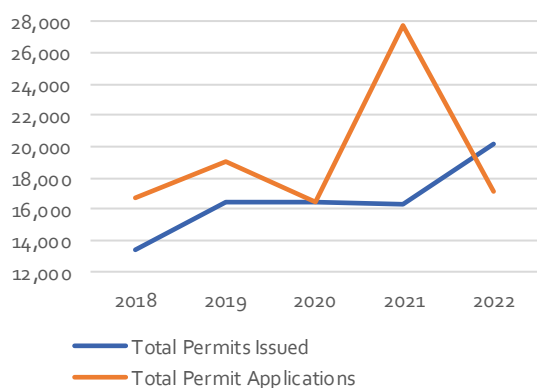
¹³⁷ Professional qualifications are specific qualification requirements that a person needs to possess by law in order to access or pursue a regulated profession, or to engage in regulated activities in a given country.

¹³⁸ This does not apply to those who have had these qualifications recognised by the relevant EU regulator before the end of the transition period (31st December 2020).

Permits

Reflective of the increased demand for workers, recent statistics issued by the Department of Enterprise, Trade and Employment (DETE) show that permit applications are running at a much higher rate than recent years (see Figure 3.2.6). DETE experienced a significant increase in applications for employment permits over the course of 2021, which resulted in a significant backlog of applications. This backlog has since significantly reduced (see Figure 3.2.7). DETE expect approximately 38,000 applications by the end of 2022 and to process approximately 48,000 (including 10,000 from the backlog).

Figure 3.2.6: Permit Applications and Issued 2018-2022¹³⁹ Figure 3.2.7: Employment Permits Weekly Data



Source: Dept of Enterprise, Trade and Employment

Source: Dept of Enterprise, Trade and Employment

Given this significant increase in demand for permits and that Ireland is competing in the same talent pool as other countries, it is more important than ever to focus on engaging Ireland's domestic labour force.

3.2.2. Quality of Labour

It is vital for Ireland's competitiveness and productivity that we enhance the performance of our labour market by continuing to meet the skills requirements of the economy. Ireland ranked well overall in the 2022 IMD Competitiveness Rankings relating to its skilled labour market. Out of 63 countries, Ireland ranked 3rd in attracting and retaining talents, 7th in readily available competent senior managers, 9th in attracting foreign highly-skilled personnel, 13th in international experience of senior managers, 15th in brain drain¹⁴⁰ not hindering competitiveness in the economy, 19th in readily available finance skills and 22nd in readily available skilled labour. However, we cannot afford to be complacent given the structure and openness of the Irish economy, especially in the context of current housing issues (see Chapter 4). This section will examine the quality of Ireland's labour force under the headings: skills mismatch, skills gaps (construction, green and digital skills); lifelong learning; and apprenticeships.

Skills Mismatch

Skills mismatch - the sub-optimal use of an individual's skills in their occupation - can be a source of both dissatisfaction for workers and a brake on productivity growth¹⁴¹. Furthermore, avoiding high levels of skills mismatch underscores the importance of having an integrated and shared strategic vision for both the Higher

¹³⁹Data for 2022 to end July.

¹⁴⁰ Well-educated and skilled people leaving Ireland.

¹⁴¹ Brun-Schammé, A. and M. Rey (2021), "A new approach to skills mismatch", OECD Productivity Working Papers, No. 24, OECD Publishing, Paris.

Education (HE) and Further Education and Training (FET) sectors. The picture in Ireland is mixed. In the *OECD Economic Surveys: Ireland 2020*, the OECD points to an underqualification issue, based on 2016 data, reporting that 29.5% of total jobs were being performed by underqualified workers in Ireland, the highest in the OECD, and 14.6% by overqualified workers, below the 16.8% OECD average.¹⁴² More recent data, published by SOLAS in its *Spring Skills Bulletin 2021*¹⁴³, finds an overqualification issue, reporting that almost half (46%) of those employed as clerical support workers in Ireland are classified as over-qualified representing almost 100,000 persons in Q1 2020¹⁴⁴. Of those employed as clerical support workers¹⁴⁵, numerical and material recording clerks had the highest share at 54%. More recently, the European Skills Index (ESI)¹⁴⁶, which is published by Cedefop¹⁴⁷, shows Ireland ranked a poor 29th out of 31 countries in skills matching.

Skills Needs and Gaps¹⁴⁸ in Construction, Green and Digital

Construction Sector: *Housing for All (HfA)*, the *National Development Plan (NDP)*, and the *National Retrofitting Scheme* are expected to increase demand for construction-related skills across a variety of occupations and may lead to future skills shortages. The extent of this future demand has been pointed to in the EGFSN's ¹⁴⁹ *Building Future Skills: The Demand for Skills in Ireland's Built Environment Sector to 2030 Report*¹⁵⁰ and *Skills for Zero Carbon* report¹⁵¹, and SOLAS's *Difficult to Recruit* survey¹⁵².

As well as recruiting more construction workers to address the extent of this demand across construction activities (see further discussion in *Apprenticeships as a route to reskilling*), it is vital that there is upskilling of existing and future workers in this sector as the nature of the tasks associated with construction occupations are undergoing substantial change.¹⁵³ A report¹⁵⁴ published by Skillnet Ireland in 2022 highlights the important role which upskilling workers in Modern Methods of Construction (MMC)¹⁵⁵ can play in enabling the sector to improve its productivity and meet its demands. While MMC does not necessarily impact the amount of labour required, it can impact the speed at which construction can be completed and important targets can be met. The report finds more than half of companies (54%) in Ireland using MMC do not believe the right skills are currently available locally and a lack of properly trained and educated personnel throughout the supply chain is one of the main barriers to the implementation of MMC. To ensure that the targets in *HfA*, the *NDP*, and the *National Retrofitting Scheme* are not constrained by skills gaps in the construction sector, it is vital that we equip construction workers with the necessary skillsets, such as those relating to MMC (see section 4.3.2 in Chapter 4 for further discussion).

¹⁴² [Skills mismatch stands out in Ireland due to skills shortages : Share of total employment, 2016 | OECD Economic Surveys: Ireland 2020 | OECD iLibrary \(oecd-ilibrary.org\)](#)

¹⁴³ [solas_spring-skills-bulletin-2021.pdf](#)

¹⁴⁴ People working in clerical occupations are deemed to be overqualified if they hold higher education, matched if they hold upper secondary/FET qualifications, and under-qualified if they hold at most lower secondary qualifications (e.g. a Junior Cert)

¹⁴⁵ General and Keyboard Clerks, Customer Service Clerks, Numerical and Material Recording Clerks, Other Clerical Support Workers.

¹⁴⁶ [Country pillars | CEDEFOP \(europa.eu\)](#)

¹⁴⁷ European Centre for the Development of Vocational Training.

¹⁴⁸ Skills gaps are defined as graduates lacking the correct of full set of skills required by enterprise. This is different to skills needs which apply across all sectors and at all levels, and skills shortages where refers to a shortage of graduates available in a particular discipline or a lack of provision in a new discipline.

¹⁴⁹ [labour-demand-estimates-for-ireland-s-national-housing-targets-2021-2030.pdf \(skillsireland.ie\)](#)

¹⁵⁰ [Building Future Skills - Skills \(skillsireland.ie\)](#)

¹⁵¹ [c119-dete-egfsn-skills-for-zero-carbon-web.pdf \(skillsireland.ie\)](#)

¹⁵² [solas-difficult-to-fill-vacancies-survey.pdf](#)

¹⁵³ [construction-occupations.pdf \(solas.ie\)](#)

¹⁵⁴ [Modern-Methods-of-Construction-Defining-MMC-Business.pdf \(skillnetireland.ie\)](#)

¹⁵⁵ MMC is an umbrella term for a general group of different types of construction which involves significant portions, or all, of the building being manufactured in a factory setting and joined together on-site. It encompasses modern construction technology and methodologies that improve productivity, particularly off-site construction, which consists of an approach to constructing buildings using methods such as off-site manufacturing, modular construction panels or light steel framing, structural insulated panels or cross-laminated timber. Off-site manufacture minimises environmental impact and disruption on-site and products can be more easily tested to the relevant standards which significantly increases product improvements including sustainability and energy efficiency.

The Green Economy: Skills gaps are increasingly recognised as a major obstacle in emerging sectors closely linked to the 'green economy' (including renewable energies and resource efficiency, sustainable manufacturing, eco-construction and environmental consultancy services). Ireland's future competitiveness will be tied to its ability to decarbonise, and its labour market must adapt to the changing need.

In November 2021, the EGFSN's *Skills For Zero Carbon* report¹⁵⁶ identifies the skills needs required in Ireland to deliver on key *Climate Action Plan* targets, with a focus on the Renewable Energy, Residential Retrofit and Electric Vehicle Deployment sectors. The report outlines the need for a broad range of skills in relation to engineering, environment, science and humanities, construction, legal and professional services, transport and logistics, EV maintenance and infrastructure, retrofit and emerging and niche occupations. The report forecasts that to deliver on Government targets, employment in wind and solar energy generation will have to quickly increase to 8,000 (from a 3,000 current baseline) within a number of years, and reaching 9,000 by 2030, while the workforce engaged in residential retrofit and heat pump installation will have to increase more than fourfold (from c.4,000), to reach over 17,000 by end of the decade. The existing motor mechanic workforce will meanwhile need to be transitioned to work on electric vehicles as EV uptake increases.

In its *Talent for Ireland's Green Economy 2022* report¹⁵⁷, relating to the broader sustainability agenda across the enterprise base, Skillnet Ireland identifies the specific skills¹⁵⁸ and capacities that a low carbon economy demands. The report identifies 'developing new skills within the enterprise workforce' as the top challenge for Irish enterprises in the medium term for the implementation of Ireland's Climate Action Plan. The report recommends an increased focus on building capability in areas such as corporate sustainability strategy, energy-efficiency design and having the right tech skills to harness the digital technologies that will enhance the firms' capacity to achieve long term sustainable performance.

Digital Skills: Ensuring that everyone has the right skills for an increasingly digital and globalised world is essential to promote inclusive labour markets and to spur innovation, productivity and growth. According to the OECD¹⁵⁹, to thrive in the digital economy, ICT skills are not enough and several types of skills are needed: technical and professional skills; ICT generic skills; and ICT complementary "soft" skills, such as leadership, communication and teamwork skills work. In particular, management and leadership skills are essential to support the digital transition. In *Ireland's Competitiveness Challenge 2021* (Recommendation 3.6), the Council highlighted the importance of investing in management skills as means to drive productivity of Irish firms, especially SME's¹⁶⁰.

Digital literacy and digital skills as core competencies will have to be embedded if we are to enhance the performance of Ireland's labour market in an increasingly digital world. Ireland presents a mixed picture with regards to digital skills. In 2022, Ireland scored above the EU average in the share of adults with at least basic digital skills as measured by the Digital Economy and Society Index (DESI) (70% against the EU average of 54%), as well as advanced digital skills (such as ICT specialists, female ICT specialists and ICT graduates). However,

¹⁵⁶ [Skills for Zero Carbon - Skills \(skillsireland.ie\)](https://www.skillsireland.ie)

¹⁵⁷ [Talent-for-Ireland's-Green-Economy-2022.pdf \(skillnetireland.ie\)](https://www.skillnetireland.ie)

¹⁵⁸ The top skill sets needed in the medium term to support the transition to a low-carbon economy include: waste management skills; corporate sustainability strategy skills; carbon management skills; and sustainable finance skills. The top skill sets needed in the medium term to support enterprise innovations with environmental benefits include: climate change and sustainability strategy skills; marketing skills; and financial skills relating to investment and access to finance. Across enterprise groups, corporate sustainability strategy skills tops the range of green skills needed for all enterprise groups with the exception of large enterprises and the industry and services sectors. Carbon management skills are the most needed green skills for large enterprises and Irish-owned enterprises, while waste management skills tops the green skill needed for enterprises in the services sector.

¹⁵⁹ [Skills-for-a-Digital-World.pdf \(oecd.org\)](https://www.oecd.org)

¹⁶⁰ [ireland's-competitiveness-challenge-2021.pdf](https://www.councilofministers.ie)

Ireland does not perform well in the deployment of artificial intelligence (AI) skills, which is also a major component of the digital transformation process.

In 2022, the EGFSN published a report titled: *AI Skills: A Preliminary Assessment of the Skills Needed for the Deployment, Management and Regulation of Artificial Intelligence*¹⁶¹. The report points out that Ireland is below the EU average for AI adoption with 35% of enterprises using at least one AI technology compared with 42% of firms across Europe. When it comes to those using at least two AI technologies, Ireland is in the bottom three countries in the EU at 14% of firms compared with a 25% average for all EU enterprises. Europe's 'Digital Decade' is to propose that 75% of firms will be using at least two AI technologies by 2030. 52% of Irish firms are not using AI at all and not planning to use it, whereas the EU average is 40% of firms. Difficulty of hiring new staff was perceived as the biggest barrier to AI adoption by Irish firms, with firms reporting significant skills gaps in the areas of cloud computing, programming and machine learning or modelling, compared with our European neighbours. The Council notes that multiple skills are required to facilitate the green/digital twin transition and it is therefore important that we get the right balance. Expanding the development of sectoral qualification frameworks across both the Further and Higher Education sectors will be valuable in addressing these challenges.

Lifelong Learning

Without quality educational and upskilling and reskilling opportunities throughout the lifecycle, the economy is at risk to being constrained as it deals with the challenges of structural change that accompany digital innovations and climate change investments. Furthermore, individuals are at greater risk of precarious employment, limited access to the labour market, and of poverty and social exclusion if there is not sufficient investment in their skills.

Findings from SOLAS¹⁶² published in June 2022 show that Lifelong Learning (LLL) participation reached its highest rate to date in quarter 4 2019 when 14.7% of adults had engaged in learning activities in the previous four weeks. However, most likely due to the pandemic, LLL participation declined in quarter 4 2020 (to 11.6%). Although it rose again the following year, at 13.1% in quarter 4 2021, the LLL rate in Ireland has yet to return to its pre-pandemic level. To enhance the quality of our labour supply, an intensified focus must now be placed on increased participation in LLL by individuals and enterprises. Using metrics in place through 2022¹⁶³, which measure over a 4-week period, Ireland's LLL participation rates (13% in 2021¹⁶⁴) compare markedly unfavourably with those best in class - Denmark (20%), Finland (27.3%) and Sweden (28.6%).

The European Pillar of Social Rights Action Plan included a headline target on skills: by 2030, 60% of working-age adults in the EU should participate in training each year. Ireland's new ambitious target is to have an annual participation rate in LLL of 64.2% of all adults (25-64 year olds) by 2030. In 2017, Ireland's rate was 53.9% and it can be reasonably assumed that this will have increased^{165 166}.

¹⁶¹ [ai-skills-report.pdf \(skillsireland.ie\)](#)

¹⁶² [lifelonglearning2022_final.pdf \(solas.ie\)](#)

¹⁶³ New metrics will be used to measure participation rates each year from 2023, which will look at a full 12-month period, giving a more accurate representation of participation.

¹⁶⁴ [lifelong_learning_among_adults_in_Ireland_Q4_2021 \(SOLAS 2022\)](#)

¹⁶⁵ The EU 2020 lifelong learning target (15%) and the lifelong learning targets set out in Ireland's National Skills Strategy (10% by 2020 and 15% by 2025) refer to lifelong learning measures derived from the Labour Force Survey. This measure establishes the extent to which adults had engaged in lifelong learning in the preceding four weeks. The new lifelong learning target in the EU's Social Pillar is based on a different lifelong learning measure, whereby the extent to which adults engaged in learning activities anytime in the previous 12 months will be monitored. The latest available data that uses this 12-month measure is 2017 (2016 in the rest of the EU) via the Adult Education Survey. The Labour Force Survey will collect 12-month lifelong learning data from 2022, with data available from 2023.

¹⁶⁶ Only a subset of the 2017 rate is considered within the new lifelong learning target, as guided on-the-job training will be excluded from the 64.2% target. Excluding guided on-the-job training gives a rate of 46% for Ireland in 2017.

The Department of Further and Higher Education, Research, Innovation and Science (D/FHERIS) is currently working alongside the OECD in undertaking a review of Ireland's *National Skills Strategy*. Initial findings from the review show that although motivation to participate in LLL is high in Ireland, barriers include family reasons and schedules/timing constraints. Furthermore, enterprise support for LLL is not uniform, with support higher in foreign owned than indigenous enterprise, in service than manufacturing enterprises, in larger than smaller (<50 employees) enterprises, and in enterprises based in Dublin than outside of Dublin. Additionally, information on LLL opportunities is easy to find, but difficult to navigate. A key issue is whether the delivery of lifelong learning is flexible relative to the needs of the labour force. Finally, initial findings also place emphasis on the need for increased management and leadership capability skills in Ireland, as a means of stimulating innovation and productivity, particularly in the area of digitisation.

Apprenticeships as a route to reskilling

An appropriately educated and skilled workforce is key to meeting the current and future skills needs of the economy, and the apprenticeship model and wider FET sector plays a key role in meeting these demands. As previously highlighted by the Council in *Ireland's Competitiveness Challenge 2021*, apprenticeships can provide a reskilling route to rapid re-employment for those impacted by structural changes to the economy and labour market and can provide support for the digital and green transitions.

COVID-19 has caused delays in the delivery of apprenticeships and the resulting closure of apprenticeship workshops. In April 2022, there was a backlog of 3,616 electrical apprentices, 1,162 plumbing apprentices and 844 carpentry apprentices awaiting their next phase of training.¹⁶⁷ Some €30m of additional funding was allocated in 2021 to tackle the training backlog which is being cleared.

Compared to other OECD countries, apprenticeships are a less frequently used adult learning pathway in Ireland among the entire population and in particular among persons with disabilities (see Section 3.2.1). This is also reflected in Ireland ranking only 35th out of 63 countries in the 2022 IMD Competitiveness Rankings on the indicator 'apprenticeships being sufficiently implemented' in Ireland. An IGEES paper¹⁶⁸ in 2019 noted that apprenticeships in Ireland typically take 2 to 4 years, which is similar to Switzerland, Italy and Australia. In contrast, the UK, Belgium and Germany have shorter apprenticeship durations of one to two years. In Japan, apprenticeships can last for three months up to two years, to train apprentices quickly in specific areas experiencing demand. The length of time training with employers also differs; in Ireland a minimum of 50% of the apprenticeship duration must be spent training with their employer in comparison to 20% in England which can take place at their place of work or somewhere else (for example, a college or training provider, or online).

Other sectoral reviews have drawn similar conclusions. For example, a report¹⁶⁹ commissioned by the Construction Industry Federation (CIF), published in 2020, investigates the causes and implications of low numbers entering wet trades¹⁷⁰ in Ireland. The report finds that while the existing apprenticeship model is clearly working well for some wet trades, it is not as effective for others, with some respondents noting the duration for certain trades are too long.

3.2.3. Compensation of Labour

Productivity growth is the main driving force of higher wages and incomes, and hence rising living standards. Good wages and working conditions, in turn, can promote productivity growth. Labour compensation includes

¹⁶⁷ [Irish Apprenticeship System: Statements – Dáil Éireann \(33rd Dáil\) – Thursday, 26 May 2022 – Houses of the Oireachtas](#)

¹⁶⁸ [Review of Participation and Costs of Apprenticeships.pdf \(igees.gov.ie\)](#)

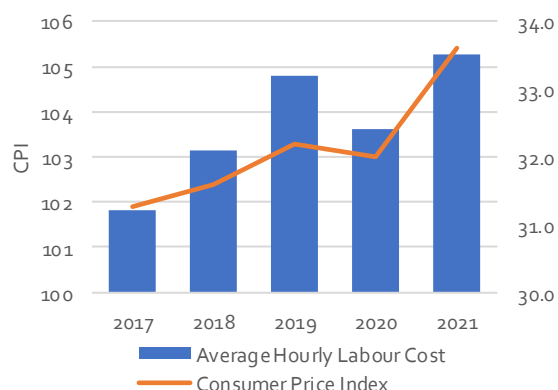
¹⁶⁹ [Trades & Apprenticeship Survey 2020 – Focus on Wet Trades - Construction Industry Federation \(cif.ie\)](#)

¹⁷⁰ Bricklaying, floor and wall tiling, Painting and Decorating and Plastering.

not only the wages and salaries paid to employees but also non-wage costs, mainly social contributions payable by the employer. Measures enhancing working conditions can help to attract and retain talent in Ireland. They are not only important for employee well-being directly, but can also contribute to productivity by strengthening the commitment of workers to their firm, reducing excessive worker turnover, promoting the use of skills in the workplace and strengthening the incentives of firms and workers to invest in training and skill acquisition.¹⁷¹ However, since these also have the potential to increase costs for businesses, it is crucial from a competitiveness perspective to take stock of the impact of these measures on Irish businesses. This is particularly important given the negative impact of rising inflation on business costs (see Chapter 5).

