

GFCC Annual Meeting 10th December 2010

Ireland - the journey back



National
Competitiveness
Council



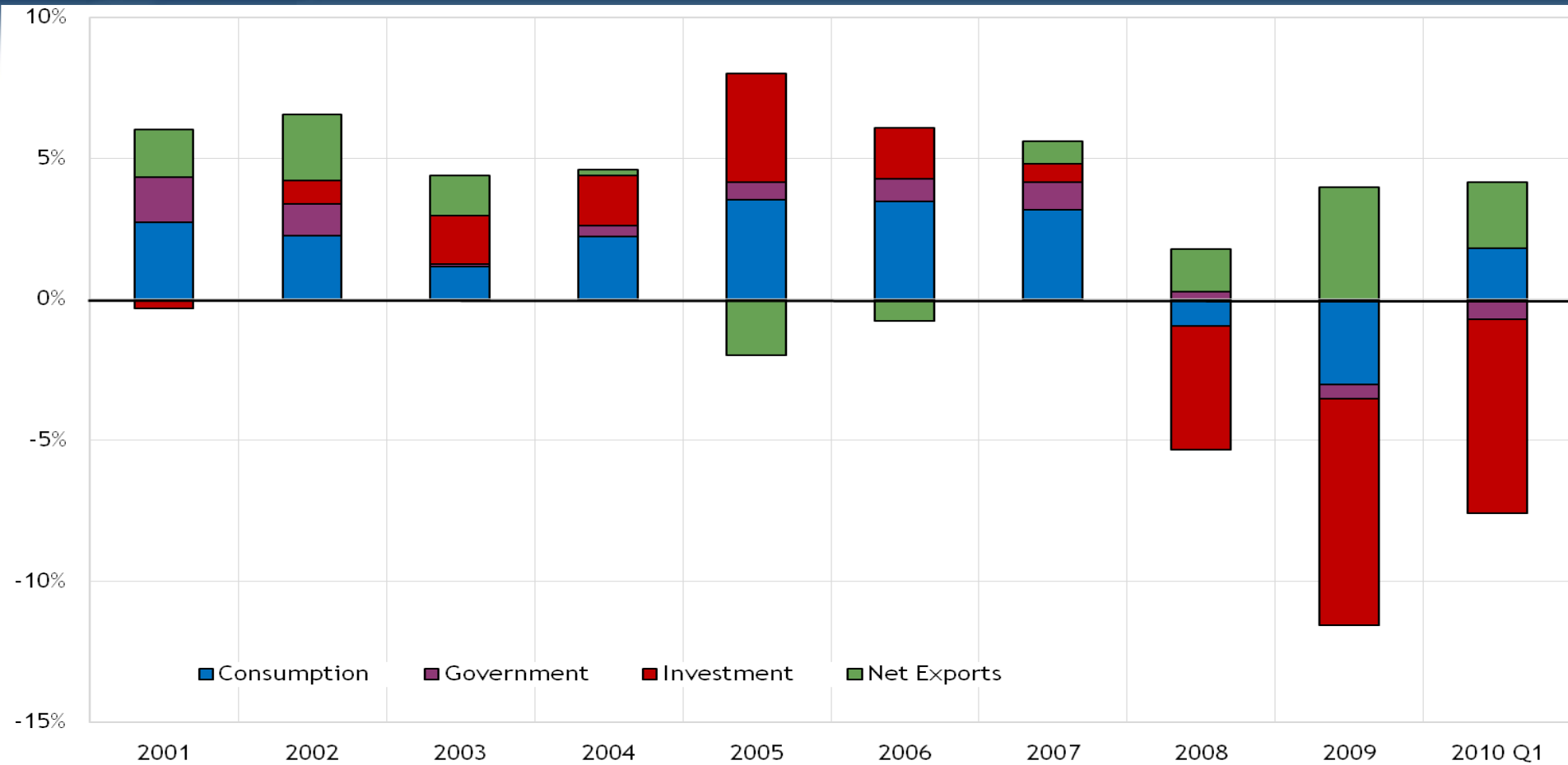
The Economic Story - Celtic Tiger

- ▶ Ireland - archetypal small open economy
 - Exports of goods - 50.5% of GDP; Exports of services - 41.5% GDP
 - EU membership
 - Competitiveness critical
 - Magnet for FDI - stock of FDI 65% GDP
 - Prudent investments being made in human and physical capital,
 - Enterprise-friendly taxation regime.
- ▶ 1994 -2001: prolonged high economic growth (c.10% per annum)
- ▶ Driven by competitiveness and productivity performance
- ▶ Ireland's exporting sector at the forefront
 - Productivity growth - combination of pro-enterprise policies and concurrent favourable exchange rate movements

