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Press Release

Driving Productivity – Four strategic challenges to strengthen competitiveness and achieve sustainable and inclusive growth in the Irish economy

- NCPC highlights 19 targeted and actionable recommendations to Government which will build towards a sustainable and inclusive economy, underpinned by cost competitiveness, improved delivery of infrastructure, a sustainable energy environment, and stronger productivity growth through research, development, and innovation.

Today (28 September 2023), the Chair of the National Competitiveness and Productivity Council (NCPC), Dr. Frances Ruane, launched *Ireland's Competitiveness Challenge 2023* report. The *Competitiveness Challenge 2023* notes the ongoing uncertainty surrounding the global economic outlook. Subdued international growth is in prospect, with risks tilted to the downside. This reflects several factors including the ongoing geo-political tensions and economic impacts arising from the Russian invasion of Ukraine, high levels of inflation, rising interest rates, and a need to address decarbonisation and tipping points in the adoption of digital technologies (such as AI and quantum computing).

Supply chain issues highlighted in the aftermath of the COVID-19 pandemic, alongside energy security concerns, have also resulted in a growing agenda for open strategic autonomy within the EU and a changing framework for State Aid, with potentially major consequences for Ireland. As well as immediate competitiveness issues which require urgent attention, the NCPC has identified in its *Challenge Report 2023* four broad medium- to long-term strategic areas where actions are needed to enhance Ireland's competitiveness and productivity performance. These include the need to address the rising costs of doing business and delays in infrastructural delivery, and for accelerated progress towards our climate goals, and to boost productivity by facilitating investment in research, development and innovation.

On launching the report Dr. Ruane said: *"As a small and highly-open economy, with a relatively concentrated industrial base, Ireland is vulnerable to external shocks. There are a number of global factors at play which pose risks to Ireland's competitiveness position, including high levels of inflation, rising interest rates, supply chain issues and a growing agenda for open strategic autonomy. Consequently, maintaining competitiveness and boosting productivity will be key to strengthening Ireland's position as a sustainable and inclusive economy, while keeping pace with developments in global markets."*

Dr. Ruane added: *"To this end, the Council has identified a number of key strategic areas where actions are required, and 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."*

The *Competitiveness Challenge 2023* report makes 19 targeted and actionable recommendations to Government across four broad medium- and long-term strategic challenges, that are aimed at enhancing Ireland's competitiveness and productivity performance. These strategic challenges are:

- Reduce the cost of doing business in Ireland;
- Significantly improve the planning, development and delivery of infrastructure;
- Accelerate progress on the usage and generation of energy in line with our climate targets; and
- Enable stronger productivity growth through research, development, and innovation.

Dr. Frances Ruane added: *"The Council looks forward to receiving the Government's formal response to the Competitiveness Challenge recommendations in the coming months. Following the practice in the past three years, the Government will be publishing its response, a development which the Council believes contributes significantly to the transparency of policy-making in this area"*.

ENDS

NOTES TO EDITORS

[Ireland's Competitiveness Challenge 2023](#)

Ireland's Competitive Challenge 2023 is built on the best available domestic and international research. The report makes targeted and actionable recommendations to Government on the best ways to improve the competitiveness and productivity of the economy. Along with immediate issues facing the Irish economy, each of the four medium- to long-term challenge areas are explored in detail in a distinct chapter of the report. The following section provides a high-level overview of main findings in each chapter.

[Chapter 1: Immediate Issues facing the Irish Economy](#)

The Challenge Report notes that Ireland's economy has demonstrated substantial resilience over the past number of years and into 2023, reaching full employment despite international economic challenges, including persistent inflation and the associated response of rising interest rates. Ireland enjoys a positive fiscal balance, with sound institutions, a supportive business environment and strong demographic endowments. However, high business costs continue to drag on our overall competitiveness, with inflation compounding this. The slow delivery of infrastructure represents a threat to our competitiveness position. However, capacity constraints, which are most acute in our labour market, may limit the degree to which we can improve the speed of infrastructure delivery. In a state of virtually full employment, achieving a significant expansion in such areas as housing, energy and water infrastructure will require labour which is not in immediate supply. The Government must be cognisant of these constraints in the planning and prioritisation of key infrastructure projects. It needs to work to ease the degree to which these supply constraints impact our potential growth, looking towards the attraction and retention of international labour, reengaging older males in our

labour market, as well as seizing the opportunities presented by modern methods of construction and the digital transition to boost construction sector productivity.

Chapter 2: Cost of doing business in Ireland

Cost competitiveness is a core component of our overall competitiveness position. While Ireland is a price-taker on most international markets, and as such many drivers of the recent rise in price inflation are outside of domestic control, policy should focus on ensuring reductions in costs that are within our control. Competition in the banking sector continues to be a concern, with now only two full-service banks in Ireland. Legal costs also remain an issue, as noted previously by the Council on several occasions. The Council highlights a range of actions needed in this area including the publication of the economic analysis on reducing litigation costs commissioned by the Department of Justice, the expansion of the CSO Service Price Producer Index (SPPS) survey to increase data granularity with respect to legal services, and the establishment of a specialist conveyancer profession in the context of digital reforms in order to enhance the efficiency of legal services.