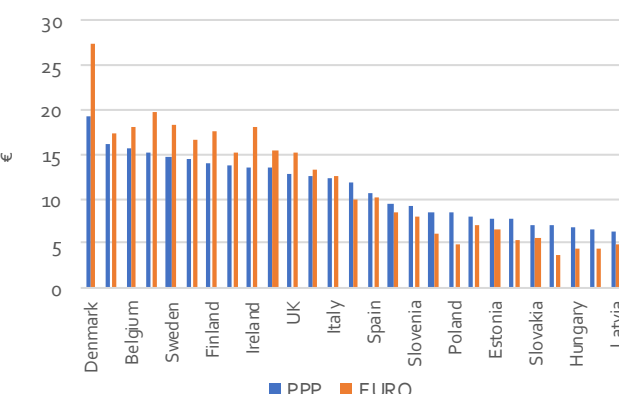
According to Eurostat, Ireland's average hourly labour costs in 2021 were estimated to be €33.5, the 10th highest in the EU and an increase of 7.4% over the last 5 years (see Figure 3.2.8 and 3.2.9). Additionally, labour costs vary considerably across sectors in Ireland, with the highest costs in the ICT sector (€49.40/hour) and the lowest in the accommodation and food sector (€8.37/hour). These differentials are structural in nature, such as profitability, sectoral revenues, level of education and contract type¹⁷².

Figure 3.2.8: Average Hourly Labour Costs and CPI Inflation (Rebased from 2011) Ireland



Source: Eurostat

Figure 3.2.9: Average Hourly Labour Costs - European Countries 2021



Source: Eurostat

Gross earnings are the largest part of labour compensation. The most recent data from Eurostat show that the median gross hourly earnings in Ireland in 2018 was €17.97, and the mean gross hourly earnings was €22.88, both significantly higher than the corresponding averages for the EU of €13.18 and €15.43 respectively. The larger difference between the median and mean figures for Ireland is due to the mean being skewed by the relatively small number of higher earners in some sectors, such as the ICT sector. Thus, median earnings provide a more representable account of average earnings of employees in the overall Irish economy.

When expressed in Purchasing Power Standards (PPS), which eliminates price level differences between countries, the gap between gross median hourly earnings for Ireland and the EU average narrows considerably but still remains (€13.54 vs an EU average of €12.59) (see Figure 3.2.9). Although standing at the lower end of the higher income countries, in this context Ireland is the 10th highest country in the EU for gross median hourly earnings, with Denmark, Germany and Belgium placing as the top 3 in the EU at €19.24, €16.13 and €15.65 respectively.

¹⁷¹ [OECD \(2019\), "Policies and institutions to enhance labour market performance", in Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy, OECD Publishing, Paris.](#)

¹⁷² [The effects of changes in the composition of employment on euro area wage growth \(europa.eu\)](#)

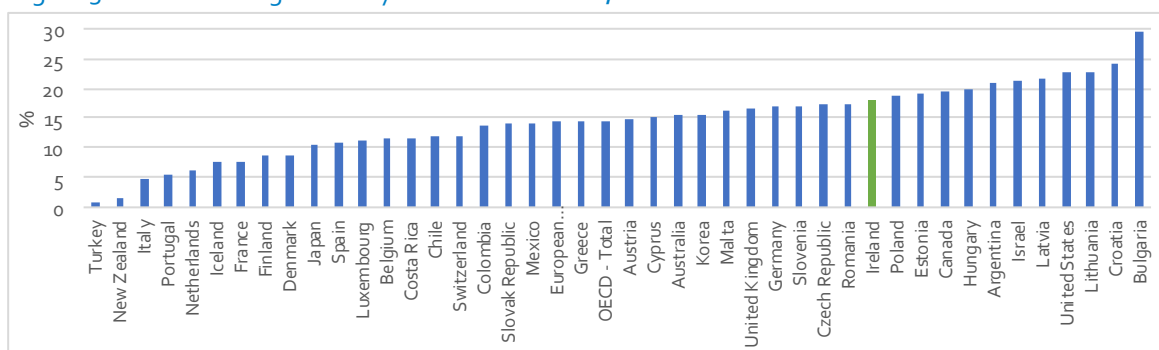
Box A Living Wage Rate/Low Pay

The Low Pay Commission (LPC) established in 2015 was tasked with providing yearly recommendations to the Irish Government on the appropriate minimum wage rate. The National Minimum Wage (NMW) currently stands at €10.50, which is 52% of hourly median earnings for 2022, up from 45% in 2019. The stated aim of the LPC is to set a minimum wage that is fair and sustainable. The LPC has stated that the minimum wage should assist as many low-paid workers as possible without creating adverse consequences for employment or competitiveness.

The Low Pay Commission has made a number of recommendations in order to achieve the aim as set out in the Programme for Government to “progress to a living wage over the lifetime of the Government”. The Council welcomes the recommendations of the Low Pay Commission; a fair and adequate minimum wage is critical for ensuring Ireland is an attractive place to work. The Council particularly welcomes the recommendation that consideration is given to how employers with a substantial proportion of minimum wage employees can be supported during the progression to a living wage. As set out in the Living Wage Report¹⁷³, up-to-date hourly median wage data is crucial for adequately evaluating the impact of the process of moving towards a living wage.

The Council also would like to highlight that the problem of low pay¹⁷⁴, is much greater in Ireland than in most EU countries¹⁷⁵. With 18% of our workers being low-paid, Ireland has the eighth highest rate of low-paid workers in the EU and the fourth highest in the euro area (see Figure 3.2.10).

Figure 3.2.10: Percentage Low Pay in OECD Countries, 2021



Source: OECD

Low pay undermines worker's living standards and quality of life. The EU Parliament linked low pay as a contributing factor to precariousness, noting factors such as whether or not there is a statutory national minimum wage and the presence or absence of collective bargaining systems, among others, can all exert influence¹⁷⁶. In May 2021, the Government established a high-level group to look at the area of collective bargaining and industrial relations as well as to consider any legal or constitutional issues¹⁷⁷. The Group is due to submit its final report containing recommendations for certain legislative and policy developments in late August/early September.

¹⁷³ [Publications from the Low Pay Commission \(www.gov.ie\)](http://www.gov.ie)

¹⁷⁴ Defined as earnings below two-thirds of the country's median income.

¹⁷⁵ Albeit that a variance across sectors exists due to the disproportionately high wage levels in the sectors dominated by foreign-owned multinational enterprises, such as ICT and pharmaceuticals.

¹⁷⁶ [Precarious Employment in Europe - Part 1: Patterns, Trends and Policy Strategy \(europa.eu\)](http://europa.eu)

¹⁷⁷ [High Level Working Group Convened to Review Collective Bargaining and the Industrial Relations landscape in Ireland](#)

3.3 Actions Crucial for Enhancing Labour Market Performance

To Increase Quantity of Labour Supply

Given the tighter labour market conditions, the increasing competition for skilled workers across the EU and other countries, and the changing demographics in Ireland, increasing participation of our domestic labour force is important to enhance the performance of Ireland's labour market and to ensure a fairer and more inclusive society. As discussed in section 3.2, females, older people, and people with disabilities, are groups which face barriers impeding participation in the labour force.

For females, childcare represents a significant barrier to the labour force. This issue is explored further in Chapter 5. For older people and people with disabilities, the Government has addressed the importance of engaging these groups in the labour force in strategies such as the *National Skills Strategy 2025 – Ireland's Future*¹⁷⁸, the *Further Education and Training strategy*¹⁷⁹, the *National Positive Ageing Strategy*¹⁸⁰ and the *Comprehensive Employment Strategy*¹⁸¹.

The Labour Market Advisory Council's first annual report on the *Pathways to Work, 2021-2025* strategy, reporting on progress against all commitments, is due to be published in 2022 Q4. This will feed into a formal review of the strategy whereby a revised, updated strategy, will be finalised for publication in 2023. On its initial publication in July 2021, this strategy¹⁸² highlighted a two-phase approach, initially focusing on those whose labour market status had been impacted by the COVID-19 pandemic, and then focusing on expanding labour force participation amongst underrepresented groups. Specifically, the strategy included commitments to improve labour market outcomes for people facing higher barriers to employment, including people with disabilities, older people and people with extra caring responsibilities. Part of the second phase also included a focus on ensuring a Just Transition, by engaging with, and supporting those who are at risk of economic displacement as a result of decarbonisation and digitalisation. As anticipated at the time of this Strategy's launch and as Ireland's labour market and economy moves into a post-pandemic period, the Council believes we now need to move to the second phase. To that end, while recognising the value and need for an appropriate mix of employment supports to be available for the Public Employment Services, it is important to ensure that the resources available through the full range of State's active labour market programmes (including but not limited to those which were put in place to help support people into employment, such as Community Employment, Tús, JobsPlus, Back to Education Allowance, Back to Work Enterprise Allowance and the Work Placement Experience Programme (WPEP)), are focused insofar as is possible, towards the goal of labour force participation amongst underrepresented groups.

By addressing these labour market issues, we can reduce our dependence on inward migration flows and activate the 'under-utilised' cohorts, such as people with disabilities, older workers, females and 'returners'¹⁸³.

¹⁷⁸ [Ireland's National Skills Strategy \(www.gov.ie\)](https://www.gov.ie/en/publications-and-resources/publication/ireland-s-national-skills-strategy-2025-ireland-s-future/)

¹⁷⁹ The strategy sets out a five-year roadmap for the sector which is built around three key pillars of building skills, fostering inclusion and creating pathways and aims to address the economic and societal challenges faced over the coming years.

¹⁸⁰ [National Positive Ageing Strategy \(www.gov.ie\)](https://www.gov.ie/en/publications-and-resources/publication/national-positive-ageing-strategy-2025-2030/)

¹⁸¹ [Comprehensive Employment Strategy for People with Disabilities 2021-2024 \(Government of Ireland\)](https://www.gov.ie/en/publications-and-resources/publication/comprehensive-employment-strategy-for-people-with-disabilities-2021-2024/)

¹⁸² [Pathways to Work Strategy 2021 - 2025 \(www.gov.ie\)](https://www.gov.ie/en/publications-and-resources/publication/pathways-to-work-strategy-2021-2025/)

¹⁸³ A potential returner is defined as an individual who is currently economically inactive due to caring for others and is looking to return to the labour market.

Recommendation 3.1: The NCPC recommends that resources under Pathways to Work 2021-2025 which are no longer required to deal with COVID-19 labour market recovery schemes are focused towards:

- (I) increasing the digital skills of the labour force which are not adequate to the rapidly changing digital environment,
- (II) developing measures that will increase labour force participation amongst currently underrepresented groups,
- (III) continuing to roll-out engagement programmes through INTREO targeting specific cohorts, including 'returners', (for example, Job Fairs) to re-engage those currently outside the labour force, with a focus on job and skills-matching, and
- (IV) increasing outreach for skilled labour beyond the EU/EEA through INTREO by considering rolling out programmes to target potential pools of skilled labour in identified areas and countries.

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

Longer working lives and the ability to participate in the labour force is only sustainable if the working conditions are compatible with the needs of older workers and workers with disabilities. According to the ESRI¹⁸⁴, policy systems which work best to this effect combine the following features: early intervention; a coordinated approach across policy areas, an inclusive system that covers all workers; a tailored approach for individuals at the organisational level, and co-ordination between relevant policy actors. The ESRI suggests a multi-pronged policy response should include part-time hours and flexible work options, access to training/lifelong learning opportunities, organisational strategies to accommodate those with illness/disability and to rehabilitate those re-entering following an absence. The OECD also notes¹⁸⁵ that employer support and employer engagement is a critical building block, highlighting the need to better engage with employers to increase hiring and keeping staff with disabilities. The OECD's survey data collected showed only 10% of employers are aware of Ireland's *Reasonable Accommodation Fund*¹⁸⁶, while 70% say they have never received any advice on how to integrate and retain people who identify as having a disability but would like to know more about this type of support.

The NDIS 2017-2022¹⁸⁷, launched in July 2017, is the key cross-departmental framework for policy and action to address the needs of persons with disabilities in Ireland. It is mandated to implement the *Comprehensive Employment Strategy for People with Disabilities 2015-2024* (CES), the State's primary strategy in this space. Progress has been made in 2021 under the CES, including a disability information service for employers, and on new legislation to increase the statutory of the target number of persons with disabilities employed in the public sector from 3% to 6%. However, the OECD¹⁸⁸ has noted the take-up of the programmes and measures from the CES has been stubbornly low. While Phase 3 Action Plan of the CES is currently in development, progress remains slow, given that it was due to commence at the beginning of 2022 and has not yet been finalised and agreed.

The National Disability Authority (NDA) independently assesses progress of the CES. In its fourth independent assessment, the NDA called for the final action plan of the CES to be built into the successor of the NDIS, so

¹⁸⁴ [The ageing workforce in Ireland: Working conditions, health and extending working lives \(esri.ie\)](#)

¹⁸⁵ [Disability, Work and Inclusion in Ireland: Engaging and Supporting Employers | en | OECD](#)

¹⁸⁶ Grants administered by DSP and available for jobseekers/existing employees with disabilities to encourage private sector employers to employ people with disabilities. More information: [gov.ie - Reasonable Accommodation Fund \(www.gov.ie\)](#)

¹⁸⁷ In 2021, the NDIS was extended to 2022 to allow more time for delivery on actions given the impact of the pandemic.

¹⁸⁸ [Disability, Work and Inclusion in Ireland: Engaging and Supporting Employers | en | OECD](#)

that one single strategy is in place.¹⁸⁹ The Council agrees with this approach as it will allow work in this area to be streamlined. Additionally, the Council believes that continuing to examine ways to improve the coordination of policy across Government departments is crucial to enhance efficiencies and further progress of participation of people with disabilities as well as older people in the labour force.

Recommendation 3.2: The NCPC recommends that to increase participation of people with disabilities and older people in the labour force:

- (I) finalise Final Action Plan of the CES and combine into one single strategy with the successor strategy of the NDIS, and
- (II) continue to examine ways to improve the coordination of policy across Government Departments.

Responsibility: Department of Children, Equality, Disability, Integration and Youth, Department of Further and Higher Education, Innovation and Science, Department of Enterprise, Trade and Employment, Department of Health, Department of Social Protection

To Enhance Quality of Labour Supply

We need to enhance skills overall in the economy if we are to have an agile labour force with skills that match the areas for potential for economic growth and increased productivity.

The Government's National Training Fund (NTF), which is funded through 1% levy on Employers Social Insurance Contributions, has €765 million in funding for 2022¹⁹⁰. The NTF sponsors programmes that are aligned with identified enterprise needs, and that incentivise employer/employee engagement through free or heavily subsidised provision, e.g. Springboard+, Skillnet Ireland, Human Capital Initiative, Apprenticeships, Skills to Advance/Compete. The OECD's *Economic Surveys: Ireland 2020* reports that business contributions to the NTF should be accompanied by a cost-reimbursement scheme that allows firms to claim back expenses for the training costs they incur¹⁹¹, thereby enhancing incentives for training provision and increasing numbers of training opportunities provided by small firms. Furthermore, the report notes that Government should strive for a better mix of financial incentives for gaining new skills by considering measures such as: i) a further shift of active labour market policies toward training, ii) the introduction of paid training leave and iii) the provision of preferential loans to individuals for training. The report points out that Ireland provides no statutory entitlement to training leave, which is common in the majority of European countries that have comparatively high training participation. Furthermore, it notes that the provision of paid training leave and preferential loans alongside statutory leave would encourage training uptake by both older and younger workers, who tend to face higher opportunity costs and liquidity constraints on learning, respectively.¹⁹² The Council believe that the acceleration of NTF spending is urgently required – with input from representatives from enterprise sectors - with consideration given to those firms who will be strongly impacted by training costs, particularly small firms. The D/FHERIS is currently developing a policy vision to progress a more unified tertiary education system¹⁹³. As part of this ongoing work, D/FHERIS will soon launch a *National Access Plan* which will provide funding and supports for priority groups who are underrepresented in higher education, including socio-economically disadvantaged students, students with disabilities, care-experienced young people, lone parents and members

¹⁸⁹ [NDA Independent Assessment of Implementation of the National Disability Inclusion Strategy for 2021 | The National Disability Authority](#)

¹⁹⁰ The accumulated NTF surplus at end 2021 was €1,102.5 million. This is projected to rise to €1,191 million at end-2022 and some €2billion by 2025.

¹⁹¹ Contingent on such training programmes being aligned with the identified skill priorities of the National Training Fund.

¹⁹² [Skills mismatch stands out in Ireland due to skills shortages : Share of total employment, 2016 | OECD Economic Surveys: Ireland 2020 | OECD iLibrary \(oecd-ilibrary.org\)](#)

¹⁹³ [Unified tertiary education sector \(www.gov.ie\)](#)

of the Traveller and Roma communities. The Council agrees with the Department's vision for a more unified system that more closely aligns the further education and training, higher education and research and innovation sectors in order to meet the diverse needs of all learners.

If Ireland is to meet its new lifelong learning target¹⁹⁴, it is imperative that consideration be given to enhancing the approach to improving access to lifelong learning opportunities for all citizens both in and out of work, and especially for disadvantaged and under-represented groups. Older adults, those with low levels of qualification, those in precarious employment, and those employed in sectors exposed most to automation, are less likely to have access to lifelong learning¹⁹⁵ and should therefore be areas of particular focus. The Council believes the ongoing review of Ireland's *National Skills Strategy* is a crucial part of readying Ireland's labour market with the skills needed for the future as well as increasing participation in lifelong learning, and looks forward to its publication.

In June 2022, the EU agreed a Recommendation to enhance lifelong learning, whereby Member States are asked to consider implementing Micro-credentials¹⁹⁶, Individual Learning Accounts¹⁹⁷ and a comprehensive Enabling Framework.¹⁹⁸ This recommendation suggests providing people with direct financial support and establishing a broad enabling framework granting them access to training opportunities, information, guidance, paid training leave and recognition of training outcomes. The Recommendation calls for a fresh approach on upskilling and reskilling, addressing barriers of cost, time and motivation and empowering individuals, through targeted incentives, at national level, following national needs and priorities. The Council notes that D/FHERIS is examining how that framework can be leveraged in a carefully managed way to assist meeting Ireland's skills challenges in a sustainable way. The ongoing Skills Strategy review by the OECD will make a positive contribution to this process.

There are Government initiatives already in place to support Irish businesses in developing the skills required for the transition to a low carbon economy, such as the *Climate Toolkit 4 Business*¹⁹⁹, the *Climate Ready scheme*²⁰⁰, and the *Green Tech Skillsnet*²⁰¹. In relation to digital skills, the Government has committed to increasing the share of adults with at least basic digital skills to 80% by 2030 as measured by the Digital Economy and Society Index (DESI)²⁰², and is continuing to make sustained efforts in the area of Digital skills, including a new *Digital Strategy for Schools to 2027*²⁰³ launched in April 2022 and a *10-year Adult Literacy, Numeracy and Digital Literacy Strategy*²⁰⁴ launched in September 2021. Work is also ongoing to develop a successor strategy to *Technology Skills 2022 - Ireland's Third ICT Skills Action Plan*²⁰⁵. As well as overall skills in the economy, the Council believe that bridging the skills gaps relating to the digital and green transitions is vital for the performance of Ireland's labour market, and for its competitiveness and productivity in the medium- and long-term.

¹⁹⁴ An annual participation rate in LLL of 64.2% of all adults (25-64 year olds) by 2030.

¹⁹⁵ [Boosting adult learning essential to help people adapt to future of work - OECD](#)

¹⁹⁶ Micro-credentials certify the learning outcomes of short-term learning experiences, for example a short course or training.

