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IMD World Competitiveness Rankings

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National Competitiveness and Productivity Council

Bulletin 23-1 IMD World Competitiveness Rankings

- Ireland is ranked 2nd out of 64 economies in the IMD's World Competitiveness Yearbook 2023, gaining nine places from 2022.
- Amongst the euro area countries, Ireland is ranked the most competitive, an improvement of two places since last year.
- Ireland improved its ranking across all four major competitiveness pillars: Economic Performance and Government Efficiency, Business Efficiency, and Infrastructure.

OVERVIEW

On 20 June 2023, the Institute for Management Development (IMD) published its World Competitiveness Yearbook 2023¹. This year's report ranks Ireland as the most competitive country in the euro area and the 2nd most competitive economy in the world (out of 64 economies), an improvement from 11th position last year. The top-ranking economies, and the change in their ranking since 2022, are summarised in Table 1.

Ireland's position in the rankings reflects steady progress across specific sub-factors over a number of years – such as under 'Government Efficiency', alongside strong economic results which have boosted its ranking under 'Economic Performance'. The IMD note that the top four economies are small, advanced economies which make good use of their access to markets and trading partners.

The IMD Competitiveness Yearbook assesses and ranks 64 economies around the world based on their ability to create and maintain a competitive business environment. The rankings are based on more than 336 indicators grouped across four pillars: Economic Performance, Government Efficiency, Business Efficiency, and Infrastructure. Some 164 of the indicators are based on 'hard' quantitative data, while a further 92 are based on 'soft' data; the latter are subjective, qualitative data from a survey of business executives. The highest possible score is 100 points, which measured the frontier of economic competitiveness.

IRELAND'S PERFORMANCE

Ireland's competitiveness ranking improved nine positions from 11th place in 2022 to 2nd place in 2023. We recognise that competitiveness rankings have their limitations, and annual positions can fluctuate as a result of business perceptions, relative changes experienced by other countries (without a performance change from Ireland) or indeed, once-off factors. For example, countries which opened early in the wake of COVID-19 pandemic might have ranked highly in 2022 (such as Sweden and Finland) but have now seen declines as other countries catch up.

Ireland's improved overall ranking is due particularly to improvements in its 'Economic Performance' – where it ranked 1st, up from 7th last year. The use of Gross Domestic Product as an internationally comparable measure of economic activity generally boosts Ireland's measured performance, and also affects the computation of several other indicators. The NCPC and other bodies have previously noted that Modified Gross National Income

Table 1: Top 15 Countries in 2023

Rank	Economy	Change
1	Denmark	(-)
2	Ireland	(+9)
3	Switzerland	(-1)
4	Singapore	(-1)
5	Netherlands	(+1)
6	Taiwan, China	(+1)
7	Hong Kong SAR	(-2)
8	Sweden	(-4)
9	USA	(+1)
10	UAE	(+2)
11	Finland	(-3)
12	Qatar	(+6)
13	Belgium	(+8)
14	Norway	(-5)
15	Canada	(-1)

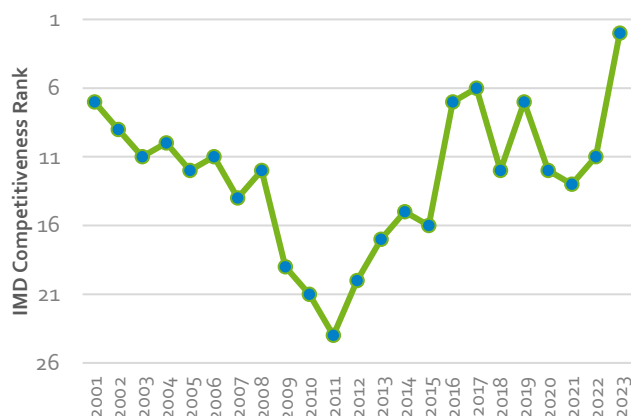
Source: IMD

BACKGROUND

¹ <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/2023/>

(GNI*)² is a more appropriate indicator of the size of the Irish economy adjusted for globalisation activities. Ireland's higher ranking in this year's IMD World Competitiveness Yearbook is driven by improvements across all pillars, but in particular by our strong ranking under Economic Performance.

