

Address Weaknesses Today to Protect Competitiveness and Create Jobs for Tomorrow

National Competitiveness Council's Scorecard of Ireland's competitiveness is published

The National Competitiveness Council (NCC), today (Thursday, 17 July 2014) published its annual benchmarking report, Ireland's Competitiveness Scorecard 2014. This report, prepared for the Council by Forfás, provides a comprehensive assessment of Ireland's competitiveness performance, using 120 statistical indicators. The indicators are drawn from data sources such as Forfás, OECD, Eurostat, CSO and others.

The report finds that Ireland's competitiveness has improved across a range of indicators over the last number of years. Improvement is most notable in relation to the labour market and the downward trend in unemployment; Ireland's continued success in export markets; and the modest increase in consumer demand recorded in 2013. These factors combined with the restoration of the State's borrowing capacity on financial markets and our improving fiscal situation are reflected in Ireland's performance in the various international competitiveness rankings - for example, in the IMD's World Competitiveness Yearbook Ireland's ranking has improved from 24th position in 2011 to 15th this year.

The report highlights five key areas of concern which require policy attention:

- (i) Ireland must maintain its fiscal probity - stable and healthy public finances are a prerequisite for growth;
- (ii) There is a need to embed enterprise relevant skills in the workforce and to tackle long term and structural unemployment;
- (iii) To support productivity enhancing investment, action is required to enhance credit flows to enterprise;
- (iv) Ireland must grow and broaden its enterprise base, with a particular focus on developing new sectors, new products and new markets; and
- (v) Notwithstanding recent improvements, we must relentlessly pursue cost competitiveness in light of recent evidence that the cost of doing business in Ireland is once again on an upward trajectory.

Speaking at the launch of the report, Dr Don Thornhill, Chairman of the NCC, noted that, "The economy is now on a much sounder footing for growth than at any stage over the past five years. To reap the benefits of the nascent recovery, we must remain vigorous and alert in our drive to enhance Ireland's international competitiveness. While the economy is once again moving in the right direction, our task is not yet complete and complacency is one of the greatest threats to our future prosperity. We cannot afford to ignore the lessons from previous mistakes. A return to economic growth in the present should not blind us to the longer term challenges which persist and which are highlighted throughout this report. Only through the vigilant monitoring of all aspects of

Ireland's competitiveness performance, can we develop the policy responses necessary to safeguard Ireland's economic wellbeing".

Dr Thornhill continued "This analysis clearly demonstrates that while cyclical effects and the policy reforms undertaken to date have aided our economic recovery, further structural reforms are required if this recovery is to be permanent and sustainable. In particular, we must redouble our efforts to contain enterprise costs, ensure that firms have access to sufficient credit to invest and grow, and maximise the productivity of both domestically and international trading firms".

"We are especially concerned about the very real threat to Ireland's cost competitiveness. A range of indicators show that Ireland has already begun to slip in terms of our relative cost competitiveness, following a period of improvement during the recession. Such developments threaten to undermine all of the hard won progress made to date, puts at risk job creation, and damages living standards."

The Council will discuss the issues highlighted in the benchmarking report and put forward proposals to address them in its annual policy document *Ireland's Competitiveness Challenge* which will be published later this year.

ENDS

NOTES TO EDITORS

The main conclusions from the most recent National Competitiveness Council analysis are summarised below.