¹⁹⁷ Individual learning accounts give people of working age a budget to spend on training to improve their skills and employability.

¹⁹⁸ [Commission takes action to improve lifelong learning and employability - Employment, Social Affairs & Inclusion - European Commission \(europa.eu\)](#)

¹⁹⁹ [Climate Toolkit 4 Business | Zero Carbon Journey Toolkit for Businesses](#)

²⁰⁰ [Climate Ready: Talent for Ireland's Green Economy \(skillnetireland.ie\)](#)

²⁰¹ [Green Tech Skillnet | Skillnet Ireland](#)

²⁰² [The Digital Economy and Society Index — Countries' performance in digitisation | Shaping Europe's digital future \(europa.eu\)](#)

²⁰³ [Digital Strategy for Schools to 2027 \(www.gov.ie\)](#)

²⁰⁴ [Adult Literacy, Numeracy and Digital Literacy Strategy for Ireland \(solas.ie\)](#)

²⁰⁵ [Technology Skills 2022 \(Department of Education and Skills\)](#)

In July 2021, the Government published its AI strategy, *AI-Here for Good-National AI Strategy*²⁰⁶, which considers how AI can be incorporated into future policy for digital learning while employers are to be assisted in expanding workplace-focused AI upskilling and reskilling. In response, the EGFSN's *AI Skills* report discussed earlier lists 10 recommendations aimed at alleviating the skills-related issues and challenges relevant to the adoption of AI in Ireland²⁰⁷. Additionally, the EGFSN's report on *Skills for Zero Carbon: The Demand for Renewable Energy, Residential Retrofit and Electric Vehicle Deployment Skills to 2030*²⁰⁸ report makes 30 recommendations to support Ireland's transition to a zero-carbon economy. The Council believe it is important to implement these recommendations immediately to help support Ireland's labour supply with the skills needed to meet the labour demands for the twin digital/climate transition.

Recommendation 3.3: The NCPC recommends that the relevant entities lead, develop and implement a coherent plan to address the recommendations assigned by the EGFSN in their *AI Skills* report to support the digital transition.

Responsibility: Department of Enterprise, Trade, and Employment, Department of Education, Department of Further and Higher Education, Research, Innovation and Science, Department of Public Expenditure and Reform, Further Education and Training and Higher Education Providers, Department of Education, Industry and other stakeholders

Recommendation 3.4: The NCPC recommends that the relevant entities lead, develop and implement a coherent plan to address the recommendations assigned by the EGFSN in their *Skills for Zero Carbon* report to support the climate transition.

Responsibility: Department of Enterprise, Trade, and Employment, Department of Environment, Climate and Communications, Department of Further and Higher Education, Research, Innovation and Science, Department of Housing, Local Government and Heritage, Department of Agriculture, Food and the Marine, Department of Social Protection, Department of Public Expenditure and Reform, Further Education and Training and Higher Education Providers, Department of Education, Industry and other stakeholders

Good progress in relation to policy implementation has been made in the area of apprenticeships recently. As part of Budget 2022, a total of €34m has been allocated to support apprenticeships, while over the last five years, the Government has invested over €620m in apprenticeship to support policy objectives as set out in the *National Skills Strategy*, the *National Development Plan 2018-2027*, and the *Climate Action Plan*.²⁰⁹ This investment has already delivered a radical expansion of the apprenticeship system, delivering a base for rapid growth of the education and training sector over the next five years.

The *Action Plan for Apprenticeship 2021-2025*²¹⁰ aims to increase number of apprenticeships to 10,000 per year by 2025 through measures including a new National Apprenticeship Office, a new grant for employers and non-financial supports targeted to SME's. Additionally, the D/FHERIS recently launched the National Apprenticeship Alliance (NAA) and announced a new gender-based bursary to address gender imbalances, particularly targeting female participation (see section 3.2.1). Currently 41 apprenticeship programmes are predominately male whilst only one is predominantly female, the latter being hairdressing.

²⁰⁶ [National-AI-Strategy.pdf \(enterprise.gov.ie\)](#)

²⁰⁷ [AI Skills Report \(EGFSN\)](#)

²⁰⁸ [EGFSN Skills for Zero Carbon](#)

²⁰⁹ [Action Plan for Apprenticeship, 2021 to 2025 \(www.gov.ie\)](#)

²¹⁰ [Action Plan for Apprenticeship, 2021 to 2025 \(www.gov.ie\)](#)

As discussed in Section 3.2.2, a number of reviews have sought to understand factors which drive take-up of apprenticeships. Given the vital role apprentices will play in meeting Ireland's national targets under *Housing for All*, the *National Development Plan* and the *Climate Action Plan*, it is crucial to fully understand what drives the take-up of apprenticeships for all occupations, both from an employer and employee perspective. The Council believe that further changes to some apprenticeship courses, in particular craft apprenticeships, could potentially allow for more efficient delivery of trained workers and ensure that these skilled workers can enter the labour market at an earlier point with the relevant skill sets. To that end, given the vital need for apprentices and the current overhaul of the apprenticeship system in Ireland, the Council believes that the ongoing monitoring of the drivers of take-up of apprenticeships of all occupations for both employers and employees is essential. All components of the apprenticeship model – including duration, remuneration and other terms and conditions – should be kept under review with a focus on identifying and resolving any barriers to take-up.

Recommendation 3.5: The NCPC recommends that the *Action Plan for Apprenticeship 2021-2025* adopted by Government is implemented quickly and in full in order to deliver a modern apprenticeship system with expanded programme options and increased take-up.

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

To Evaluate the Impact of Improved Working Conditions on the Compensation of Labour

Improved working conditions are crucial for Ireland's competitiveness and productivity as they are vital for ensuring Ireland can attract and retain talent. There are also potential benefits to firms, particularly SME's, as they have been linked to positive outcomes including reduced employee turnover, higher discretionary contributions by employees to enterprise capacities, improved productivity and profitability and higher levels of customer satisfaction and sales.²¹¹ These changes are crucial to improve working conditions and bring Ireland in line with other OECD countries.²¹²

Over the past year, the Government has introduced or progressed initiatives such as the right to request remote work²¹³, sick pay legislation²¹⁴, pension auto-enrolment²¹⁵, parent's leave and parent's benefit²¹⁶, an additional bank holiday²¹⁷ and the proposal to move to a living wage (see Box A). The Council supports the extension of employment rights in the interests of a more inclusive economy and promoting quality employment which also play an important role in attracting and retaining talent in Ireland. For instance, in 2021 (Recommendation 2.5), the Council called for the Sick Leave Bill 2021 to be published and enacted as soon as possible, and is pleased that this was signed into law as of 20th July 2022. However, the Council is also cognisant that this and further measures also represent a cost to employers, for example through administration burdens and resourcing²¹⁸. This could be particularly burdensome for SME's²¹⁹.

Thus far, to our knowledge, there has been no analysis undertaken of the cumulative impact these measures on businesses. The Council believes that it is important that there is a comprehensive evaluation of the impact of these measures on businesses, particularly given the context of inflation, Brexit, supply chain challenges, and

²¹¹ [Can Better Working Conditions Improve the Performance of SMEs \(ILO\)](#)

²¹² For example, Ireland is the only OECD country without an Auto Enrolment system.

²¹³ [Right to Request Remote Work Bill 2021 \(www.gov.ie\)](#)

²¹⁴ [All Irish workers will be entitled to sick pay for the first time under new law - Tánaiste \(www.gov.ie\)](#)

²¹⁵ [New Workplace Pension Scheme for Ireland \(www.gov.ie\)](#)

²¹⁶ [Parent's Leave and Parent's Benefit extended from today \(www.gov.ie\)](#)

²¹⁷ [Government agrees Covid Recognition Payment and New Public Holiday \(www.gov.ie\)](#)

²¹⁸ [Ireland's Competitiveness Challenge 2021](#)

²¹⁹ [SFA 2025 Report wants Crucial Investment in Small Business - SFA \(ibec.ie\)](#)

the digital and green transitions, which have increased costs and administration burdens on firms. To this end, the Council believes it is important to take a holistic view of the impact of these newly introduced measures on Irish enterprises.

Recommendation 3.6: The NCPC recommends a comprehensive, independent evaluation be commissioned and published of the combined impact of the measures proposed to improve working conditions in Ireland, within a comparative EU framework, by 2023 Q4.

Responsibility: Department of Enterprise, Trade and Employment, Department of Social Protection

3.4 Summary

Given the tighter labour market conditions, the increasing competition for skilled workers across the EU and other countries, and the changing demographics in Ireland, engaging the potential domestic labour force is key for Ireland's competitiveness and productivity. Increasing participation of underrepresented groups, such as females, older people and people with disabilities, is crucial to enhance the performance of Ireland's labour market and to ensure a fairer and more inclusive society. Additionally, increasing the quality of labour supply by continuing to meet the skills requirements of the economy is vital if we are to have productivity growth where the skills match the areas for potential for growth in the economy. In particular, the skills to facilitate the climate and digital twin transition are crucial. Good working conditions are essential for attracting and retaining talent to Ireland's labour market and promoting quality of life, however, we must seek to understand the potential impact these better working conditions may have on Irish firms in terms of increased costs. This is particularly important given the context of inflation, Brexit, supply chain challenges, and the digital and green transitions, which will increase costs and administration burdens on firms, especially SME's. The Council note that the availability of up-to-date hourly median wage data is crucial to adequately evaluate the impact of the process toward moving towards a living wage. Addressing these issues will enhance Ireland's labour market performance, and therefore our competitiveness and productivity, into the medium- and long-term.

Chapter 4: Infrastructure Investment for a Better Future

4.1 Introduction

Improving the quality of infrastructure is essential to ensure a country has the capacity to achieve sustainable long-term growth and plays a key role in enhancing productivity. If Ireland is to retain its competitiveness position, continued investment in our infrastructure – both physical and social is required.

Ireland's public investment in infrastructure has continued to expand over the past number of years under the current National Development Plan. While this is positive, there is a critical need to ensure effective and timely delivery on this investment.

As part of this wider investment plan, appropriate investment in our energy systems will be critical in setting Ireland on a sustainable path to net-zero emissions. The Council has previously called on Government to prioritise 'no regrets' investments in Ireland's energy infrastructure, in order to set a clear path for the decarbonisation of Ireland's energy supply. The importance of this investment has become more apparent over the last number of months with concerns relating to the security of supply of oil and gas, together with significant energy price inflation. As set out in an NCPC Bulletin 22-1 earlier this year, security of energy supply is crucial to Ireland's attractiveness as a place for enterprise investment, job creation and as a place to do business²²⁰. Investment in this area will better ensure that Ireland can deliver a secure and economical source of energy to the enterprise sector.

If Ireland is to maintain its position globally, we must also continue to invest in our digital infrastructure (as discussed in Chapter 2). Adequate digital infrastructure is necessary if Ireland is to continue to develop successful indigenous technology companies as well as attract inward investment.

Competitiveness Challenge 2021 set out the importance of housing as an essential element of infrastructure in any society²²¹. Housing remains an area which needs continuing investment and there is an ongoing and pressing requirement to continue to expand total supply. Similarly, the State must continue to invest in and seek improvements to the delivery of other aspects of our social infrastructure, such as health services, so that the standard of life for those living and working in Ireland improves.

The timely delivery of infrastructure relies on an efficiently functioning planning system. This Chapter will explore possible bottlenecks in delivery of infrastructure and the role the planning system plays in this. However, planning is not the only challenge which is emerging in delivering on investment in infrastructure. Labour market pressures, as set out earlier in the report, present a challenge in terms of Ireland's capacity to deliver on the level of investment required. There have been significant cost pressures, which have already fed through to higher delivery costs on public investment. Continuing to deliver on the country's planned infrastructure projects, in the face of these challenges, will be critical to ensuring the economy remains in a competitive position over the coming years.

²²⁰ NCPC (2022): [Bulletin 22-1 Energy Security](#)

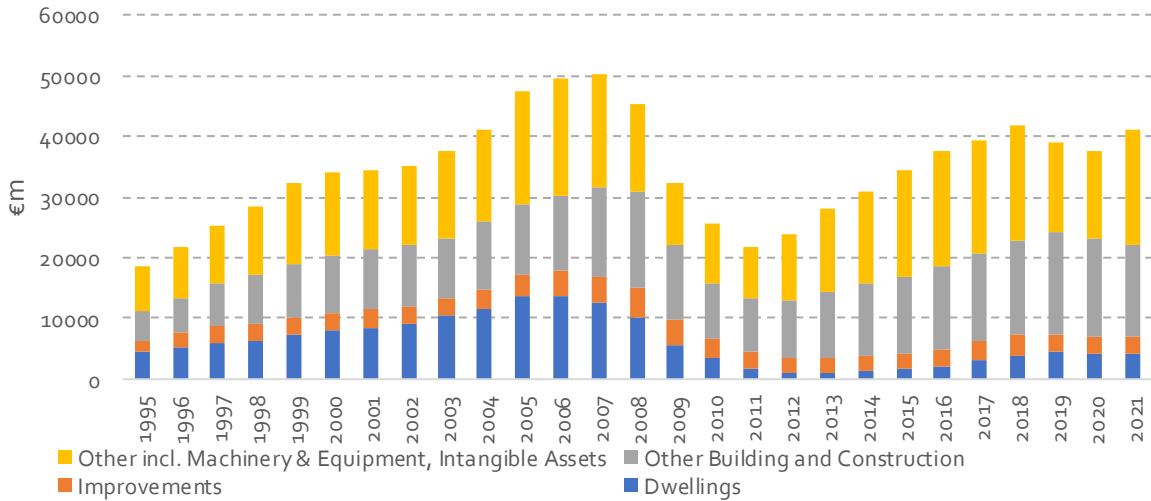
²²¹ NCPC (2021): [Ireland's Competitiveness Challenge 2021](#)

4.2 Current Situation in Ireland

4.2.1 Overall Infrastructural Investment

Gross fixed capital formation provides an insight into investment at the national level over time. It also provides a breakdown of the types of investments which are driving the growth in capital formation – whether this is in investment in new dwellings, improvements to current dwellings, other construction activity such as in roads, or investment in machinery and equipment.

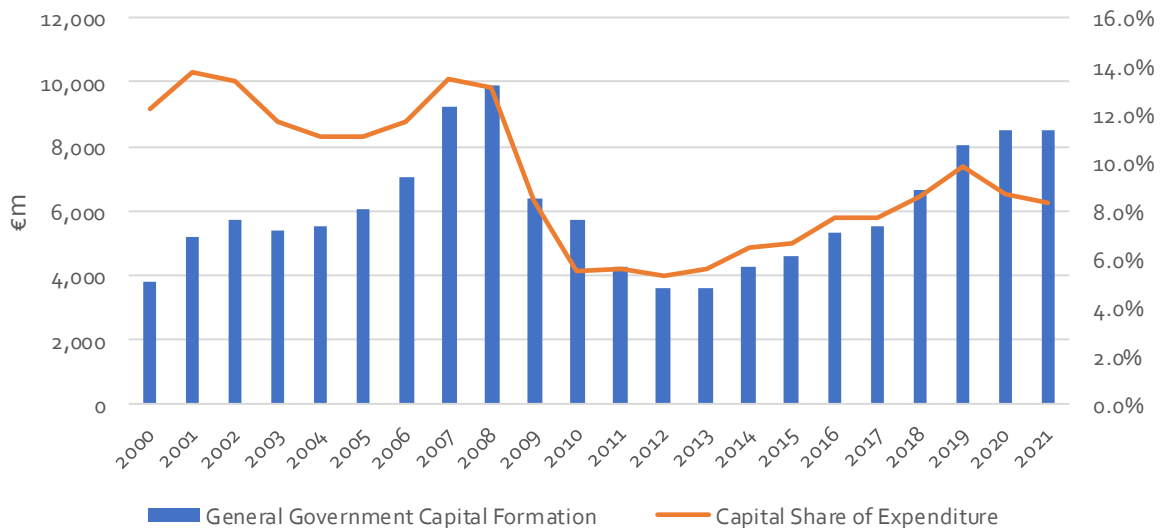
Figure 4.2.1: Modified Gross Domestic Fixed Capital Formation at constant prices, 1995-2021



Source: Central Statistics Office

While total investment (Modified Gross Domestic Capital Formation) has recovered over the past decade, investment in new housing remains (in real terms) well below the levels seen in 1995-2006. In contrast, investment in 'other buildings and construction' makes up a larger share of national investment – this comprises private investment in commercial premises, as well as public investment in roads and other infrastructure. This trend in investment has been supported by a step-up in Government capital expenditure over the past number of years, which is set out under the National Development Plan.

Figure 4.2.2: General Government Capital Formation; Share of Total Government Expenditure



Source: Central Statistics Office

In 2020 and 2021, general government capital formation was €8.5 billion, the highest levels since 2007-2008. Capital formation as a share of total Government expenditure had continued to rise from 2012 to 2019, although it remains considerably below the share invested over the period 2000-2009. The impact of additional current expenditure through COVID-19 supports, resulted in a decline in this share, despite capital formation growing slightly into 2020 and holding firm in 2021. Voted Capital Expenditure continued to grow strongly from 2019 (€7.1bn) to 2020 (€9.1bn) and stayed at €9.1bn in 2021. The lack of growth across 2020 and 2021 in capital expenditure is partly attributable to a slow (shut) down of construction activity due to pandemic restrictions.

The revised *National Development Plan* was published in October 2021 incorporating an investment package of €165 billion over the years 2021-2030²²². Under the NDP, some €14bn is expected to be invested by the Government in 2022, and capital expenditure will rise to €16.5bn by 2025. This will see continued growth in investment across housing, health, and transport, as well as a major step-up in climate related investment.

Figure 4.2.3: National Development Plan: Capital Expenditure 2021-2030

€ billion	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Exchequer	9.8	11.1	11.9	12.8	13.6	14.2	14.9	15.4	15.9	16.4
Non-Exchequer	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Total	12.7	14	14.8	15.7	16.5	17.1	17.8	18.3	18.8	19.3
% of GNI*	4.5%	4.8%	4.9%	5.1%	5.1%	5.1%	5.1%	5.1%	5.0%	5.0%

Source: National Development Plan

The NDP states that Government will maintain capital expenditure at an average level of 5% of GNI* over the period to 2030. This is a positive development, which exceeds the previously recommended target of 4% from the NCPC²²³. While this is a positive commitment, there are potential concerns relating to the capacity to deliver on this investment target. While COVID-19 presented a significant challenge to the functioning of a range of markets, including construction, it made evident that the availability of funding, at times, is not the only limiting factor to the delivery of infrastructure. This is seen in the slowing growth of general government capital formation over the last three years, despite increased budget allocations for capital expenditure, leading to the carryover of capital into 2021 and 2022.

While the continued growth in investment in the country's infrastructure is welcome, there remain areas of concern where improved delivery is required. Ireland's ongoing challenges with regards to infrastructure are evident in the country's position in the 2022 IMD Competitiveness rankings²²⁴ where it ranked 41st in terms of Basic Infrastructure and 27th on Technological Infrastructure in 2022.

This points to the continued need to invest in our infrastructure to ensure that Ireland keeps pace with other countries, so that it can continue to facilitate Ireland's growing economy and population. It also points to the importance of the delivery being effective and efficient to maximise the benefits of the State's investment.

4.2.2 Emerging Challenges for Delivery of Infrastructure

There are a number of distinct challenges which could negatively impact on continued investment and improvement of Ireland's infrastructure. As examined in greater detail in Chapter 3, the labour market is relatively tight post-pandemic. This tightness is particularly acute in the construction sector and is further

²²² [National Development Plan 2021-2030](#)

²²³ NCPC (2019): [Ireland's Competitiveness Challenge 2019](#)

²²⁴ [World Competitiveness Rankings - IMD](#)

contributing to construction skills shortages which may limit the delivery of housing, as well as larger strategic elements of infrastructure. *Housing for All, Project 2040*, the *National Development Plan*, and the *National Retrofitting Scheme* are expected to increase demand for construction-related skills across a variety of occupations (operatives, skilled trades/supervisors, engineers) and may lead to future skills shortages. These shortages have been pointed to in the EGFSN's ²²⁵ *Building Future Skills: The Demand for Skills in Ireland's Build Environment Sector to 2030 Report*²²⁶, Skillnet Ireland's *Skills for Zero Carbon* report²²⁷, and SOLAS' 'Difficult to Recruit' survey²²⁸. The EGFSN has estimated that between direct and indirect labour demand, total labour demand from housing construction is estimated to rise from c.40,000 FTEs in 2020, to 67,500 by 2025, and is estimated to peak at just over 80,000 towards the end of the decade. It is unclear if the labour market will be able to supply enough labour to meet this requirement. These constraints could limit the degree to which Ireland is able to meet its NDP targets even if funds are available, which highlights why ongoing investment in innovation which can boost productivity and output in the construction sector is essential.