Figure 1: Ireland's IMD Competitiveness Ranking 2001-2023

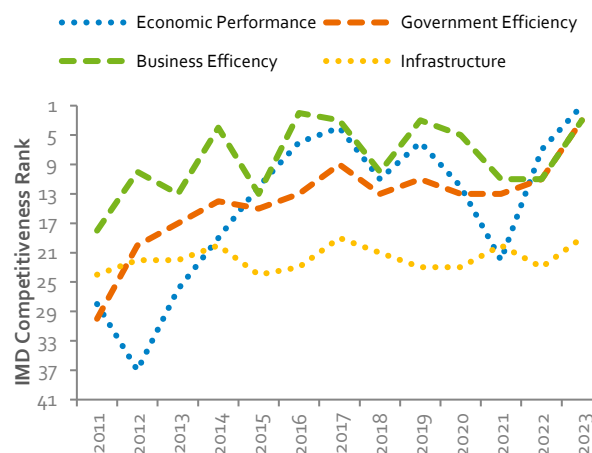


Source: IMD

A more informative picture can be obtained by analysing the trend in rankings over a number of years to obtain an indication of the country's ability to improve or maintain global competitiveness. Figure 1 shows that after experiencing a sharp fall in competitiveness over the period 2007-2011, Ireland's IMD ranking trended upward and since 2012 has been ranked consistently in the top 20 with the previous highest ranking (6th place) recorded in 2017.

Cost pressures and a failure to keep pace with improvements in other jurisdictions resulted in Ireland's relative position slipping since 2017. The strong gains seen in the 2023 rankings reflect the continued strength of Ireland's economic recovery, in terms of GDP growth, continued employment growth and progress on each of the four pillars of competitiveness as set out by the IMD.

Figure 2: Ireland's Ranking across Four Pillars 2011-2023



Source: IMD

Figure 2 shows the trend over the past decade for each of the four competitiveness pillars assessed by IMD. Looking back a decade, Ireland has improved considerably in Government Efficiency from a low of 30 in 2012, while remaining lower and broadly static in Infrastructure, being currently placed 19th. Business Efficiency has performed better over the decade but has been more volatile from year to year. The dramatic improvement in Economic Performance was the main driver of the improvement in Ireland's overall competitiveness ranking between 2012 and 2017 and was responsible for the deterioration between 2019 and 2021.

The recent recovery has seen Ireland's Economic Performance position rise from 22nd place in 2021 to first place in 2023. While all pillars have seen improved performances in 2023, Ireland's ranking in the Infrastructure pillar remained the lowest ranking pillar, by a significant margin. The following sections explore the four pillars in greater detail.

Economic Performance – 1st (Up 6 places)

Ireland rose six places under Economic Performance between 2022 and 2023 (up from 20th position in 2021), with a higher ranking in four out of five sub-indices. The Economic Performance improvement is largely due to the high rate of economic growth, as measured by real GDP growth, which, as well recognised, is not the preferred measure of economic growth for Ireland, because of the impact of multinational enterprises.

² Modified Gross National Income or GNI* is a supplementary measure of the level of the Irish economy designed to provide greater insight into Ireland's domestic economic activity. GNI* excludes globalisation effects

related to highly mobile economic activities that disproportionately impact upon the measurement of the size of the Irish economy. For further information, see [here](#).

Ireland ranks strongly across a number of indicators on Economic Performance, but in particular its 1st place ranking in 'Domestic Economy' and 2nd place in 'International Investment' sub-factors drive its ranking. Ireland's Domestic Economy placing is driven, in turn, by being ranked 1st across Real GDP Growth, and GDP per capita. While its 'International Investment' ranking is driven by its 1st place ranking on direct investment flows abroad as a share of GDP.

Ireland also places well on investment flows inward as a share of GDP and flows abroad in absolute terms (\$) – placing 5th on both measures. While Ireland only ranked 16th (down from 8th in 2022) on the sub-factor of Employment. This reflects Ireland now being at full-employment and the associated limits to employment growth. The multi-year gains seen in Ireland's labour market are reflected in a ranking of 4th on the indicator Employment (long term growth) – up from 8th last year. This strong performance across a range of economic areas resulted in Ireland's top ranking in 2023 in Economic Performance.

While this is an impressive performance for Ireland there is still room for improvement in a number of indicators most critically in the sub-factor area of Prices where Ireland only ranked 45th, driven by indicators such as Consumer Price Inflation (30th), Cost of Living Index (41st), Gasoline Prices (50th), and Office Rent (54th). With many countries also experiencing increases in cost of living through inflationary pressures, Ireland's continued low ranking here is a distinct drag on competitiveness. It is important that Ireland is not complacent and continues to seek competitiveness improvements where it can.