The Economic Story - Overheating and Recession

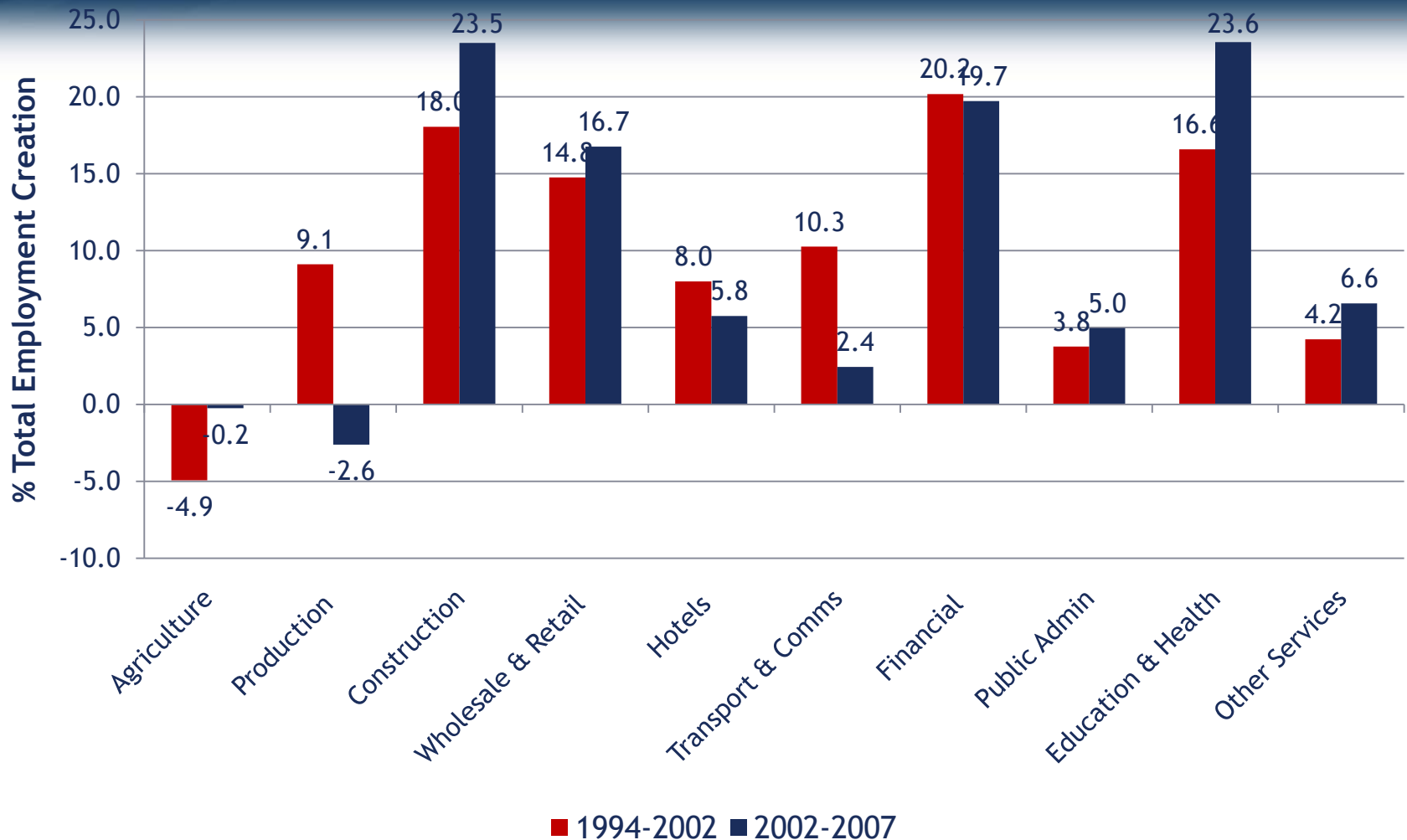
- ▶ 2001 global downturn → period of low interest rates
- ▶ Consumption bubble → domestic economy became chief driver of GDP
- ▶ Escalating house prices → spiralling wage demands & inflation → undermines competitiveness
- ▶ Govt finances over-reliant on construction and property → budget surpluses mask vulnerability → weakened ability to absorb global downturn
- ▶ Balance of payments deterioration when economy still growing
- ▶ 2008 global financial crisis - freezing of international credit flows
- ▶ Irish property market came to a standstill, as the external shock exposed domestic weaknesses