Secondly, significant cost inflation of inputs into construction is a growing concern for the delivery of infrastructure with construction & building materials (stone, cement, steel, timber and other materials) costs up 18.2% in the year to April 2022²²⁹. In the first instance, it threatens the viability of certain infrastructure projects, and secondly it may lead to significantly increased costs of delivery for the private sector and the State. These cost rises have had an impact on projects already underway, with the State covering up to 70% of inflation-related construction costs on ongoing projects where there is evidence of inflation-related cost increases²³⁰.

Lastly, in response to price inflation, the ECB has begun to increase its key interest rates, with the interest rate on main refinancing operations and the marginal lending facility rising to 1.25% and 1.5% respectively from 14 September 2022. This followed on from an earlier increase in rates announced in July 2022. Ireland has been able to borrow at exceptionally low cost in the last number of years as a combination of our improved credit rating and the low rates available to government issued debt on international markets. With strong signals around continued rising interest rates from the ECB, this may not only impact on future government investment, but may also impact on private investment in infrastructure.

4.2.3 Economic Infrastructure

Energy

In previous *Challenge Reports*, the Council has highlighted the importance of strong investment in Ireland's energy infrastructure ²³¹. Considerable investment in the electricity market is critical for the continued decarbonisation of Ireland's energy supply, and is also critical to ensure ongoing energy security on the island of Ireland. The urgent need to proceed with decarbonisation of Ireland's energy supply has been highlighted by the crisis in Ukraine, with businesses having been exposed to significant swings in wholesale energy prices. The latest Wholesale Price Index available (July 2022) shows the price of electricity was 86.3% higher than a year earlier. In total the basket of all energy products was up 77.6% in the year to July 2022. This has also coincided with concerns around the security of gas supply into Ireland, and more broadly concerns in relation to the capacity of Ireland's electricity grid to meet growing demand for electricity and to harness the contribution to

²²⁵ EGFSN (2021): [Labour Demand Estimates for Ireland's National Housing Targets, 2021-2030](#)

²²⁶ EGFSN (2020): [Building Future Skills](#)

²²⁷ EGFSN (2021): [Skills for Zero Carbon](#)

²²⁸ Solas (2021): [Difficult-to-fill vacancies survey](#)

²²⁹ CSO [Wholesale Price Index](#)

²³⁰ [gov.ie - Minister McGrath introduces measures to address the impact of Construction Material Price Inflation on Public Works Projects \(www.gov.ie\)](#)

²³¹ See, for example, NCPC (2022): [Bulletin 22-1 Energy Security](#)

security of supply from domestic renewables. Continued energy price inflation, over and above other countries with a lower reliance on gas and oil, will erode Ireland's competitiveness, while security of supply concerns have severe reputational consequences for Ireland as a destination for FDI if they are not addressed. Indeed, the constraints on the electricity grid have already impacted investment activity in data centres²³².

The *Climate Action Plan 2021* sets out to achieve a 51% reduction in overall greenhouse gas emissions by 2030, and for Ireland to be fully decarbonised no later than 2050²³³. More generally Ireland continues to lag other European countries in terms of the share of its final energy consumption generated from renewable energy (16.2% in 2020 compared to an EU average of 22.1%)²³⁴. A core commitment under the Climate Action Plan, which is echoed within the *National Development Plan* is to increase the share of renewable electricity up to 80% by 2030. In order to meet this target, the State will have to increase the total amount of renewable generation in a safe and secure manner. However, the transition to increase the share of renewables in electricity supply has been met with particular challenges in relation to the security of electricity supply as operators try strike a balance between decommissioning fossil fuel plants and increasing the total output of renewable generation at sufficient pace.

This rising electricity demand, coupled with a decline in conventional generation and poor results from recent electricity capacity auctions, has led to adequacy deficits in terms of supply being identified in the short to medium-term, with the North-South Interconnector seen as a vital for medium to long-term energy security²³⁵. Eirgrid has also identified delays to new generation capacity as an ongoing risk for Ireland, with delays in the additional new capacity which had been forecasted for this year due to planning compliance, emissions audits and the pandemic. Concerns in relation to Ireland's security of electricity supply have serious economic implications for Ireland in an increasingly digital, global economy in which it is competing to retain and win new investment in a range of sectors. Ongoing issues in relation to electricity supply may undermine international confidence in Ireland as a secure location for companies to invest.

Water and Wastewater

Ireland continues to perform poorly in relation to its water and wastewater infrastructure. A 2021 report from the Environmental Protection Agency was critical of continued delays in providing treatment, as well as in the upgrading of current treatment systems. It identifies delays in large projects and the changing nature of Irish Water's plans as a significant concern leading to increased risks to the environment and public health²³⁶. Delays in the delivery of water and wastewater infrastructure have follow on implications for the delivery of other infrastructure, including housing and industrial investments. The continued delays have led the Commission for Regulation of Utilities (CRU) to raise concerns around Irish Water's ability to meet previously set targets on the installation of wastewater works across the country. The CRU has called on Irish Water to identify and resolve the underlying causes for delays and carry out essential upgrade works in as timely and efficient a manner as possible²³⁷.

Digital Infrastructure

In February 2022 *Harnessing Digital*, the Digital Ireland Framework was published. This sets out an ambition for Ireland to be a digital leader in Europe and in global digital developments. A key part of this is the delivery of associated digital infrastructure as it will enable and support Ireland's progress on other fronts. Digital

²³² CRU (2021): [Direction to the System Operators related to Data Centre grid connection processing](#)

²³³ [gov.ie - Climate Action Plan 2021](#)

²³⁴ Eurostat: [Renewable energy statistics](#)

²³⁵ Eirgrid (2021): [All-Island Generation Capacity Statement](#)

²³⁶ EPA (2020): [Urban Waste Water Treatment in 2020](#)

²³⁷ CRU: [Irish Water Performance Assessment Framework Annual Report 2020](#)

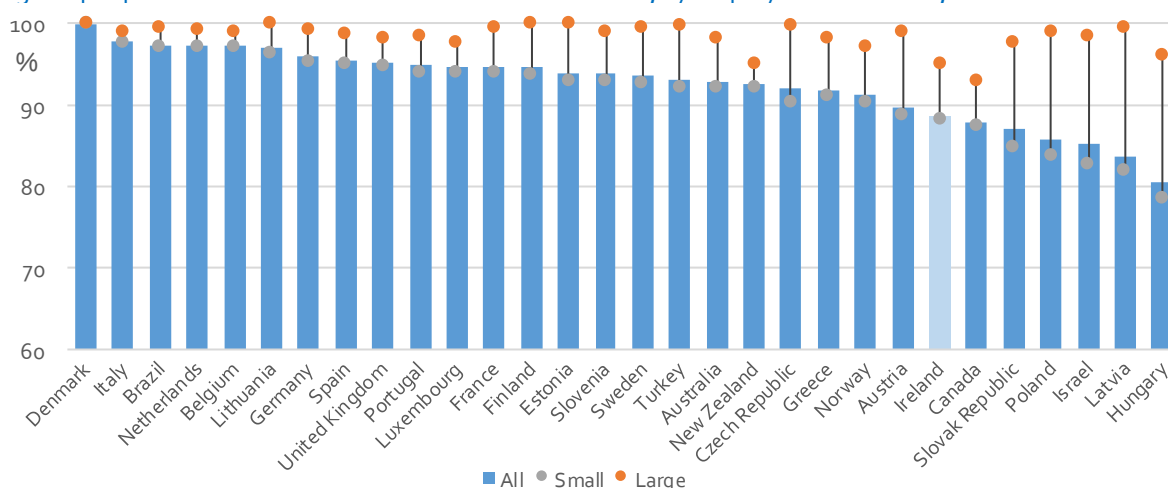
infrastructure forms one of the main dimensions of *Harnessing Digital* and is split into two broad areas: connectivity and cyber security.

Ensuring that Ireland is well connected digitally, both nationally and internationally, is critical in facilitating economic growth, in making Ireland an attractive location for enterprise investments, and in facilitating the growth of remote working practices which have developed in the past two years. *Harnessing Digital* commits to the delivery of a digital connectivity strategy which will focus on enabling physical telecommunication infrastructure and services delivering digital connectivity.

While there remain concerns over the pace at which the National Broadband Plan (NBP) is being rolled out, there has been a step-up in progress in 2022 and National Broadband Ireland expects to have 221,000 homes connected or in the process of being connected by the end of the year – 40% of the full seven-year target²³⁸. This follows an additional 300 construction workers being added to the workforce delivering the roll-out in the first six months of 2022, bringing the total number to over 1,500. Continued progress on the NBP is a priority for Ireland and, as identified in *Harnessing Digital*, its delivery will be a key enabler of digital connectivity. Ireland continues to lag behind international comparators in terms of its digital infrastructure and connectivity, as evidenced by the poor ranking on technological infrastructure indicators within the IMD Competitiveness Rankings such as Investment in Telecommunications (60th) and Technology meeting Business Requirements (50th out of a total 53 economies)²³⁹. Ireland lags behind other OECD countries in terms of fixed broadband connectivity and an uptake with only 31 fixed broadband subscriptions per 100 of population. However, Ireland is strengthening its position - in 2021, there was 49.6% growth in the number of fibre subscriptions in Ireland which was the 7th highest among OECD countries and ahead of the OECD average of 18.6% growth²⁴⁰. Fibre now represents approximately 25% of fixed broadband connections as the number of subscriptions utilising older technologies such as DSL falls²⁴¹.

Business access to broadband remains an area for Ireland to make further progress. While 88.6% of businesses in Ireland had a fixed broadband connection in 2021, this measure falls behind other OECD countries - Ireland ranks 24th out of 30 OECD countries. Large business access to broadband in Ireland, at 95%, was ranked 27th.

Figure 4.2.4: Businesses with a fixed broadband connection, by employment size class, 2021



Source: OECD Broadband statistics

²³⁸ NBI (2022): [National Broadband Ireland Progress Update](#)

²³⁹ IMD (2022): [World Competitiveness Rankings](#)

²⁴⁰ [Broadband Portal - OECD](#)

²⁴¹ ComReg: [Quarterly Key Data Report \(Q1 2022\)](#)

Increased broadband connectivity will be important in facilitating further digital investment, such as that under the €85m Digital Transition Fund which will run out to 2026 as part of the National Recovery and Resilience Plan. This fund will seek to develop digital capability among firms at all stages, from early-stage digital access, to using digital technologies to develop new markets²⁴².

Cyber security is another core area of digital infrastructure. The importance of a properly supported cyber security system was highlighted in 2021 in the wake of the attack on the HSE systems which demonstrated the impact such attacks can have on the provision of services. *Harnessing Digital* sets out plans for this area including: an expansion of the National Cyber Security Centre (NCSC) and its establishment as a statutory body, and increased graduate training. There is a review of the National Cyber Security Strategy due in 2022 to address effectively issues related to the changing cyber security landscape.

4.2.4 Social Infrastructure

Housing

The Government's *Housing for All*²⁴³ strategy was launched in September 2021, with over €20 billion in capital funding allocated out to 2025. Delivery of housing is recovering following a slow-down due to lockdown measures during the COVID-19 pandemic. New dwelling completions stood at 22,219 in the four quarters to Q1 2022²⁴⁴, but continue to fall short of the annual average of at least 33,000 over the period to 2030 set out under *Housing for All*. A pattern which has developed in the new dwelling completion figures is the growth in the delivery of new apartments relative to new houses. In 2018 and 2019, there were 2,256 and 3,478 new apartments delivered respectively, while in the four quarters to 2022 Q1, there were 6,149 new apartments. This contrasts with the delivery of scheme housing which has remained in and around 10,000-12,000 new units per annum over the last 4 years. There has been growing momentum behind planning permissions, with 42,991 units granted planning permission in 2021 – the trend in apartments is also reflected in these data, which shows strong growth since 2019 Q1 following the renewed design standards for apartments set in 2018²⁴⁵.

The delivery of housing remains a pressing requirement, with particular concern developing around the availability of rental accommodation. Small landlords leaving the market, and the short-term let market have been identified as reasons for rental market tightness^{246,247}. While properties moving from the rental market into home ownership reduces supply issues in that market, the ongoing imbalance between the supply and demand of rental accommodation would suggest that there is a strong need for continued private investment in the construction of properties, particularly apartments intended for the rental market. A lack of available properties to rent, with high rental prices, has follow on implications for the liveability of cities such as Dublin and Cork and their ability to attract talent. As internationally mobile workers are likely to require rental properties, tight supply in this market may have a disproportionate impact on the inward mobility of crucially skilled labour.

Competitiveness Challenge 2021 made key recommendations in relation to housing including identifying the priority actions under *Housing for All*, establishing reporting and evaluation mechanisms, and greater resourcing of planning authorities. *Housing for All* sets out a number of areas which it will progress, including: Large Scale Residential Development (LSRD); examining the Judicial Review process; and the introduction of

²⁴² DETE: [Digital Transition Fund](#)

²⁴³ [Housing for All](#)

²⁴⁴ CSO: [New Dwelling Completions](#)

²⁴⁵ Department of Housing, Planning and Local Government (2018): [Sustainable Urban Housing: Design Standards for New Apartments](#)

²⁴⁶ [gov.ie](#): [Cabinet agrees to stronger controls on short-term lets](#)

²⁴⁷ RTB (2022): [Final Rent Index Q4 2021](#)

new active land management - land value sharing, and urban development zones. Strong progress on each of these will be important in ensuring that targets are being met in housing.

Healthcare Infrastructure

The pandemic drew further attention to the need for quality and efficient infrastructure to support health services in the country. Piecemeal investments in the past, particularly in IT, increased the challenges for the sector in dealing with the pandemic and to its being an important (possibly limiting) factor in attracting people to work here. The provision of quality healthcare is also increasingly important in the context of Ireland's ageing workforce. Ireland is midway through the Sláintecare Implementation Strategy and Action Plan 2021-2023²⁴⁸. The allocation of €21 billion in current expenditure and €1 billion in capital expenditure for 2022 represents a sustained increase in the health budget. This funding is intended to accelerate the phased implementation of Sláintecare, and tackle long waiting lists.

Health is key to a higher quality of life and is a key component of our public capital programme, and Ireland needs to ensure expenditure is aligned with strategic priorities. Analysis under the 2021 Spending Review from the Department of Health examines the potential for cost overruns in large capital investment projects, and for health projects²⁴⁹. From a sample of 25 international and domestic health projects, the paper predicts a potential 66% increase in the final costs of these NDP projects compared against initial 2018 estimated costs. While the paper suggests a number of mitigation strategies including standardisation, fixed deadlines, flexible planning and governance and a greater focus on strategic investment, the findings in relation to health investment overruns has implications in terms of the number of projects which might be delivered for a given expenditure package.

4.2.5 Planning

An on-going area of concern in relation to housing and in the delivery of other areas of infrastructure, such as energy, is planning. The length of time taken to receive a grant of planning permission remains a constraint. A recent survey²⁵⁰ of residential developers in Ireland found that 40% of respondents set aside between 11 and 15 months to receive a grant of permission from a local authority, while a further 42% allow for at least 16 months. Added to this, 61% of respondents set aside a further 12 months for appeals or judicial review. Under *Housing for All*, the Attorney General is currently undertaking a review of the planning code which is expected to conclude in December 2022.²⁵¹ This review is designed to ensure that planning policy is better focused on plan-making rather than the application stage, to facilitate greater clarity and long-term visibility in planning outcomes. It is also intended to ensure that planning takes adequate account of the needs of the future population and appropriate account is taken of the nature of planning decisions, which require careful balancing of public policy, public participation and environmental issues. The review will be guided by principles including clarity in legislation, usability of procedures and respect for the role of the public in decisions²⁵². The review also includes a fitness check and upgrade of relevant provisions of planning law to ensure that it is more accessible and streamlined from a legal perspective.

Energy infrastructure is another important area which planning has led to delays in delivery. Energy projects are meant to receive a decision from An Bord Pleanála within an 18-week window; however, some have argued

²⁴⁸ The main aims of Sláintecare for 2022 include: further developments in shifting care to the community; further investment in innovation, enhanced capacity and access to care; implementing digital and eHealth solutions in line with *Harnessing Digital*; introducing the Sláintecare Consultant Contract; and the realignment of acute and community services via Regional Health Areas.

²⁴⁹ Department of Health (2021): [Health Capital Investment in Ireland](#)

²⁵⁰ Knight Frank (2022): [New Homes Construction Survey 2022](#)

²⁵¹ [gov.ie](#): [Government launches review of planning legislation](#)

²⁵² Planning Advisory Forum: [Terms of Reference](#)

that this can oftentake much longer with reports of a 50-to-60-week average²⁵³. Ireland is moving closer to the holding of its first offshore wind auction under the Renewable Electricity Support Scheme (ORESS 1), alongside this, Government is now targeting the delivery of 7GW in offshore wind (including 2GW for the production of green hydrogen) as part of the sectoral emissions ceilings which means there are expectations of an increase in the number of offshore energy planning applications, on top of the current stream of onshore applications. It is, therefore, important that the planning system is capable of effectively managing any increase in the number of energy related planning applications, making decisions in a timely manner.

4.3 Actions Crucial for Infrastructure for a Better Future

4.3.1 Investment

As noted above, the NDP commits to raising capital expenditure up to an annual average of 5% of GNI* over the period to 2030. There are several challenges which may lead to difficulties in meeting this investment target, while also achieving value for money. Cost price inflation will impact on the delivery costs of capital expenditure and the rise in construction input costs will ultimately lead to a reduced quantum of infrastructural delivery for any given level of capital investment. The impact of these cost rises has affected projects already underway, with the State covering up to 70% of inflation-related construction costs on ongoing projects where there is evidence of inflation-related cost increases²⁵⁴. Cost price inflation might also be expected to feed into the level of current expenditure through 'cost of living' measures. While the Government has remained committed to hitting capital investment targets, expenditure on cost-of-living measures may in turn put pressure on the available fiscal space.

Added to this, the capacity of the construction sector to deliver on key infrastructural investment plans remains a concern for the Council. There are various priorities which are seeking to secure output from a tight construction sector with a limited labour pool. The capacity of the construction sector to deliver on multiple objectives remains unclear; for example, the NDP commitment to retrofit 500,000 homes by 2030, as set out under the *National Retrofit Plan*²⁵⁵, may pull on capacity required to secure the delivery of an average of 33,000 new dwellings in each year to 2030.

The delivery of critical infrastructure remains a priority. Given the supply side constraints and inflationary pressures, it is becoming apparent that a level of investment of 5% of GNI* will now deliver a lower level of infrastructure than was envisaged even a year ago under the revised NDP. Furthermore, rising interest rates will increase the cost to the State of any borrowing required to fund this investment. Given the ongoing demand for national infrastructural delivery, as noted in the NDP, alongside the continued need for the State to continue to carefully manage its finances, the Council believes that continued investment in line with the level set out in the National Development Plan is appropriate, such that the State meets its target investment level of 5% of GNI*. Given the increased costs of delivery, it is likely that increased focus on appropriate prioritisation of infrastructural projects will be essential if key goals and targets are to be met.