Government Efficiency – 3rd (Up 8 places)

Ireland's ranking under Government Efficiency continued to improve in 2023. The ongoing improvement in Ireland's public finances is reflected in a move from 13th to 7th place in 2023. Ireland performs well in areas such as tackling Tax Evasion (1st), attracting investment through Investment Incentives (1st), and the strength of its institutions (2nd for Freedom of the Press, 3rd for Competition Legislation, 4th for low Bribery and Corruption). Ireland's ranking on the Tax Policy sub-factor moved down one place in 2023 to 18th. This area reflects a broad range of tax measures including total tax revenues, personal income tax, consumption tax rates, and social security tax rates. Ireland's consumption tax rate (54th) and the level of

collected personal income tax (40th) are the two indicators on which Ireland lags in this sub-factor area.

Business Efficiency – 3rd (Up 8 places)

Ireland also improved its performance under Business Efficiency in 2023, moving up from 11th in 2022 to 3rd place in 2023. Part of this improved performance in this area was due to its 1st place (up from 7th) ranking on Attitudes and Values – which reflects attitudes towards globalisation, image abroad, branding, national culture, and flexibility.

Ireland's strong productivity is reflected in its Productivity and Efficiency ranking which rose from 13th place in 2022 to 3rd place in 2023, with Ireland's talent pool being highly regarded by executive leaders who were surveyed as part of the rankings process. While the continued growth in Ireland's labour market is positive (ranked 2nd for long-term growth), the strains in terms of labour costs and the availability of skills contributed to Ireland's labour market ranking slipping one place from 8th to 9th.

Infrastructure – 19th (Up 4 places)

Ireland's performance in Infrastructure improved marginally in 2023 (ranked 19th up from 23rd in 2022). It remains the pillar which most significantly drags on Ireland's competitiveness position. Ireland saw improvements across a number of sub-factor areas within the infrastructure pillar. Basic Infrastructure (29th place, up from 41st), and Technological Infrastructure (14th place, up from 27th) showed some strong improvement on 2022, while Health and Environment (14th) and Education (16th) improved marginally.

However, there remain specific indicator areas where Ireland significantly underperforms: total public expenditure on education (60th) and investment in telecommunications (59th)³. The impact of the energy crisis and its follow-on impact on industry is evident in Ireland's ranking of 41st for electricity costs for industrial clients and energy infrastructure.

An additional concern in the area of infrastructure is that there are no specific indicators on housing which is the infrastructural area most clearly dragging on Ireland's competitiveness and would likely lead to a further reduction in Ireland's ranking if included.

³ It should be noted that with GDP acting as a denominator on these indicators, Ireland's true investment may be understated.

Key Attractiveness Indicators

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 examined what they perceived as Ireland's key attractiveness factors. The five factors for Ireland were its skilled workforce, high education levels, policy stability and predictability, competitive tax regime and business-friendly environment. These factors underscore Ireland's value proposition as a place to do business. At a time of significant global uncertainty, it is important for Ireland to maintain these factors which allow it to secure such a high competitiveness position in the global economy.

CONCLUSION

Ireland's performance in the 2023 IMD World Competitiveness Rankings is impressive, at 2nd in the world. It is a reflection of Ireland's strengths in terms of its skilled labour market, its ability to attract inward investment, and the institutions which make it a stable place to do business. As noted, IMD-type aggregate indices are not perfect measures of competitiveness, and Ireland's high ranking on Economic Performance is positively influenced by the use of GDP or GNP (for economic growth indicators where GNI* would arguably give a better measure of Ireland's performance). The inclusion of housing related infrastructural indicators would also allow for a more complete view on how Irish infrastructure is impacting competitiveness.

While GDP measurement has positively influenced Ireland's performance on certain indicators, Ireland has also demonstrated improvement across a wide range of indicators in 2023 including Business Efficiency and Government Efficiency, with Ireland's ranking on Government Efficiency reflecting a decade of steady progress across multiple indicators. The much weaker and persistently lower performance in relation to infrastructure is also noteworthy. Under several other indicator headings, there is room for significant improvement on infrastructure, and the signals within the IMD rankings on lagging cost competitiveness deserve particular attention.

productivity issues facing the Irish economy and makes recommendations to Government on how best to address these issues. The latest NCPC publications can be found at: www.competitiveness.ie.

This Bulletin has been issued by the Chair, Dr Frances Ruane, and was prepared by Dermot Coates, Rory Mulholland and Keith Fitzgerald in the NCPC Secretariat.

Further Reading: The Institute for Management Development's World Competitiveness Yearbook 2023 is available at: www.worldcompetitiveness.imd.org.

The NCPC reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment, on the key competitiveness and