- After an extended period of recession, the Irish economy is once again growing: In 2012, eurostat data shows that GDP per capita grew by 1.9 per cent while GNP per capita grew by 3.5 per cent in PPP terms.
- Looking at more recent national data from the CSO, GDP grew by 0.2 per cent and GNP by 1.8 percent in 2012. The data for 2013 is somewhat mixed, with a slight decline (-0.4 per cent) recorded in GDP and a continued strong performance evident in GNP (3.3 per cent).
- This data, allied to the restoration of the State's borrowing capacity and improved public finance sustainability, the downward trend in unemployment and the continued strength of the export sector provides a clear indication that the Irish economy is on a more positive trajectory than at any stage since the beginnings of the downturn and bursting of the Irish property bubble.
- Further, growth is becoming more balanced - whereas in recent years, net exports was the only positive contributor to growth, 2013 saw a resumption in consumer demand, whilst government investment held constant.
- The elimination of the current account deficit also illustrates the progress made in rebalancing the economy, even though this is partly due to depressed imports and the size of the 2012 external surplus reported being exaggerated by the re-domiciling of some foreign companies to Ireland.
- Ireland continues to be an attractive location for foreign direct investment and in terms of both FDI stock and return on investment we rank among the top three performers in the OECD.
- While some of the advantages that allowed Ireland to win initial investments from abroad during the 1980s and 1990s have been eroded (i.e. we are no longer a low cost location), many advantages remain. In relation to FDI, maintaining international competitiveness in relation to

our corporate rate, reputation and regime through, for example, continued proactive engagement with the OECD's Base Erosion and Profit Shifting (BEPS) project will be crucial in enabling us to sustain and build upon the successful FDI performance to date.

- On the international front, global economic activity strengthened in the second half of 2013 and is expected to improve further in 2014-15; much of the impetus for growth is expected to come from advanced economies.
- The US is expected to perform strongly in 2014, aided by a recovery in the domestic real estate market. In the UK, growth of almost 3 per cent is forecast for 2014.
- Overall, as an extremely open and trade-dependent economy, the health of the Irish economy is heavily determined by the performance of the wider global economic environment and particularly by the strength of UK and US demand.

Recovery Remains Fragile

- Despite the positive signs, however, concerns persist and the economy remains fragile.
- First and foremost, all sectors of the economy remain beset by a heavy debt burden: general government debt remains amongst the highest in both the euro area and OECD at 123.72 per cent of GDP in 2013.
- A deficit of 7.2 per cent of GDP was recorded in 2013. This is forecast to reduce further to 4.8 per cent of GDP in 2014. The General Government balance is forecast to return to surplus in 2015.
- High debt levels amongst consumers and non-financial corporations continue to act as a drag on growth, whilst further bank capitalisation may be required if SME and household arrears are to be comprehensively addressed.
- Threats are also emerging in relation to the enterprise cost base.
- Despite recent cost improvements, Ireland remains a high cost location for a number of key business inputs and the economy is now at a turning point in terms of cost competitiveness, with overall relative cost competitiveness disimproving and a series of upward cost pressures: the harmonised competitiveness indicators show that Ireland's relative cost competitiveness is now deteriorating vis-à-vis our main competitors; labour costs are rising again following a number of years decline; industrial electricity prices have increased in recent years; and an upward trend is evident across a range of business service costs.
- A high cost environment weakens competitiveness in a number of ways - making Ireland less attractive in terms of foreign direct investment; making firms which rely on domestically sourced inputs less competitive when they are selling into foreign markets; and adversely impacting upon the cost of living with knock-on implications for wage demands.
- The labour market - despite the continuing reduction in unemployment - poses serious challenges with the ongoing risk that cyclical unemployment will evolve into structural unemployment.
- As a result of strong employment growth in 2013 (3.3 per cent), increased immigration and a decrease in labour market participation, the numbers unemployed have decreased by 22.9 per cent since the unemployment peak in Q3 2011.
- Concerns in relation to youth unemployment and former construction workers appear most pressing at this juncture - unemployment amongst 15-24 year olds stood at 26.8 per cent in 2013, double the level in 2008.

- Labour market participation rates have also declined from a peak of 64 per cent in 2007 to 60.4 per cent in 2013, reflecting higher levels of labour market inactivity.

Based on this analysis, the National Competitiveness Council has highlighted five key areas for attention - maintaining our fiscal probity; embedding skills and tackling structural unemployment; improving credit flows to enterprise; developing and broadening our base of firms; and relentlessly pursuing cost competitiveness.