4.3.2 Innovation in the Construction Sector

Constraints in the construction sector highlight the urgent need for increased innovation and productivity in the construction sector, so that it can deliver on infrastructure targets more efficiently. *Housing for All* tasks relevant State agencies with promoting a culture of compliant, good quality sustainable innovation in residential construction by advancing modern methods of construction (MMC) to boost sector productivity and

²⁵³ Wind Energy Ireland (2022): [Bridging the Gap](#)

²⁵⁴ [gov.ie - Minister McGrath introduces measures to address the impact of Construction Material Price Inflation on Public Works Projects](#)

²⁵⁵ [National Retrofit Plan](#)

reduce construction costs. A report published by Skillnet Ireland in 2022 highlights the important role that upskilling workers in the skills required for the effective implementation of MMC can play in enabling the sector to improve its productivity and meet its demands.²⁵⁶

In 2022, the Government has increased the promotion of MMC, and this will continue to develop in an integrated manner through an MMC Leadership and Integration Group chaired by DETE. The Council welcomes plans from SOLAS to establish a MMC Demonstration Park. The *Build Digital* project is another positive development. It will help firms in the Irish construction sector to develop their capabilities as digitally enabled, standards-based, agile, collaborative, and sustainable participants in the delivery of *Project Ireland 2040*, by supporting the standardisation and adoption of Building Information Modelling (BIM) which is a key enabler of MMC. This year has also seen an expansion of the role of the enterprise agencies in supporting the domestic residential construction sector. The establishment of a new Construction Technology Centre (CTC) is on track to commence construction research by the end of this year. With €5 million in funding allocated over the next 5 years, the centre will bring together highly qualified researchers who will provide a unique ecosystem for construction industry-academic collaboration on strategically important areas, including modern methods of construction, with an initial prioritised focus on innovation in housing. It is hoped the CTC will accelerate innovation adoption in the construction sector and in turn boost productivity.

However, the Council believes further action is required on MMC as it is not currently acknowledged or captured within the Action Plan for Apprenticeship 2021 - 2025 Strategy document, or in the curricula of relevant third level institutions. To ensure that the targets in *Housing for All*, the NDP, and the *National Retrofitting Scheme* are not constrained, greater innovation is required in the construction sector; this includes equipping construction workers with the necessary skillsets such as those relating to MMC, as well as facilitating greater innovation in construction through resourcing of initiatives such as the new CTC.

Recommendation 4.1: The NCPC recommends

- (i) Continued focus on monitoring and resourcing of, initiatives such as the new Construction Technology Centre, the MMC Demonstration Park and the *Build Digital* project, to increase innovation that will contribute to productivity and quality improvements in the construction sector.
- (ii) Ensuring the upskilling of construction workers with the skills relating to *Modern Methods of Construction* to enable the sector to meet its targets as set out under HFA, NDP and CAP; and that this sectoral upskilling is monitored.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science; Department of Housing, Local Government and Heritage; Department of Enterprise, Trade and Employment

4.3.3 Planning

Planning has been highlighted as an issue across multiple areas of infrastructure as a barrier to timely delivery. The direct costs of delays to infrastructure delivery are borne by those delivering infrastructure in terms of additional finance risk and increased cost of delivery due to rising input costs, but indirect costs are also experienced by enterprises and the wider population who do not benefit from earlier provision of this infrastructure.

²⁵⁶ Skillnet (2022): [Modern Methods of Construction Defining MMC Business](#)

Delays to the delivery of infrastructure pose a serious risk to the achievement of the State's targets across housing and energy. As set out by the ESRI, continued delays to renewable energy installations represent a risk to Government's policy ambitions for decarbonisation and they also represent an increased cost in the form of increased system costs, which take the form of higher electricity costs²⁵⁷. Within housing, delays and challenges to planning have been most evidently clear in the prior issues with judicial reviews of large housing developments under the SHD process (now replaced by Large Scale Residential Developments) but have also impacted across other forms of public and private housing. In addition to the wider review of the planning system led by the Attorney General, there is a reform of the judicial review system taking place. It is expected that this will see the establishment of a new division of the High Court specifically for planning and environmental issues which will be managed by judges with appropriate training and expertise²⁵⁸. The establishment of a special division of the High Court for planning and environmental matters, alongside the wider reforms to planning should lead to a reduction in the number of judicial reviews and more timely determination where a review of a planning decision is brought before the courts.

Given the ongoing delays seen in the planning system set against the pressing need for increased progress towards Government infrastructural commitments, it is critical that actions are taken immediately on foot of the recommendations from Attorney General's review, and that priority is given to resourcing appropriately the special division of the High Court for planning and environmental matters.

Furthermore, there remain issues in terms of resourcing of planning authorities. A common theme across a number of reviews published by the Office of the Planning Regulator in 2021 and 2022 is the insufficient resourcing of local authorities planning departments for the delivery of planning services²⁵⁹. The Council has previously made recommendations on the resourcing of planning authorities (recommendation 4.3 *Competitiveness Challenge 2021*); however, this warrants continued attention as it remains an issue and is driving delays in the delivery of infrastructure.

Recommendation 4.2: The NCPC recommends that

- (i) Arrangements are put in place in 2022 to ensure immediate implementation of the recommendations from the Attorney General's review of the planning code in a systematic and timely manner.
- (ii) The new planning and environmental division of the High Court is established as a priority, and that it is appropriately resourced to reduce the delays inherent in the current planning system, with specialist training and support being provided for the judges appointed to this new division.
- (iii) An immediate investigation is undertaken to ensure proper resourcing of planning authorities to ensure that they are not a constraint on the meeting the Government's infrastructure targets

Responsibility: Department of Housing, Local Government and Heritage; Department of Justice

4.3.4 Investment in Renewable Energy

The Climate Action Plan commits to increasing the proportion of electricity supply from renewable sources up to 80% by 2030, a major increase from the level of 43.4% in 2020. Given the ongoing and expected rise in the level of electricity demand, with Eirgrid expecting electricity demand to be up to 43% higher in 2030 than it was

²⁵⁷ ESRI (forthcoming 2022): [The impact of planning and regulatory delays for major energy infrastructure](#)

²⁵⁸ [Housing for All](#)

²⁵⁹ Reviews of Kildare, Galway, Louth and Tipperary County Councils available at: [Publications - The Office of the Planning Regulator](#)

in 2021²⁶⁰. Rising electricity demand means that the absolute quantum of electricity generated from renewables must rise 2.5 to 3 times by 2030²⁶¹.

The Government issued a policy statement on the security of electricity supply in November 2021²⁶², which included explicit government approval for the development of new conventional generation (including gas-fired) and the retention of conventional electricity generation capacity. This has necessitated short term (emergency) investments in temporary fossil fuel-based generators to supplement the grid, so that it can meet winter-time demand for electricity in the coming years²⁶³, to address current security of supply issues. This is at odds with plans to decarbonise the Irish grid – and indeed contrasts with the planned closure of coal and oil-burning plants in the coming years. In the medium-term, following an Eirgrid auction earlier this year, there are plans for nine new gas-fired plants which will deliver 1,147 MW in capacity to the grid, expected to be delivered by October 2024 and no later than March 2026; however, this plan is dependent on successful delivery by developers²⁶⁴. While the introduction of these plants should decrease the generation gap according to Eirgrid projections, their introduction highlights the challenge in balancing the achievement of Ireland's green electricity targets against security of supply concerns. Investment in grid-scale battery storage (which are included in Eirgrid's plans out to 2030) will help with security of supply issues and will become increasingly important as Ireland continues to decarbonise its energy supply towards more variable energy sources such as wind and solar power. Renewable generation capacity, at sufficient scale, and the associated investment are urgently needed if Ireland is to meet the expanding and evolving needs of the Irish grid in a sustainable manner.

Eirgrid plans for the majority share of this renewable electricity supply to take the form of offshore wind generation, with plans for over 5.1 GW in new production capacity, which has been expanded to 7 GW in July 2022 to include an additional 2GW of offshore wind for the production of green hydrogen following agreement of the sectoral ceilings²⁶⁵²⁶⁶. The development of increased offshore capacity is a priority which should be expedited as quickly as is possible. There is a need for greater recognition that delays could lead to Ireland not meeting its climate targets to an even greater extent, while adding to security of electricity supply issues. The establishment of a new Offshore Wind Delivery Taskforce is a welcome measure to bring about increased action in this area²⁶⁷.

EU legislation (2018 Renewable Energy Directive) states that permit granting for wind and solar projects should take no more than two years. Administrative delays across European countries mean this timeline is rarely met, with a recent report establishing a permit time of 6 years for Ireland – ranked 9th out of 18 European countries²⁶⁸. A forthcoming ESRI paper²⁶⁹ examines the long lead in time for Irish energy projects and the impact which the regulatory system has on this. When a project is going for approval it must: seek planning permission, seek permission for a grid connection, seek and receive a licence to generate and authorisation to construct, and be successful in auction under the Renewable Electricity Support Scheme. Furthermore, in the case of offshore wind, it must seek a foreshore licence. Given the sequential nature of a number of these phases, delays at any stage can compound across the entire critical path to delivery. The ESRI researchers conducted a scenario analysis which establishes up to a two-year time difference in the delivery of strategic infrastructure based on

²⁶⁰ Eirgrid (2021): [All-Island Generation Capacity Statement](#)

²⁶¹ ESRI (forthcoming 2022): [The impact of planning and regulatory delays for major energy infrastructure](#)

²⁶² Department of Environment, Climate and Communications: [Policy Statement on Security of Electricity Supply](#)

²⁶³ CRU Welcomes Government Decision on Temporary Emergency Generation - Commission for Regulation of Utilities

²⁶⁴ [SEMO Publishes Provisional Capacity Auction Results](#)

²⁶⁵ Eirgrid: [Shaping Our Electricity Future](#)

²⁶⁶ [Government announces sectoral emissions ceilings, setting Ireland on a pathway to turn the tide on climate change](#)

²⁶⁷ [Wind Energy Generation – Thursday, 7 Apr 2022 – Parliamentary Questions \(33rd Dáil\) – Houses of the Oireachtas](#)

²⁶⁸ Ember (2022): [Ready, Set, Go: Europe's race for wind and solar](#)

²⁶⁹ ESRI (forthcoming 2022): [The impact of planning and regulatory delays for major energy infrastructure](#)

changes to the organisation of the regulatory process. This represents a significant potential benefit to reducing the barriers currently created in the planning and auction processes.

As set out above, the review of the planning code by the Attorney General is welcome and should also help to improve the speed with which the planning system delivers decisions on energy infrastructure. However, the discussion here suggests that there are additional areas across the entire energy infrastructure delivery process which could be examined further, in an effort to improve delivery times. The ambitious goals set in the Climate Action Plan 2021 to increase Ireland's renewable energy output, and the continuing security of supply concerns, mean that any measure where delivery might be improved should be urgently explored.

Recommendation 4.3: The NCPC recommends

- (i) Identifying ways to facilitate greater investment in, and more rapid delivery of, green energy generation capacity. This includes examining any potential blockages and sources of delay, so that Ireland can achieve the targets set under Climate Action Plan 2021.
- (ii) A critical examination be taken of the full regulatory process in relation to the delivery of strategic energy infrastructure to identify delays in the system which undermine efforts to establish a more secure energy supply through decarbonising Ireland's electricity network.
- (iii) Ongoing consideration of energy storage solutions in providing a secure supply of energy to Irish businesses and households.

Responsibility: Department of Environment, Climate and Communications; Department of Housing, Local Government and Heritage

4.3.5 Improved Delivery of Water Infrastructure

Continued delays in the delivery of water and wastewater infrastructure are contributing to wider delays in other important infrastructure. Both the EPA and the CRU have been critical of Irish Water's lack of progress in delivering key infrastructure. This lack of progress is directly impacting the delivery of housing, the commencement of construction of new business investment and is adding costs to the planning and construction process.

In this context, the recent publication of the *Framework for the delivery of water services*²⁷⁰, which follows on from the 2021 policy paper *'Irish Water – Towards a national, publicly-owned, regulated, water services utility'*²⁷¹, is welcome. The Framework provides for Irish Water to assume responsibility for the management and direction of water services operation and activities and seeks to resolve a number of staffing issues including facilitating the direct recruitment of staff by Irish Water. With €6.5 billion set out for investment by Irish Water out to 2025 under the renewed NDP, it is critical that it delivers on targets set out for it.

Recommendation 4.4: The NCPC recommends that

- (i) The reasons for ongoing delays in the delivery of water and wastewater infrastructure are investigated, and
- (ii) Actions are taken to remove the identified barriers to efficient delivery of a robust and efficient public utility for water and wastewater.

Responsibility: Department of Housing, Local Government and Heritage

²⁷⁰ [Framework for future delivery of water services](#)

²⁷¹ Department of Housing, Local Government and Heritage: [Water Sector Transformation Policy Paper](#)

4.3.6 Strategic Investment in Healthcare

Healthcare represents a large share of total public expenditure, with a total budget allocation of over €22 billion in 2022. Some €1,011 million of this funding is in the form of capital funding, an increase of €105 million on the 2021 allocation. Given the rising budget allocated to this area, it is important that it is managed effectively in a manner which aligns with strategic priorities in health. In line with this need, the Department of Health is developing a Strategic Investment Framework for the delivery of healthcare infrastructure.

A 2021 Spending Review paper²⁷² from the Department of Health examined historical healthcare investment in Ireland. The paper concluded that there was a need for a more robust and strategic approach to the capital allocation. In addition, the historical lack of strategically planned healthcare investment was likely to have contributed to ineffective and inefficient care delivery, potentially leaving Ireland behind its EU comparators. The paper also sets out some issues with the timing of investment. For example, since 76% of expenditure under the NDP 2018-2027 is not yet initiated, there may be scalability issues with delivering a large level of investment over a shorter timeframe. In addition, a substantial amount (42%) of proposed health investment remains at the appraisal stage, with uncertainties around this future investment presenting a significant risk of cost underestimation.

The analysis supports the development of a Strategic Investment Framework to ensure that proposed health expenditures align with both the National Development Plan and Sláintecare objectives. The proposed Framework would take the form of an overarching hierarchy and a multi-criteria analysis where projects are scored against criteria such as: Patient Safety and Quality, Value for Money, Resilience, Accessibility, Regional Diversity, Future Healthcare Demand, Alignment with Sláintecare and adaptability. A considerable body of evidence and analysis has been collected and undertaken to inform the Strategic Investment Framework; however, it is recognised that further on-going work will be required in the implementation and development of investment in the sector.

This Framework is essential to ensuring that the ongoing rise in construction costs is fully embedded in investment prioritisation decisions. Inflationary pressures alongside the uncertainty around final costs of infrastructure delivery mean that the projects which best align with national objectives should receive priority, and through this achieve better outcomes in healthcare in Ireland. The Council is of the view that the Strategic Investment Framework should be published by Government as soon as is practicable, and that it should be fully implemented across all investment decisions in health.

4.4 Summary

A continued focus is required on improving the delivery of infrastructure if Ireland is to meet its targets across multiple domains including housing, energy and water. Given the commitment to ongoing expansion of capital investment in key areas of infrastructure, it is critical that blockages and bottlenecks are resolved so that the available funding can be utilised effectively and without delay. This will be important in securing the country on a path where it has the capacity to achieve sustainable long-term growth and in ensuring Ireland remains competitive internationally.

The Council welcomes the increased action taken on MMC across the Build Digital Project, the newly launched Construction Technology Centre and the MMC Demonstration Park. Continued investment in innovation in construction can raise the productivity of the construction sector, which is critical given the capacity constraints

²⁷² <https://assets.gov.ie/206320/1d74f673-3149-47ab-8d5f-298708fc4fa1.pdf>

facing the sector and the national infrastructure needs. Increased innovation and productivity in construction will help relieve labour market pressures and facilitate increased delivery of wider economic infrastructure.

Planning has been identified as a reason for delays in infrastructure delivery. The Council believes that the implementation of the recommendations from the Attorney General's forthcoming review of the planning code, alongside the introduction of the new division of the High Court focused on planning and environmental decisions present an opportunity for Ireland to increase the pace with which key infrastructure is delivered.

Energy and water have been highlighted as areas where there is increased need for successful delivery of infrastructure. The Council believes it is urgent that any blockages across both systems are identified and resolved. There is a need for a ramp up in the pace of new renewable energy infrastructure if Ireland is to meet its targets under Climate Action Plan 2021, and to ensure that Ireland has a secure supply of energy to foster continued economic growth.

The Council agrees that the Government should continue with the capital investment plans as set out in the National Development Plan, reflecting the need for ongoing investment in our infrastructure. Rising interest rates also emphasise the need to achieve value for money in our investments, and to ensure that the infrastructure projects brought forward align with strategic priorities. The upcoming publication of the Strategic Investment Framework for capital investment in healthcare will aid in decision making and ensure better use of capital funds in health. As Ireland moves into a period with an uncertain economic outlook, it must continue to invest in productive infrastructure to remain competitive.

Chapter 5: Managing the Costs of Doing Business

5.1 Introduction

As an open economy, the relative cost of doing business in Ireland is a significant determinant of competitiveness and, ultimately, economic growth, employment, and our standard of living. For several decades, Ireland has consistently been regarded as a high-cost economy; this position is now exacerbated by the recent rise in inflation. The globally connected nature of Ireland's trade, technological and financial links means that while Ireland is a beneficiary of global growth, it is always vulnerable to external shocks. This reinforces the importance of prioritising policies and actions that are within Ireland's control to enhance cost competitiveness. Further, as an open economy and price-taker on most international markets, many of the drivers of Irish inflation are outside our control. The focus should be on implementing domestic reforms to boost productivity and reduce domestically controllable costs.

This Chapter focuses on some specific direct business costs that are important at this time: energy, credit, insurance and legal services. These are longstanding issues for Ireland and particularly important for SMEs operating in the domestic market. The Council has made recommendations seeking to address the high costs in these areas in previous Challenge reports, and while there has been some progress, a lot remains to be done to ensure that our businesses can compete successfully on international markets. For instance, enhancing domestic competition across the key services is essential to reduce input costs for enterprises and boost Ireland's competitiveness and productivity.

The Council notes some progress in addressing cost issues. For example, in *Ireland's Competitiveness Challenge 2021* (recommendation 2.3), the Council recommended the Department of Finance ensure that sufficient resources are committed to the review of the Irish banking sector and that any actions identified to improve competition in the provision of SME credit are implemented. The Council is pleased that the Terms of Reference for the Review were published on 23 November 2021 and the review is currently underway. In *Ireland's Competitiveness Challenge 2021* (recommendation 2.2), the Council recommended a review of the early impact of the Personal Injuries Guidelines to establish whether they are having the desired impact on award levels and publish the findings of the review; the Council is pleased that this was completed in October 2021. Despite these examples of progress, high costs in these areas remain an issue for businesses in Ireland. Therefore, the Council has decided that it is appropriate to address these topics once again. The Chapter also looks at two key indirect costs which impact the real labour costs for enterprises, namely housing and childcare.

5.2 Current Situation in Ireland

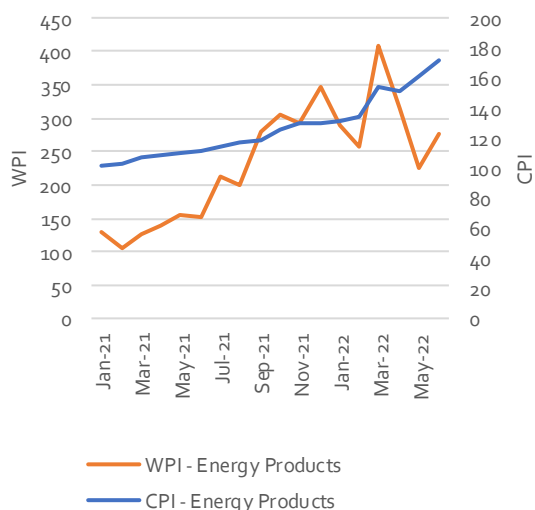
5.2.1 Energy Costs

Ireland is currently facing a serious challenge regarding both energy cost and security of supply, as noted in Chapter 4. Amongst other factors, Russia's war in Ukraine has led to rising energy costs. Ireland is acutely exposed to such increases, given its high dependence on imported energy, which accounted for 71% of all energy in 2021²⁷³. The energy cost crisis in Ireland has led to two significant challenges to Ireland's competitiveness. Firstly, the cost of inputs to Irish businesses have risen considerably, putting pressure on business profitability and discouraging investment and employment. Second, the energy crisis means that

²⁷³ [Bulletin 22-1 Energy Security - Competitiveness](#)

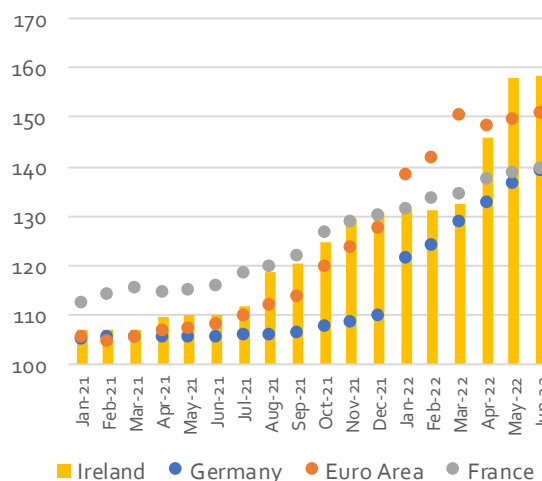
consumers who are facing higher energy costs will likely increase demands for higher wages, as rising prices will reduce household's real disposable income. Whilst Government cannot fully insulate individuals and businesses from developments in international energy markets, it has already implemented several measures (at a cost of over €300 million) to help ease the impact of rising energy prices on Irish households and businesses²⁷⁴. As mentioned in Chapter 1, the Council believes that any further supports to businesses and consumers for rising energy costs should be targeted to those most susceptible to such rising costs.