Contribution of Net Exports to Irish Economic Growth



Source: Forfás Calculations; Central Statistics Office, Annual National Accounts

Employment Growth by Sector (%)



Restoring Ireland's Cost Competitiveness

- ▶ Since January 2008: Ireland regaining cost competitiveness - real HCI 5.8 per cent below January 2005 figure
- ▶ Notable improvements in the competitiveness :
 - Unit labour costs
 - Property costs
 - Electricity costs
- ▶ Inflation (CPI excluding mortgage interest) declined by 0.9% in yr to September 2010
- ▶ European Commission - Ireland the only country to provide evidence of competitiveness rebalancing in 2008 and 2009
- ▶ Structural rather than cyclical adjustment required
- ▶ IMF/EU stability programme now adds force to structural changes needed in sheltered sectors such as medicine and law

Build upon our strengths

- ▶ Differentiate banking crisis from enterprise performance
- ▶ Large, educated workforce (42% of those in employment have 3rd level or above; 32% of total population aged 15-64)
- ▶ Cohort of exporting firms with strong management capability - resilient export sector (+4% in value terms Sept 09-Sept 10)
- ▶ Experience in key growth sectors - high tech manufacturing and internationally trading services
- ▶ Significant investment over last decade in R&D and innovation
- ▶ Improving infrastructure - broadband, ports, motorways

Profile of Key Sectors

- ▶ 8 of the top 10 global pharmaceutical companies have major operations in Ireland - €47bn exports
 - 12 out of 25 pharmaceutical blockbusters produced in Ireland
- ▶ 160 medical technology companies - €6.8bn exports
 - 11 of the top 12 medical technology companies
 - Over 90 of the companies in the MT sector are indigenous
- ▶ 5,400 ICT enterprises - 233 foreign owned - €50bn exports
 - 9 of the world's top 10 ICT companies
 - All of the top 5 software companies, 4 of the top 5 semiconductor firms and 4 of the top 5 technology hardware companies
 - Many indigenous companies are market leaders in providing tailored software for the financial services, healthcare, education and entertainment sectors.

Profile of Key Sectors

- ▶ **International Financial Services - €13.2bn exports**
 - Recognised globally for its strong competencies in banking, asset management and fund administration.
 - Contributes 7.5% of Irish GDP, and contributes approximately €2.1bn to the Irish Exchequer
 - Ireland's 4th largest services export sector
- ▶ **Food & Drink Sector - €7.1bn exports**
 - A number of Irish owned firms are among the world's 50 largest food and drink multinationals, ranked by foreign assets
 - Ireland is the UK's largest supplier of food and drink
 - Largest net exporter of beef in Europe and the 4th largest in the world

Cautionary notes from Irish experience?

- ▶ Smart and proactive regulation of banking - address imbalances in asset types, need for care in credit growth
- ▶ Pursue fiscal policy balance - not just in aggregates but in composition and build up reserves during good times
- ▶ Early correction of deterioration in competitiveness indicators and external imbalances

Thank you

conor.hand@forfas.ie

www.forfas.ie

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