Chapter 3: Infrastructure: planning, development and delivery

The delivery of infrastructure has not kept pace with the demands driven by population growth or indeed with our economic prosperity. If we are to maintain high standards of living, we need greater and more effective investment in our infrastructure, so that Ireland has the capacity to continue to grow sustainably. The swift enactment of the new draft Planning and Development Bill 2022 will be important in stepping up the pace of future key infrastructure delivery. The benefits offered by modern methods of construction also offer an avenue for improved delivery of housing, and these methods should be adopted in the delivery of public housing. Infrastructure deficits have arisen because the needs of our burgeoning population have not been reflected in investment patterns and it is important that upcoming revision of the National Planning Framework considers this (and future) growth. The delivery of water and wastewater infrastructure continue to present challenges; the Council believes that improved project management and delivery processes are critical in order to meet the operational targets of this important public infrastructure. One of the most significant determinants of our capacity to deliver infrastructure is the supply of skilled labour. In line with the OECD review of Ireland's National Skill Strategy, the Government should strengthen pathways from school into further education, training and apprenticeships to ensure a diversified supply of skills, particularly into the construction sector.

Chapter 4: Energy: generation, consumption and costs

The Council acknowledges the significant steps that have been taken towards delivering renewable energy and to reducing our greenhouse gas emissions. However, as a country we are not progressing sufficiently to keep on track for a 51% reduction in emissions by 2030. Stepping up our performance in this area will be a key determinant of competitiveness in the long term. Ireland can significantly improve the security of its energy supply, demonstrate that it has the capacity for ongoing inward investment, and generate significant employment in the area of energy supply and through the green transition itself. Micro-generation and more efficient use of energy by firms has a role to play here. The Council recommends that Government closely monitor the uptake of micro-generation support and efficiency schemes, with a particular focus on small firms. The evolving interest rate environment has been identified as a threat to investment in the green transition. In order to deliver our energy infrastructure at the scale and speed necessary to move towards meeting our targets, it is critical that there is

sufficient resourcing of the planning system in order to minimise delays. If Ireland can facilitate an upward shift in the rate at which it is delivering energy infrastructure, it can make a significant progress towards meeting climate targets and ensuring that energy supply plays a positive role in our competitiveness position.

Chapter 5 – Boosting Productivity

This chapter sets out the current context for productivity in Ireland, focusing on the latest national productivity statistics, with an emphasis on the long-term dynamics of labour productivity. Labour productivity among advanced economies has been relatively flat over the last two decades. However, Ireland has consistently outperformed the UK and broader OECD, but has lagged more productive economies, such as Denmark, Germany and the US. National productivity statistics over 2020-2021 were heavily impacted by the onset of the pandemic. While GNI* per hour worked grew significantly during this time, this was driven by sporadic closures in the relatively low-productivity sectors, that served to reduce the overall number of hours worked while the relatively high productivity (and foreign dominated) sectors continued performing strongly. In 2022, GNI* per hour worked was 13% higher than the pre-pandemic baseline (in 2019), and 16% higher than in 2012, ten years prior. Among the most productive sectors of the economy, foreign-owned firms are much more productive than their domestic counterparts (although there is a sizeable employment contribution from domestic-owned firms).

Chapter 6 - Enablers of Productivity – Research, Development, and Innovation

Innovation is a fundamental driver of productivity and an important determinant of international competitiveness. Investment in research and development (R&D) is key for Irish enterprises to innovate, allowing them to compete and thrive in competitive domestic and international markets. The economic impact of R&D activity depends not only on the scale and quality of firm investment, but on how this interacts with the broader innovation ecosystem. This important ecosystem comprises firms, higher education institutions, and Government, as well as education and training systems, the labour market, and the financial system. It is imperative then, that State intervention in support of R&D activity is effective and accessible, irrespective of firm size or sector. A future-focused, resilient and sustainable enterprise base depends on a proactive, forward-looking and systematic approach to innovation. For this reason, it is crucial that we are able to benchmark accurately our innovation performance against international competitors in a way that fully accounts for the specificities of the Irish economic model. This is particularly true at the current juncture, as we set our ambition to become a global leader in disruptive technologies and grapple with the implications of this for Irish industrial policy. Indeed, to be best placed to reap the benefits of early adoption, it is critical that Government is proactive in developing and implementing strategies in break-through technological areas – including cybersecurity, A.I. and quantum computing. Policy needs to be oriented to facilitate the twin digital and green transitions to ensure the future competitiveness and sustainability of the Irish economy. This means that Government must be responsive as sector specific obstacles emerge. Similarly, skills and life-long learning will be a key enabler of the twin transitions, and Government should prioritise the deployment of the National Training Fund (NTF) surplus to deliver programmes of relevance to critical areas and to address skills gaps in emerging technological fields.

The full report and the list of recommendations are available [here](#).

The National Competitiveness and Productivity Council

The National Competitiveness and Productivity Council (NCPC) reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment, on key competitiveness and productivity challenges facing the Irish economy and offers recommendations on policy actions required to address these challenges. Following the European Council recommendation in September 2016 and subsequent Government decision, the NCPC was designated as Ireland's National Productivity Board, tasked with analysing developments and policies in the areas of productivity and competitiveness.

Since 1997, in accordance with the NCPC's Terms of Reference, the Council has published its flagship policy report *Ireland's Competitiveness Challenge*.

Following the same timeline as last year, the *Competitiveness Challenge* publication date is September, so that its recommendations can feed into the October Budget and into the European Semester process.

The work of the National Competitiveness and Productivity Council is underpinned by research and analysis undertaken by the Enterprise Strategy, Competitiveness and Evaluation Division of the Department of Enterprise, Trade and Employment.

The members of the Council are:

Dr. Frances Ruane	Chair, National Competitiveness and Productivity Council
Laura Bambrick	Head of Social Policy & Employment Affairs, ICTU
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Luiz de Mello	Director of Policy Studies, Economics Department, OECD
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