Figure 5.2.1: Consumer and Wholesale Energy Prices²⁷⁵ in Ireland, January 2021 – June 2022



Source: Central Statistics Office

Figure 5.2.2: Harmonised Index of Consumer Prices²⁷⁶ – Energy Prices, January 2021 – June 2022



Source: Eurostat

Figure 5.2.1 above shows increases in the Consumer Price Index (CPI) and Wholesale Price Index (WPI²⁷⁷) for energy products from January 2021, with large increases in February 2022, implying that both businesses and consumers are now facing much higher energy costs in Ireland. Figure 5.2.2 shows Ireland's energy prices in a European context. Notably, for May and June 2022, Ireland had the highest inflation in consumer energy prices when compared to France, Germany and the euro area average.

Rising energy prices have continued and escalated through Summer 2022, and it seems likely that little will change in the near future. Gas contracts for next year delivery are currently at record high levels, according to yearly forward contracts – indicating that markets expect that high prices will extend into 2023²⁷⁸.

5.2.2 Domestic competition: the Banking Sector

The high cost of banking services in Ireland has been acknowledged by the Government with numerous policy responses. These high costs are a major issue for businesses in Ireland, and in particular the cost of credit.

²⁷⁴ [Government announces further measures to help households with rising cost of energy \(www.gov.ie\)](http://www.gov.ie)

²⁷⁵ Subsection for both WPI and CPI is "Energy Products", both indexed as 2015=100. The WPI subsection refers to energy costs faced by manufacturing industry.

²⁷⁶ Electricity, gas, solid fuels and heat energy, 2015=100

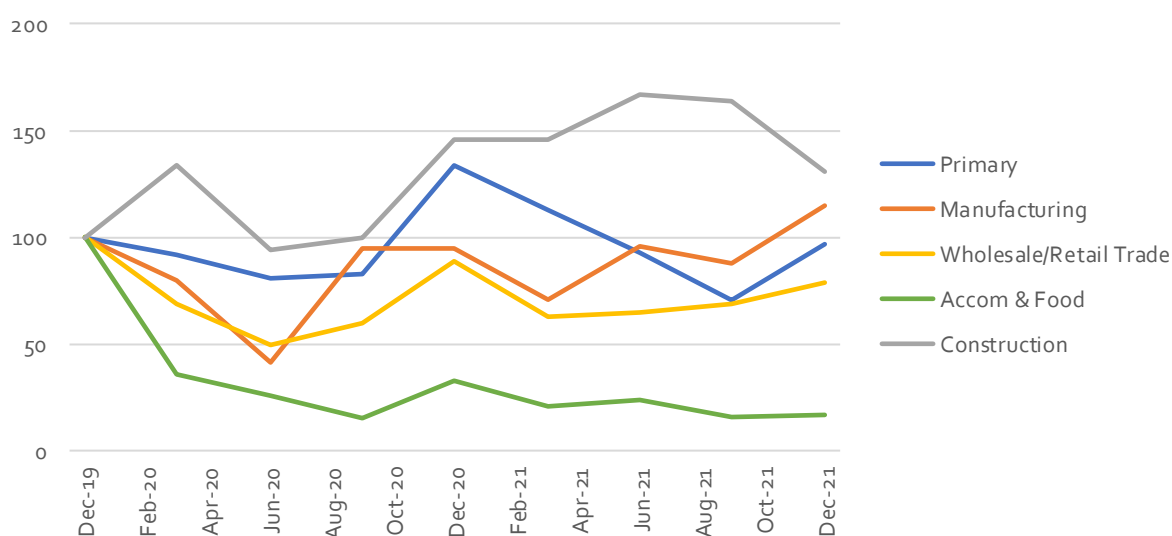
²⁷⁷ Wholesale Price Indices (excluding VAT) for Energy Products (i.e. Fuels purchased by Manufacturing Industry)

²⁷⁸ [Traders expect European gas prices to remain elevated for years to come | Financial Times \(ft.com\)](https://www.ft.com)

Access to competitively priced sources of finance is essential for Irish enterprises to improve productivity and scale up production and sales. Limited or costly credit damages the environment for entrepreneurship, scaling and investment, and amounts to a competitive disadvantage for Irish enterprises.

Prior to COVID-19, lending to SMEs in Ireland had been steadily increasing. However, lending reduced at the onset of the pandemic. Overall, gross new lending to SMEs was marginally higher over 2021 than for 2020 but still 25% lower than 2019²⁷⁹. New bank lending to Irish SMEs has fallen by approximately 13% compared with pre-pandemic levels. The trajectory of new lending has varied widely by sector, with Accommodation & Food seeing by far the largest decline (over 70%). New lending has returned for some sectors to pre-pandemic levels, for example, in the agricultural²⁸⁰ sector. Lending for the construction and manufacturing sector is larger than in the pre-pandemic period.

Figure 5.2.3: New Bank Lending to SMEs in Selected Sectors, Index December 2019=100



Source: Central Bank of Ireland – "SME credit conditions in the pandemic recovery"²⁸¹

According to the latest Bank Lending Survey by the Central Bank of Ireland, demand for loans by enterprises decreased marginally in 2022 Q2, with the decline expected to persist in 2022 Q3. The survey states that banks have noted the role of rising commodity prices on enterprises, anticipating that this will lead to uncertainty related to decisions regarding future credit demand.²⁸² The NCPC looks forward to the imminent release of the SME Credit Demand Survey which monitors trends in access to credit by SMEs and will return to this survey in future.

Irish SMEs show weaker demand for credit than other countries in the European Union²⁸³. These patterns are likely caused by certain factors, including risk aversion owing to the scarring experience of many over-indebted businesses during and following the financial crisis, and the higher cost of borrowing in Ireland compared to Europe.

²⁷⁹ [Trends in SME and Large Enterprise Credit and Deposits.pdf \(centralbank.ie\)](#)

²⁸⁰ Primary enterprises are those in the Agriculture, Forestry & Fishing and Mining & Quarrying sectors, but is dominated by the agricultural sector.

²⁸¹ New lending from Irish registered banks to Irish non-financial, non-real estate SMEs by sector, indexed to Dec-2019 levels.

²⁸² [Bank Lending Survey – July 2022 \(centralbank.ie\)](#)

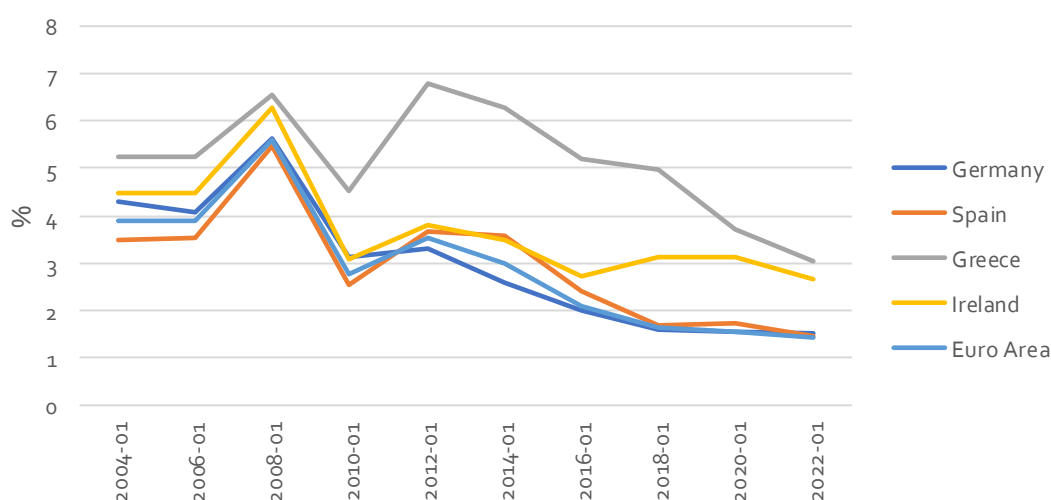
²⁸³ [SME Credit Conditions in the Pandemic Recovery - Durante McGeever \(centralbank.ie\)](#)

One factor influencing the demand and cost of credit in Ireland is interest rates. Businesses in Ireland face higher interest rates than the average business in the euro area. This is a consistent feature of the data regardless of intrinsic features of the loan, whether it is large or small, or whether it is for a short or long duration. For example, in early 2019, Irish companies faced a much higher interest rate (3%) than their euro area counterparts (1.3%). During 2020 and 2021, the gap fell somewhat but since early 2022 Irish businesses have faced a 3% interest rate, compared to businesses in the euro area paying an interest rate of roughly 1.2%. The Central Bank has noted that the lack of competition in the lending market is one of the major reasons for higher interest rates in Ireland compared to the eurozone²⁸⁴. As in most markets, competition tends to be good for consumers – the greater the competition, the lower the possibility for firms to be able to influence the price of a product. Consequently, the lack of competition in the Irish banking sector may contribute to explaining the interest rate differential set out above.

A second factor potentially leading to a higher cost of credit is the reduced competitive pressures in the Irish market, a point noted by the Central Bank in relation to households and small to medium-sized entities²⁸⁵. Competition within the domestic banking sector has declined over the past two decades following the exit of several international players (Bank of Scotland, Danske Bank and Rabobank), and will decline further with the withdrawal of Ulster Bank and KBC from the Irish market, reducing options in the Irish SME lending sector. For example, since the departure of Ulster Bank and KBC, AIB and BOI now control over 70% of the Irish mortgage market²⁸⁶. This raises issues around banking sector competition and access to competitive credit for Irish businesses.

On a positive note, Ireland has a growing non-banking sector, defined as a financial institution that does not have a full banking license with suppliers of credit from the non-banking sector have become more prevalent in the last decade, lending €1.6 billion to SMEs in 2020 compared to total bank lending of €4.3 billion in that year²⁸⁷, making Ireland's non-banking sector the fifth largest in the world²⁸⁷. The non-banking sector promotes greater credit choice for businesses and greater competition in the credit market²⁸⁸.

Figure 5.2.4: Average interest rates from banks to non-financial companies, all loan values²⁸⁹



Source: European Central Bank

²⁸⁴ [Monetary policy and interest rates in Ireland \(centralbank.ie\)](https://www.centralbank.ie/monetary-policy-and-interest-rates-in-ireland)

²⁸⁵ [Monetary policy and interest rates in Ireland \(centralbank.ie\)](https://www.centralbank.ie/monetary-policy-and-interest-rates-in-ireland)

²⁸⁶ [AIB and Bank of Ireland add €5.5bn to value since Ulster and KBC first revealed exit plans \(irishtimes.com\)](https://www.irishtimes.com/business/banking-finance/aib-and-bank-of-ireland-add-5.5bn-to-value-since-ulster-and-kbc-first-revealed-exit-plans-2021-08-11)

²⁸⁷ [Beyond Big-Measuring Ireland's Non-Bank Financial Intermediation | Central Bank of Ireland](https://www.centralbank.ie/monetary-policy-and-interest-rates-in-ireland)

²⁸⁸ [The role of non-bank lenders in financing Irish SMEs | Central Bank of Ireland](https://www.centralbank.ie/monetary-policy-and-interest-rates-in-ireland)

²⁸⁹ Banking sector interest rates to non-financial companies [ECB Statistical Data Warehouse \(europa.eu\)](https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220801.en)

Figure 5.2.4 shows that Irish non-financial businesses have been paying increasingly higher rates of interest than the euro area, Germany and Spain, since 2017. The current rate is just narrowly below that of Greece. With the ECB increasing interest rates across the European Union to combat rising inflation, Irish businesses can expect interest rates to rise further.

Government policy supports during the COVID-19 pandemic were large and composed mainly of grants, albeit other supports were also deployed (including a commercial rates waiver, credit guarantees and tax warehousing). The forward outlook for SME credit conditions includes two major challenges. First, the tapering of the Government support to businesses is underway and payments under the wage subsidy scheme have ceased since May 2022. While CBI micro-simulation evidence suggests that most firms have a viable path forward²⁹⁰, there will be a cohort of weak firms that will struggle without supports and extensive levels of forbearance²⁹¹. It is possible that credit demand will rise in the coming months as firms seek refinancing from the formal credit market. Second, inflation represents a risk to SME trading performance if it swells input costs or leads to depressed demand as consumers re-consider their spending priorities.

5.2.3 Addressing High Costs in Insurance and Legal Sectors

High costs in the insurance and legal sectors are longstanding issues for Ireland. The Council has made recommendations seeking to address the high costs in these areas in previous Challenge reports, and while there has been some progress, more remains to be done to ensure that our businesses can compete on international markets.

Insurance

Public liability (PL)²⁹² and employer's liability (EL)²⁹³ insurance allow organisations to undertake a broad range of activities by reducing the risk that they face by transferring it to specialist risk management organisations. Without affordable insurance, businesses (particularly SME's) may face too great a risk if they expand and consequently miss out on opportunities to grow.

In *Ireland's Competitiveness Challenge 2021* and in a Bulletin published in February 2021²⁹⁴, the NCPC reported an increase in EL and PL premiums in Ireland over recent years. These findings were consistent with reports over several years prior to COVID-19 from the sectors most affected by the cost of PL and EL insurance (for example, childcare²⁹⁵) that insurance for certain types of business was becoming increasingly difficult to procure and the price for such insurance was continuing to rise. These relatively high costs across key services sectors are impacting the competitiveness of businesses negatively, so it is important to understand what is driving these higher prices, and whether there are any appropriate policy actions that could address these issues.

The National Claims Information Database (NCID) provided by the Central Bank was established in 2019 to increase transparency around the cost of insurance claims and provides aggregate data relating to premia and the cost of claims for Private Motor Insurance, EL, PL and Commercial Property. The Central Bank publishes reports on each type of insurance. The NCID is a rich data source that the Council will return to in the future.

²⁹⁰ McCann et al., 2021

²⁹¹ SME Credit Conditions in the Pandemic Recovery - Durante McGeever (centralbank.ie)

²⁹² Protects businesses if they are liable to a member of the public for bodily injury, damages, expenses etc. following an accident in connection with the business.

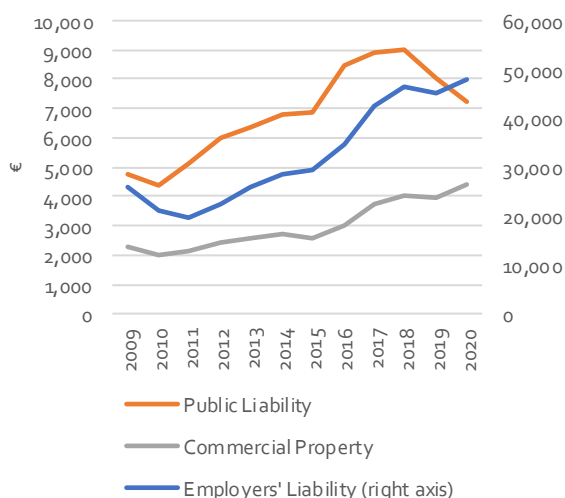
²⁹³ Protects businesses against liability for injury, illness, disease, or death of any employee under a contract of service with your business.

²⁹⁴ [national competitiveness and productivity council bulletin 21-1.pdf](#)

²⁹⁵ [gov.ie - Independent Review of the Cost of Providing Quality Childcare Services in Ireland \(March 2020\) \(www.gov.ie\)](#)

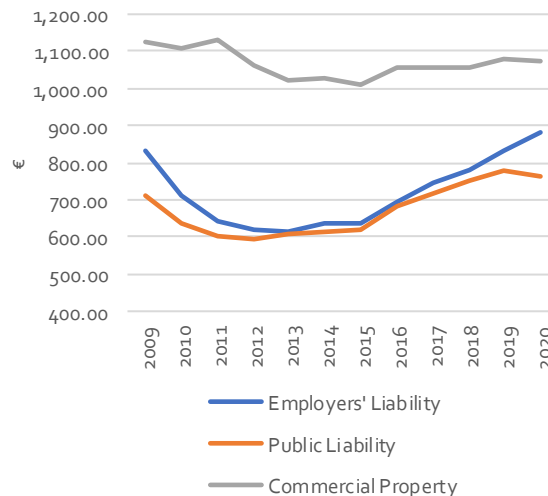
According to the Central Bank's most recent NCID report, released in June 2022, the large majority (84%) of EL, PL and Commercial Property insurance policies earned between 2009 and 2020 were taken out as part of a Package policy²⁹⁶. The report finds that the average earned premium for the EL and PL components of Package policies decreased by 26% and 14% respectively from 2009 to 2013, and then increased by 44% and 25% respectively between 2013 and 2020. From 2019 to 2020, EL increased by 6% whereas PL decreased by 2%. Although the average premium metric is the best available indicator of overall average premiums, it is important to note that calculating an average premium metric that accurately reflects market price movements in liability and commercial insurance markets is very challenging due to changes in the mix of policies, lines of business and sectors as well as changes in the size of policies, policy excesses, limits, risk and covers. Taking such limitations in mind, Figure 5.2.5 shows that for standalone policies, average premia by insurance type have steadily increased since 2009, with average premia from Public Liability insurance falling since 2018. Figure 5.2.6 shows the fall in premia for Public Liability within a package policy is smaller than for standalone packages, while Employer's Liability and Commercial Property both showing increasing average premia.

Figure 5.2.5: Average earned premium per insurance cover for Standalone policies 2009-2020



Source: Central Bank NCID

Figure 5.2.6: Average earned premium per insurance cover for Package policies 2009-2020

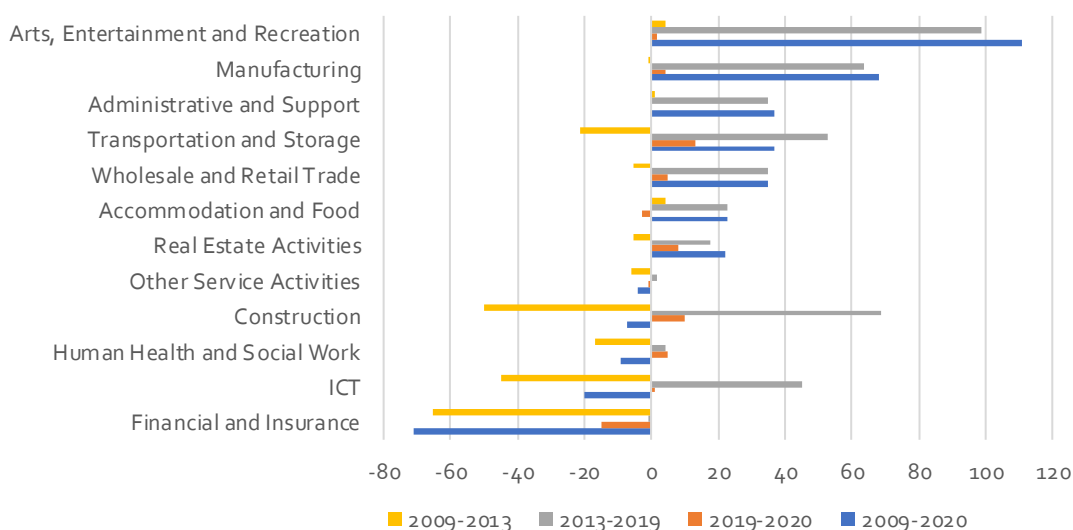


Source: Central Bank NCID

Over 57% of Package policies were for a premium of less than €1,000, 92% had a premium less than €5,000 and 99% were for a premium of less than €25,000. These percentages vary across different sectors²⁹⁷. Figure 5.2.7 below shows the average earned premium for Package policies has increased significantly for sectors which have been particularly impacted by COVID-19. For example, the Arts, Entertainment and Recreation, Accommodation and Food, and Wholesale and Retail sectors have, over the period 2009-2020, experienced increases of 111%, 23% and 35%, respectively. These increases have mainly occurred since 2013. In contrast, the average earned premium has fallen in the sectors which were not as impacted by the pandemic; for example, Finance and Insurance (-71%) and ICT (-20%) sectors.

²⁹⁶ A "package" policy implies the customer is purchasing multiple insurance covers within one policy, while "standalone" implies the customer is only purchasing one type of insurance cover from the provider.

²⁹⁷ The report notes that it is not possible to publish information on all sectors due to statistical confidentiality rules which are applied to ensure that individual insurance undertakings are not identified as per the Central Bank (National Claims Information Database) Act 2018.

Figure 5.2.7: Percentage Change in Package Policy²⁹⁸ Premium by Sector

Source: Central Bank Employers' Liability, Public Liability and Commercial Property Insurance Report 2

To help combat the growing costs of insurance the Judicial Council adopted the Personal Injuries Guidelines on 6 March 2021, setting new guidelines for personal injury compensation awards in Ireland. These came into effect on 24 April 2021. Through the Personal Injuries Assessment Board (PIAB), certain classes of personal injury claim, where liability is uncontested, can be settled without the need for many of the costs associated with litigation, which can contribute significantly to the high cost of settling such claims. Evidence to date shows that the PIAB guidelines have had a clear and significant cost saving impact since their introduction. According to PIAB's *Annual Report 2021*²⁹⁹, published in July 2022, there has been a decrease in the volume of claims of 31% in the last 2 years. The introduction of the Personal Injuries Guidelines in April 2021 resulted in a decrease in overall total award values in 2021 of €49 million compared to 2020.

The NCPC welcomes the level of awards decreasing and it is important now that insurance premiums follow suit. The perceived lack of competition in the insurance sector is seen as a cause for these benefits not being passed on. The Department of Finance has cited data it received from the Central Bank in 2019 which shows almost 250 companies ceased offering services in Ireland between 2014 and 2019. The data suggest an increased trend for non-life companies operating on a freedom of services basis³⁰⁰ leaving the Irish market since 2014 (14 in 2014 and 46 in 2019)³⁰¹. The Council believe that addressing this lack of competition is key to reducing these high costs to business thereby increasing Ireland's competitiveness and productivity.

According to *Insurance Ireland*, the market for EI and PL had been loss-making for a number of years and remained very challenging³⁰². This is further confirmed by the Central Bank's *Employers' Liability, Public Liability and Commercial Property Insurance Report of the National Claims Information Database (NCID)*³⁰³, published in June 2022, which found a reduction in EL, PL and Commercial Property insurer's profitability in recent years. Between 2009 and 2014, EL, PL and Commercial Property insurance were predominantly profitable with an operating profit across all coverage types of 11%. However, from 2015-2019, there was a combined operating

²⁹⁸ The large majority (84%) of EL, PL and Commercial Property insurance policies earned between 2009 and 2020 were taken out as part of a Package policy. Sectoral breakdown of the NCID is only available by these Package policies and not by standalone policy type.

²⁹⁹ [PIAB-Annual-Report-2021.pdf](#)

³⁰⁰ Establishes a Branch operation and conduct business on a 'freedom of establishment' basis. Writes business from the Home state to the Host state on a 'freedom of services' basis.

³⁰¹ [Insurance Industry – Tuesday, 26 Nov 2019 – Parliamentary Questions \(32nd Dáil\) – Houses of the Oireachtas](#)

³⁰² [Insurance Ireland - The Voice of Insurance](#)

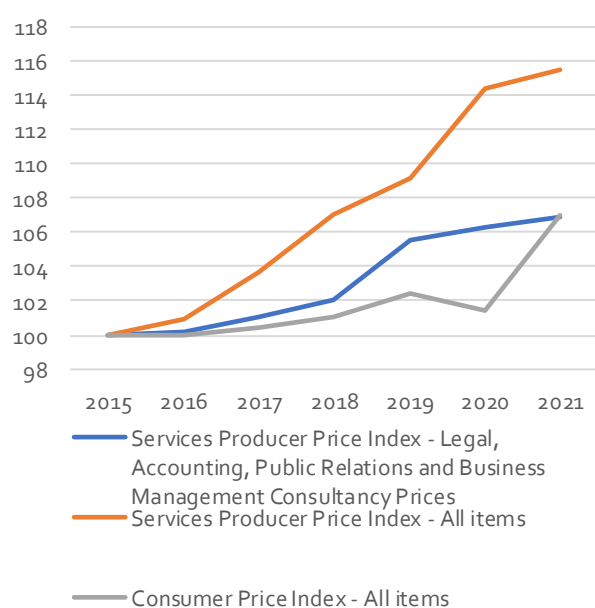
³⁰³ [Second Employers' Liability, Public Liability and Commercial Property Insurance Report of the NCID published \(centralbank.ie\)](#)

loss of 3%. EL was consistently unprofitable averaging a loss as a percentage of total income of 23% in this period. PL averaged 0.5% profit, while Commercial Property was consistently profitable equating to a 7% profit as a percentage of total income in this period

Legal

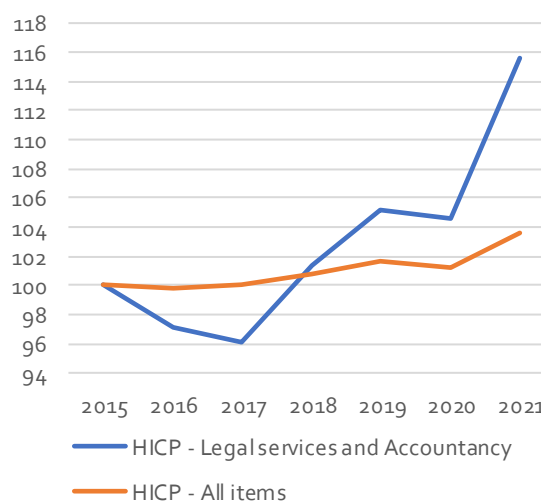
The cost of legal services is fundamental to the competitiveness of Irish businesses. Ireland ranks among the highest-cost jurisdictions internationally for civil litigation³⁰⁴. High legal costs affect the ability of companies to compete and prosper and are associated with other problems. For example, there are indirect costs that stem from the uncertainty created by potentially high litigation costs, and any associated delays may deter investment and affect the ability of companies to borrow. Relatively high legal costs are potentially placing businesses at a competitive disadvantage compared to other jurisdictions, so it is important to understand what is driving these higher prices, and whether there are any appropriate policy actions that could address these issues. Furthermore, the high cost of litigation can represent a barrier to access to justice, in effect amounting to a denial of justice for individuals and businesses who are deterred from having recourse to the Courts for fear of financial consequences.

Figure 5.2.8: Irish SPPI & Irish CPI, 2015=100



Source: Central Statistics Office

Figure 5.2.9: HICP - Irish legal fees, 2015=100



Source: Eurostat³⁰⁵

Due to current data limitations regarding legal costs, defining and measuring these costs is challenging. The primary source of quantitative data on the cost of legal (and other) services is the CSO's Services Producer Price Index (SPPI)³⁰⁶. The SPPI is made up of a set of individual price indices that measure changes in the average level of prices charged by producers for a selected range of services supplied to businesses and Government. The SPPI shows changes in the selling price index received by service providers in Ireland. The overall SPPI rose by close to 16% between 2015 and 2021 whilst the SPPI sub-component measuring Legal, Accounting, Public Relations and Business Management Consultancy costs rose at a more modest pace over the same period

³⁰⁴ Review of the Administration of Civil Justice - Review Group Report

³⁰⁵ This Eurostat index comes from data sourced from the CSO. Since the CSO does not measure Accountancy fees this Eurostat index is an index of purely legal fees.

³⁰⁶ The data is presented as an index, so only gives information about price changes, and does not give a sense of absolute prices in Ireland. The SPPI sectoral data that is published on legal services is in a group with accounting, PR and consultancy costs; changes to this index may not be caused by just legal fees.

(+7%). The latter may be due to businesses facing higher legal costs. The most notable sectoral changes between 2015-2021 were: Sea & Coastal Transport (+36.6%) as well as Employment and Human Resource Activities (+35.7%). The SPPI measuring legal and other related services costs has risen faster than Ireland's overall rate of consumer inflation for a number of years. From the consumer price perspective (see Figure 5.2.9), the Harmonised Indices of Consumer Prices (HICP) data measures the changes over time in the prices of consumer goods and services acquired by households. This measure shows a 16% increase in the cost of legal fees paid by households since 2017. Also, legal fees have risen much higher than the overall HICP index, which suggest and that legal fees have risen at a higher rate than many other costs since 2017.

Additionally, the Irish legal system and the Courts involvement in planning applications is slowing the planning application and approval process. In a survey conducted by Mason Hayes & Curran on 300 participants working in the property sector, 95% of respondents argued a change was needed in planning regulations, while 40% argued for fewer judicial reviews in planning applications³⁰⁷. The legal system may be acting as a barrier to construction through difficulty in planning applications. This has the potential to negatively impact on Ireland's ability to deliver on its targets under HfA, NDP and CAP (see further discussion on infrastructure in Chapter 4). A reform in this area of the Irish legal system is needed to overcome such issues.

High litigation costs have been flagged in previous iterations of *Ireland's Competitiveness Challenge*, for example, recommendation 5.3 in the 2020 report and recommendation 2.1 in the 2021 report. High legal costs continue to raise concerns and work is ongoing to address those challenges. The Review of the Administration of Civil Justice³⁰⁸ was established in March 2017 to reform the administration of civil justice in the State. The Review Group was given the responsibility of proposing policy reforms to reduce the high cost of litigation including costs to the State. The Review's report *Review of the Administration of Civil Justice*³⁰⁹ was published in December 2020 and proposed two alternative options to lower litigation costs. The majority view proposed non-binding guidelines, which would help to improve certainty and transparency of the legal costs. These non-binding guidelines would be of assistance to parties and their representatives, by reference to individual items that could be outlined in a table. The minority view proposed that a mechanism for prescribing the maximum levels of litigation costs chargeable, in the form of a table of costs that should be introduced, with suitable safeguards to deal with exceptional circumstances. The Department of Justice has since commissioned an external consultant to carry out an economic analysis of models or approaches to reducing litigation costs and it is expected to conclude its work later this year. The Council believes that controlling litigation costs is crucial to managing high legal costs in Ireland.

5.2.4 Indirect Business Costs: Housing and Childcare

Housing

Housing is a key area of infrastructure (discussed in greater detail in Chapter 4) which can have strong indirect impact on business costs. High housing costs can have a knock-on effect on wage demands and increased difficulty in attracting staff. High housing costs can also lead to decreased labour mobility, which can have significant productivity impacts if they deter workers from moving location to take up high-productivity roles, which might be more prevalent in city agglomerations (Ahrend *et al.*, 2014).³¹⁰ It remains vital, therefore, that Ireland continues to act to address high costs in housing such that real incomes are not further eroded. The surge in demand and in the cost of development land has exacerbated housing prices. Additionally, there is

³⁰⁷ [Planning biggest problem for supply – survey \(lawsociety.ie\)](https://www.lawsociety.ie/planning-biggest-problem-for-supply-survey)

³⁰⁸ [gov.ie - Review of the Administration of Civil Justice \(www.gov.ie\)](https://www.gov.ie/review-of-the-administration-of-civil-justice)

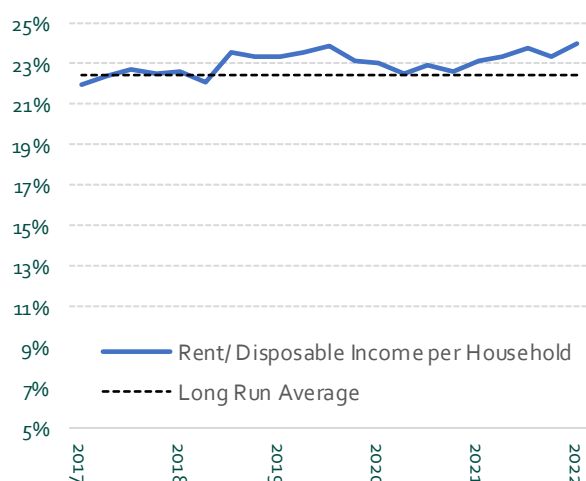
³⁰⁹ [Review of the Administration of Civil Justice - Review Group Report - The Department of Justice](https://www.justice.gov.ie/Review-Group-Report)

³¹⁰ [OECD – "What makes Cities more productive?"](https://www.oecd.org/cities/what-makes-cities-more-productive/)

added pressure in the form of high and rising input costs, with the Wholesale Price Index for Building and Construction materials up 18.5% in year to June 2022³¹¹.

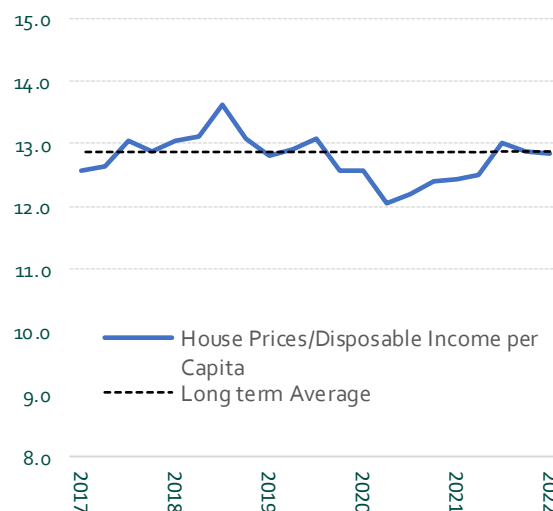
The RTB Rent Index for 2022 Q1 records a standardised average rent of €1,459 per month – a 9.2% increase on 2021 Q1 and the highest average rent recorded in the Index to date. Tightness in the rental market supply (a combination of insufficient new stock and landlords exiting the rental market) and associated rising rents are having follow on impacts on businesses in terms of increased costs of finding staff if they are unable to live close to businesses, as well as increased labour cost pressures through higher wage demands in order to meet higher housing costs.

Figure 5.2.10: Average National Rent as a share of Household Income



Source: Department of Finance

Figure 5.2.11: Average House Price to Disposable Income per capita



Source: Department of Finance

Elevated rental prices can be seen in Figure 5.2.10 above, with the average national rent at 24% of disposable income per household, this is now above the long run average of approximately 22%. The data shown uses national averages, which will mask regional differences across Ireland. The reduction in rental affordability impacts real wages and decreases disposable income. At the same time, as shown in Figure 5.2.11 house price affordability for prospective purchasers have also been eroded.

A well-functioning housing and construction sector is critical to the overall health of society and the economy. Ireland's *Competitiveness Challenge 2021* discussed the considerable volatility Ireland's housing market has experienced over the past two decades and the negative impact this volatility has had on the supply of new housing stock. The prolonged undersupply of new housing has led to chronic shortages of properties in both the rental and home ownership markets, resulting in house price increases, rental market pressures and increased homelessness, as households are priced out of local markets.

Childcare Costs

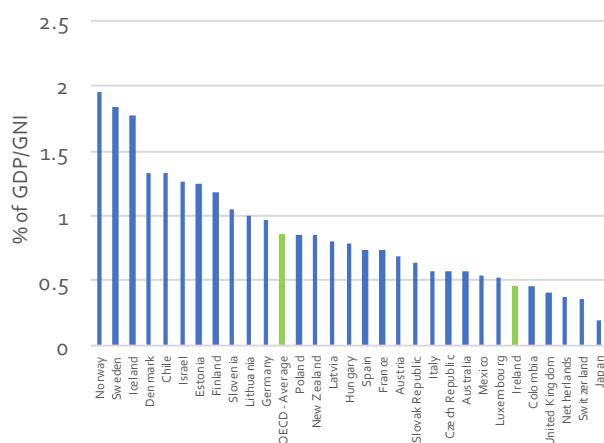
The NCPC recognises that availability and access to high-quality early-learning and childcare can be a significant barrier to some parents, particularly mothers, participating in the labour force. Real wages are the key measure of how well-off a person feels – real wages account for what a person can buy with the wages they receive. If prices are increasing faster than nominal wages, then real wages are declining, and people are

³¹¹ [Wholesale Price Index June 2022 - CSO - Central Statistics Office](#)

becoming less well off. The Council includes childcare costs in this Chapter given their impact on wage pressures, and consequently on the competitiveness of firms and of Ireland as a place in which to do business. Investment in childcare can help with the cost of living, reduce inflation and can encourage more parents to re-enter or stay in the labour market.

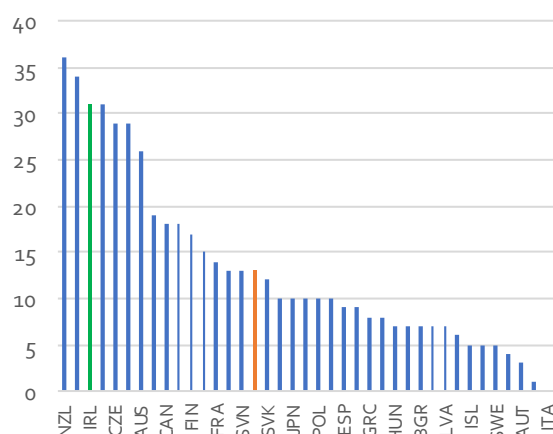
While international comparisons are fraught with methodological issues, evidence from the OECD and other independent research suggests that Ireland has a low proportion of national income invested in Early Learning and Care (ELC). Analysing the ELC of 37 OECD countries included in a cross-country comparison, as shown in Figure 5.2.13, Ireland ranked sixth lowest in terms of expenditure on ELC as a percentage of GDP (adjusted to GNI in the case of Ireland) – at 0.4% of GNI. Furthermore, as illustrated in Figure 5.2.14, Ireland has the third highest net childcare costs in the OECD for parents using full-time, centre-based childcare, and is one of the countries with the highest average ELC cost relative to average national earnings. This is worrying, as such high costs will result in increased pressure on families (and particular one-parent families) and may lead to reduced labour force participation and hence labour supply. Parents facing higher costs of childcare are likely to demand higher wages, impacting the competitiveness of Irish businesses. The Government has already indicated two ways in which early learning and childcare costs to parents will be reduced: by increasing subsidies under the National Childcare Scheme (NCS) in tandem with the introduction of fee management to control fee increases in the child-care sector. Under First 5, Government has committed to increasing public investment in ELC and SAC to at least €1 billion by 2028. The Expert Group on a new funding model for Early Learning and Care and School-Age Childcare note and welcome the fact that this is an investment floor, not a ceiling.

Figure 5.2.13: Net Childcare Costs, Couple, % of average wage spent on full-time centre-based childcare, 2020.



Source: OECD

Figure 5.2.14: Total Expenditure on Early Childhood Education as a % of GDP, 2018



Source: OECD

In line with Recommendation 4.4 made in *Competitiveness Challenge 2021*, the Government has moved towards implementing the aforementioned Expert Group on a new funding model for ELC and SAC report's recommendations. Some 95% of ELC and SAC providers have participated in the Transition Fund and implemented a fee freeze from May to August 2022, ahead of the launch of the new Core Funding scheme³¹². From September 2022, Core Funding, with a full year budget of €221 million, is intended to stabilise fee levels and ensure the affordability benefits of NCS and ECCE subsidies are transferred to parents. Core Funding is a

³¹² gov.ie - Over 90% of Early Learning and Care and School-Age Childcare providers introduce fee freeze for parents (www.gov.ie)

distinct departure from other funding schemes for ELC and SAC which work on a 'per child' basis, as the Core Funding scheme will be based on a service's capacity. Core Funding is intended to contribute significant public investment for improved pay and conditions for the workforce, to be underpinned by Employment Regulation Orders.

Through Core Funding, providers will have an allocation each year that will not fluctuate in line with children's attendance, contributing further to their sustainability. This is a new and different way of providing funding to the sector and is intended to support the development of a partnership relationship between providers and the State that reflects the public good dimension of ELC and SAC. Core Funding is intended to provide greater transparency and accountability in the sector, including completion of the Sector Profile survey to provide a baseline to assess the impact of Core Funding at a sector-wide level, as this data will provide vital insight to track and monitor trends and identify key issues in the sector.

5.3 Actions Crucial for Reducing Business Costs

5.3.1 Energy

Energy has been discussed extensively throughout this report. Chapter 4 examined infrastructural investment in energy and Chapter 5 has examined the costs of energy to business. High energy costs, in particular gas and oil (and electricity costs) are expected to weigh on business performance internationally over the short to medium term. The exposure of Irish firms to these energy price increases is related to the primary energy mix within Ireland, with the large part of this imported. Continued high exposure to fossil fuels will be a differentiator in competitiveness internationally in the short term, with those countries with a lower dependence on gas and non-renewable sources being able to supply energy to firms at a lower cost. For this reason, it is important that the necessary investments are made in renewable energy to increase its share in the energy mix to enterprise. It is also important that these investments are balanced alongside security of supply concerns, such that Ireland has a sufficient reliable baseload of energy production to provide a secure investment climate for the future. Chapter 4 included a recommendation calling out the need for delivery of renewable energy infrastructure. As mentioned in 5.2.1, further Government supports to businesses facing rising energy prices should be targeted to those most susceptible to the rising costs.

5.3.2 Actions to Increase Competition in Banking Sector

The concentrated lending market and higher credit risk premiums are important factors when determining the cost of credit in Ireland. Increasing competition and choice in the lending market would contribute towards reducing the cost of credit, as greater supply of credit would be available through more providers of credit and larger types of credit would be available. A diverse selection of funding types for Irish businesses will reduce demand for traditional credit, which theoretically should reduce its cost to Irish businesses. Therefore, diversifying the lending market in Ireland and in turn increasing levels of private equity, crowdfunding and venture capital funding remains important.

Following the Global Financial Crisis, comprehensive and stringent regulation was introduced to restore stability to banks and the retail banking sector. Within the banking sector, the highest prudential regulatory standards apply to banks, due to their pivotal role in the system. However, regulation that is considered disproportionate or excessive, can act as a barrier to entry given the fact that meeting regulatory requirements impacts directly or indirectly on costs, which in turn impact profitability. Stringent regulation relating to the enforcement of mortgage contracts may also make Ireland's banking sector unattractive to new entrants. Non-

banks face lower regulatory requirements in Ireland particularly in relation to capital and are a source of new competition in the SME lending and mortgage markets.

Low profitability in the Irish banking sector has exacerbated the lack of competition. Despite Ireland's economic recovery since the onset of COVID-19, banks' earnings and profitability remain under pressure due to modest growth opportunities, significant cost bases and high capital requirements. These include large cost bases together with continuous investment in business transformation and digital capabilities, and higher capital requirements than in other European countries for mortgage loans. Low profitability of Irish banks may limit downward pressure on interest rates in the Irish banking sector (or lead to increased pass through of rising ECB rates), as interest repayments are a large source of revenue for banks. It is likely that low profitability in the Irish banking sector is discouraging new entrants to the market which introduces a trade-off between lower interest rates, banking sector profitability and competition in the market.

Recommendation 2.3 of *Ireland's Competitiveness Challenge 2021* covered improving competition in the provision of SME credit by ensuring that sufficient resources are committed to reviewing the Irish banking sector. The Department of Finance is currently conducting a broad-ranging review of the retail banking sector in Ireland, with cooperation from the Central Bank and CCPC. As part of this review the availability of credit to SMEs from both banks and non-banks will be assessed as well as considering the impact of State measures in this area and if policy changes are merited. To date, the Review hosted the Retail Banking Dialogue in April at which a consumer survey was commissioned, which was published along with the public consultation document. The public consultation, which closed on 8 July, received in excess of 95 submissions and the Department of Finance will report to the Minister in November 2022. The Council welcomes the progress made to date; however, it is imperative that the implementation of the recommendations from this review is done quickly.

Recommendation 5.1: The NCPC recommends that the agreed recommendations made by the Retail Banking Review are implemented swiftly.

Responsibility: Department of Finance

Due to large supports offered to SMEs during COVID-19, SME turnover and profitability have recovered significantly relative to pre-pandemic levels. The heavy use of grant support during the pandemic has mitigated debt overhang risks and the forward outlook for SMEs is positive.

The State has played an increasingly significant role in SME lending over the last four years. More than 19,000 loans have been approved to the value of €1.88 bn through DETE supported loans since April 2018, providing much needed finance to SMEs to survive and grow. These loan schemes have addressed two major aspects of SME lending: market failures, including long term lending and finance to start-ups, and responses to emergencies such as Brexit and COVID-19. The Council believes that the lessons learned from previous loan schemes implemented by the State should be used to inform the design of any future schemes.

Market failures have been addressed by the Future Growth Loan Scheme (FGLS) and loans through Microfinance Ireland. These loans have provided funding for investment, innovation and growth where the traditional lenders would not support lending. Schemes such as the COVID Credit Guarantee Scheme (CCGS) and the Brexit Impact Loan Scheme (BILS) were large scale loan schemes which provided liquidity to SMEs at a time of severe shock to the business environment. The FGLS was exhausted in 2021 and the CCGS and BILS

both cease in 2022 in alignment with the European State Aid frameworks which underpin them. Successor schemes are being devised and legislated to ensure that SMEs will continue to have this form of lending available to them.

The tapering of Government supports to businesses will result in a rise in credit demand over the coming months. There will be a cohort of weak firms that will struggle without supports and it is possible that credit demand will rise in the coming months as firms seek financing from the formal credit market. It is crucial that, as Government supports taper, viable firms have access to credit.

Recommendation 5.2: The NCPC recommends that:

- (i) As the tapering of Government supports to businesses continues, ensure that firms are made aware of the financing options available to them.
- (ii) As FGLS has expired, CCGS closed on the 30th of June 2022 and BILS expires in December 2022, consider the implementation of a new State backed SME loan scheme in 2023, should the need and demand arise.

Responsibility: Department of Enterprise, Trade and Employment

5.3.3 Actions to reduce Legal Costs

It is important to understand what is driving the higher prices in the Irish legal system as discussed in section 5.2.2. Relatively high legal costs may be placing businesses at a competitive disadvantage compared to other jurisdictions and it is important to understand the issue in order to best identify any appropriate policy actions that could address these issues. At present it is not possible to measure the costs of legal services at a granular level; however, the CSO is currently piloting a new survey³¹³ on the legal services sector and will be expanding the survey to cover all aspects of the service economy in future. The Council welcomes the progress the CSO has made in the redevelopment of the SPPI and looks forward to the release of the new data series on the legal services sector.

Recommendation 5.3: The NCPC recommends that:

- (i) The CSO continue to expand the SPPI survey with a strong focus on developing granular sectoral data in order to measure services prices.

Responsibility: Central Statistics Office, Department of the Taoiseach

- (ii) The Department of Justice proceed to the immediate implementation of the findings from *The Review of the Administration of Civil Justice*

Responsibility: Department of Justice

5.3.4 Actions to limit indirect business costs

Housing

As previously discussed in Chapter 4, the delivery of housing remains a pressing requirement, The gap between housing supply and demand, and relatedly housing affordability, continues to be an issue for Ireland. This is impacting across both ownership and rental markets. Sufficient availability of affordable housing is important for the continued attraction of skilled worker, both domestic and international, to urban centres where such skills can drive Irish productivity growth. Difficulties in attracting staff due to housing costs will indirectly add

³¹³ [Services Producer Prices Redevelopment - Information Page - CSO - Central Statistics Office](#)

to the costs of doing business, in terms of increased job search and pressure on staff compensation. The Council recognises that the Government has continued to step up efforts and public resourcing on housing in moving from *Rebuilding Ireland* to *Housing for All (HfA)*, with the 2022 Q2 progress report on Housing for All recognising housing as the single most important social issues Ireland faces.

Since the publication of *Housing for All* there has been progress on the delivery of housing in the form of a greater number of units granted planning permission, more housing commencements, and critically, a higher number of housing completions. However, there are clear pressures which remain in terms of the availability of housing – particularly affordable housing. This report has pointed to a number of bottlenecks which can impact the supply and cost of housing, including delays to water and energy infrastructure, delays in the planning system, as well as the capacity constraints in the labour market discussed in Chapter 3. Through addressing these issues, alongside the broader range of measures set out in *Housing for All*, the Government can make improvements to the delivery of housing and reduce the impact of housing on the cost of doing business.

The Council is of the view that the Government should continue to implement *Housing for All*, with a strong focus on monitoring of progress to ensure that established targets are being met and barriers to the speed of implementation are being addressed.

Childcare

Investment in ELC and SAC in Ireland has increased significantly in recent years, rising from €265 million in 2015 to €716 million in 2022. This represents an increase of 141% and equates to 0.31% of Ireland's modified GNI in 2020, at current prices (€208 billion). Despite the increased investment in public investment over the past decade, average expenditure per child aged 3 to 5 is below the OECD average. However, if recent trends in public investment and commitments announced in the budget for 2022 are maintained over the longer term, Ireland will be making progress in catching up with OECD averages in future years.

An Expert Group on a new funding model for Early Learning and Care and School-Age Childcare was tasked to deliver a report containing proposals for a new funding model which will help ensure that this additional funding can be used in the best way to deliver high quality, affordable and accessible ELC and SAC. This report was published in the fourth quarter of 2021. The new funding model, with investment in the National Childcare Scheme and Core Funding to introduce fee management, is crucial if Ireland is to tackle this high-cost issue in childcare, which remains a threat to Ireland's competitiveness and sustainability by negatively impacting its attractiveness to many workers for whom childcare is a key determining factor of where to live and work.

The aforementioned report of the Expert Group makes a number of specific recommendations on the provision of ELC and SAC in Ireland, and in particular on the funding model³¹⁴. As previously outlined in section 5.2.2, the new funding stream, Core Funding, will operate from September 2022 alongside the NCS and ECCE and constitute additional income for providers on top of funding for these schemes, as well as income from parental fees. Greater public management of the sector will include conditions in relation to fees, quality improvements in services and transparency in relation to operations. The Council is aware of concerns among service providers on the viability of the new funding model, therefore it is imperative that any changes to the funding model do not negatively impact supply.

³¹⁴ Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare

A key finding from this research is that net costs (also known as “out-of-pocket” costs), which take account of co-payments and subsidies from the State, relative to national wage are high – for two parent, two earner couples on an average wage, Ireland’s out-of-pocket childcare costs are 3rd highest according to the OECD.³¹⁵ This is worrying for Ireland, as such high costs will result in increased pressure on families, and may lead to one parent dropping out of the labour force, hurting labour supply. Working parents facing higher net costs are likely to demand higher wages – both implications will reduce the competitiveness of Irish businesses.

The Government has introduced a package of measures for the ELC and SAC sector including a new Core Funding stream to deliver quality services without increasing costs for parents. It is important that Government now continues with the wider implementation of the Expert Group’s recommendations.

In particular, the Council believes the Government should monitor the impact of the new funding model on ELC and SAC to support high-quality, affordable, accessible and sustainable Early Learning and Childcare services without impacting supply.

5.4 Summary

Although Ireland has always had relatively high costs over recent years, this position is now exacerbated by the rise in inflation. These new inflationary pressures began mounting in the latter half of 2021 due to global supply chain problems and the rapid recovery in consumption in the aftermath of COVID-19. The Russian invasion of Ukraine intensified these pressures with input prices, especially energy prices spiking, followed by food and other commodities. Inflation is a global issue and as a small, open economy and price taker on international markets, many of the drivers of Irish inflation are outside our control. The focus should be on implementing domestic reforms to boost productivity and reduce costs where possible.

The cost of credit, the cost of insurance and the cost of legal services are longstanding issues for Ireland and particularly impact on the costs of SMEs operating in the domestic market. The Council welcomes recent reforms in these areas; however, challenges remain in the domestic market and more reforms are needed to reduce costs in order for Irish firms to continue to compete internationally. The Council also acknowledges the importance of further research alongside more granular official statistics in these areas to best identify policy to reduce business costs and boost Ireland’s competitiveness position.

³¹⁵ [Benefits and wages - Net childcare costs - OECD Data](#)

Conclusion

As noted at the beginning of the report, this year's *Ireland's Competitiveness Challenge* report is published in a period where the global economic outlook has become significantly more downbeat since last year. Ongoing supply chain disruptions and rising inflation worldwide have stifled the recovery in the aftermath of COVID-19 related disruptions. The Russian invasion of Ukraine in February 2022, sparking a humanitarian emergency in Europe, was a further blow to confidence. In addition, it has triggered a global cost of living crisis driven by steep increases in the price of energy, food, and other commodities and has added to the exceptionally high level of uncertainty surrounding the global economic outlook. There is also a need for continued adjustments in relation to the ongoing transition to carbon neutrality by 2050 and to the digital transition.

The Irish economy has been directly impacted by these international developments and the outlook for the domestic economy has been revised downwards for 2022 and 2023. Risks to the economic outlook have increased significantly over the course of 2022 and further downward revisions are possible as higher inflation, rising ECB interest rates and lower confidence are likely to hold back consumer spending and business investment. The Council recognises these challenges and reiterates the importance of ensuring competitiveness is not hampered by fiscal stimulus.

The recommendations outlined in this year's *Competitiveness Challenge* report address both immediate competitiveness issues, and more medium- to long-term challenges, aimed at enhancing Ireland's competitiveness and productivity performance. This year, the Council has identified 20 tangible, actionable policy recommendations.

Immediate Issues Facing the Irish Economy

Inflationary pressures have been mounting globally since the latter half of 2021, due to the rapid recovery in consumption in the aftermath of COVID-19, international supply chain bottlenecks, and base effects relating to weak price trends in 2020. The Russian invasion of Ukraine in February 2022 has put further strong upward pressure on global prices, particularly in energy markets, with many countries now recording the highest rates of inflation since the 1970s. The exceptional rise in inflation in Ireland in recent months has begun to erode real wages, with disposable incomes and living standards coming under strain.

As the economy continues its recovery, enterprises are grappling with a new business environment as COVID-19 related financial supports have been withdrawn and vulnerable firms in sectors that were highly impacted by disruptions over the past two years must reposition themselves in the post pandemic environment. The Council believes any future business supports should be designed and targeted to avoid any risk that they encourage unviable businesses to remain open or delay restructuring (**Recommendation 1.2**).

The Council stresses that, although the Government cannot control prices in international markets, it must ensure that any policy responses to international inflation do not embed inflationary expectations into the domestic economy which will undermine our competitiveness in the longer run (**Recommendation 1.1**). There will be a need for continued stringent management of any additional Government expenditure, beyond that already targeted at easing the cost-of-living crisis, to be focused on areas which raise the productive capacity of the economy (**Recommendation 1.3**). Government will also need to ensure that Ireland has a tax and social protection system that enhances economic potential and promotes quality employment so that living standards and quality of life improve for all of society (**Recommendation 1.4**).

Medium to Long-Term Challenges

Long-running issues which pre-dated COVID-19 require urgent attention and additional new policy issues have emerged in recent years, most notably the twin digital and climate transitions. Indeed, the transition to net zero carbon emissions is likely to be the principal disruptive force across all sectors of Ireland's economy over the coming years and the scale of this challenge cannot be underestimated, especially in the context of volatile international energy markets.

In relation to the longstanding issues, these include low SME productivity, skills and infrastructure gaps and cost pressures. These will require focused and coordinated consideration now as the responses required are multi-faceted and progress must be built upon in a stepwise fashion. Many of these actions and reforms will be challenging to implement and take time to deliver their desired result. Their lack of immediate urgency must not be allowed to crowd out the need for attention now if future economic burdens are to be avoided.

A key challenge is to boost productivity growth in Ireland with a focus on ensuring it is as broad-based as possible. The Council acknowledges the importance of the early and systematic implementation of the *Harnessing Digital*³¹⁶ strategy so that the digitalisation of the enterprise sector and broader society gets the required support (**Recommendation 2.1**). Early evidence suggests that Irish enterprises, especially micro, small and medium size firms, are not yet prepared to begin their climate and digital transitions and will require Government supports (**Recommendation 2.2**) to successfully manage their transformation. The Council welcomes the publication of *Impact 2030: Ireland's Research and Innovation Strategy*³¹⁷, which was the focus of a recommendation in last year's *Challenge* report, and now urges the Government to implement this strategy immediately with ongoing monitoring of targets (**Recommendation 2.3**).

The Council believes Government resources no longer required to support the recovery of the labour market in the aftermath of the COVID-19 shock should be refocused to: increase the digital skills of the labour force; develop measures that will increase labour force participation amongst currently underrepresented groups; continue to roll-out engagement programmes targeting specific cohorts including 'returners'; and increase outreach for skilled labour beyond the EU/EEA (**Recommendation 3.1**). The Council also believes that there are potential economic and social benefits from increasing labour force participation by older people and people with disabilities to be realised through the streamlining of the NDIS and CES strategies, and the continued examination of ways to improve the coordination of policy across Government departments (**Recommendation 3.2**).

The adoption of digital skills and the skills related to the green economy are crucial to support the twin digital and climate transition (**Recommendation 3.3 and 3.4**). Given the vital role apprentices will play in meeting Ireland's national targets under *Housing for All*, the *National Development Plan* and the *Climate Action Plan*, and the current overhaul of the apprenticeship system in Ireland, the Council believes that the implementation of the *Action Plan for Apprenticeship 2021-2025* is key to deliver a modern apprenticeship system with expanded programme options and increased take-up (**Recommendation 3.5**). The Council believe that initiatives to improve employee conditions, such as sick pay legislation and pension auto-enrolment, are vital, however it is also important to consider the impact of newly introduced measures on Irish enterprises, particularly given the context of inflation, Brexit, supply chain challenges, and the digital and green transitions (**Recommendation 3.6**).

³¹⁶ [Harnessing Digital - The Digital Ireland Framework](#)

³¹⁷ [Impact 2030 - Ireland's New Research and Innovation Strategy](#)

Improving the quality of infrastructure is essential to ensure Ireland has the capacity to achieve sustainable long-term growth and plays a key role in enhancing productivity. To ensure that the targets set across the *National Development Plan*, and *Housing for All* are met, upskilling of construction workers with the skills relating to Modern Methods of Construction is required, particularly in the context of a constrained labour market with rising cost pressures (**Recommendation 4.1**). Improvements in the planning system are also critical in facilitating the timely delivery of key infrastructure. The Attorney General's review of the planning code, and the introduction of a planning and environmental division of the High Court will be important developments in improving the delivery of planning decisions (**Recommendation 4.2**). The urgency with which Ireland must progress its climate commitments continues to increase. Reflecting this it is important to identify ways to enable greater investment in green energy generation capacity, and also to ensure that the regulatory system facilitates this investment and should seek to resolve delays where they might exist (**Recommendation 4.3**). Improved delivery is also needed in the country's water and wastewater infrastructure (**Recommendation 4.4**).

Reducing costs to business on the longstanding issues of credit costs, insurance costs and legal costs is vital to boosting the competitive position of Irish firms. Greater competition is needed in the lending market to reduce interest rates and direct costs to business (**Recommendation 5.1**) and businesses also need to be aware of affordable financing options as the tapering of Government COVID-19 supports to businesses continues (**Recommendation 5.2**). Relatively high legal costs may be placing businesses at a competitive disadvantage compared to other jurisdictions and it is important to understand the issue in order to best identify any appropriate policy actions that could address these issues (**Recommendation 5.3**).

It is also important to protect competitiveness by tackling issues that have a strong indirect impact on business costs. High housing and childcare costs can have a knock-on effect on wage demands, and to the potential creation of inflationary cycles. It remains vital, therefore, that Ireland protects previous gains in competitiveness, and that we continue to act to address high costs in housing and childcare.

Ensuring the continued competitiveness of the Irish economy and seizing opportunities to undertake vital reforms is especially important in times of heightened global uncertainty. The recommendations made by the NCPC will build towards a sustainable and inclusive economy, underpinned by broad based productivity growth, an adaptable and highly skilled workforce, adequate physical and social infrastructure, and manageable business costs.

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