



Challenges for Ireland's Future Competitiveness

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Opportunities and threats

- Near term economic slowdown poses challenges for medium-term competitiveness
 - Public finances and National Development Plan
 - Laid-off workers and reemployment
 - Banking system and financing of risky innovation
- Adjustments within EMU
 - Wage setting

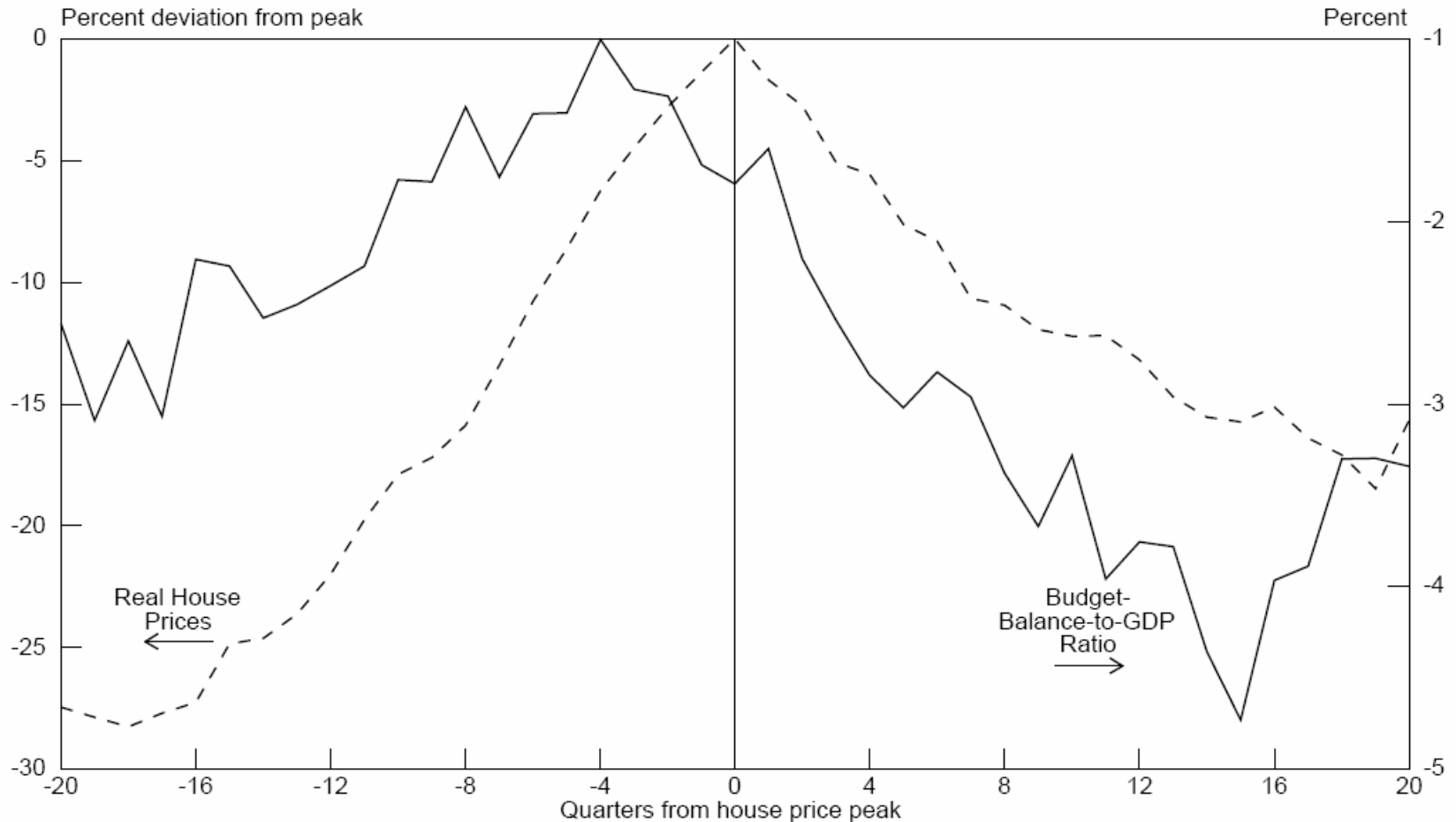


Opportunities and threats

- Climate change policies
 - Shift away from industries with relatively high carbon emissions towards high-tech industries and services

Housing downturns and public finances

**Budget-Balance-to-GDP Ratio and Real House Prices
(Median over Peaks)**



*Deviation normalized to zero at house price peak date.



How will the government respond?

- 3 percent threshold on public deficit under Stability and Growth Pact may become relevant
- “Governments under pressure often resort to quick fixes for rising deficits, overlooking the medium-term consequences for competitiveness and growth”

Coming of Age, Bruegel report on the euro area, January 2008



Good quality fiscal strategies

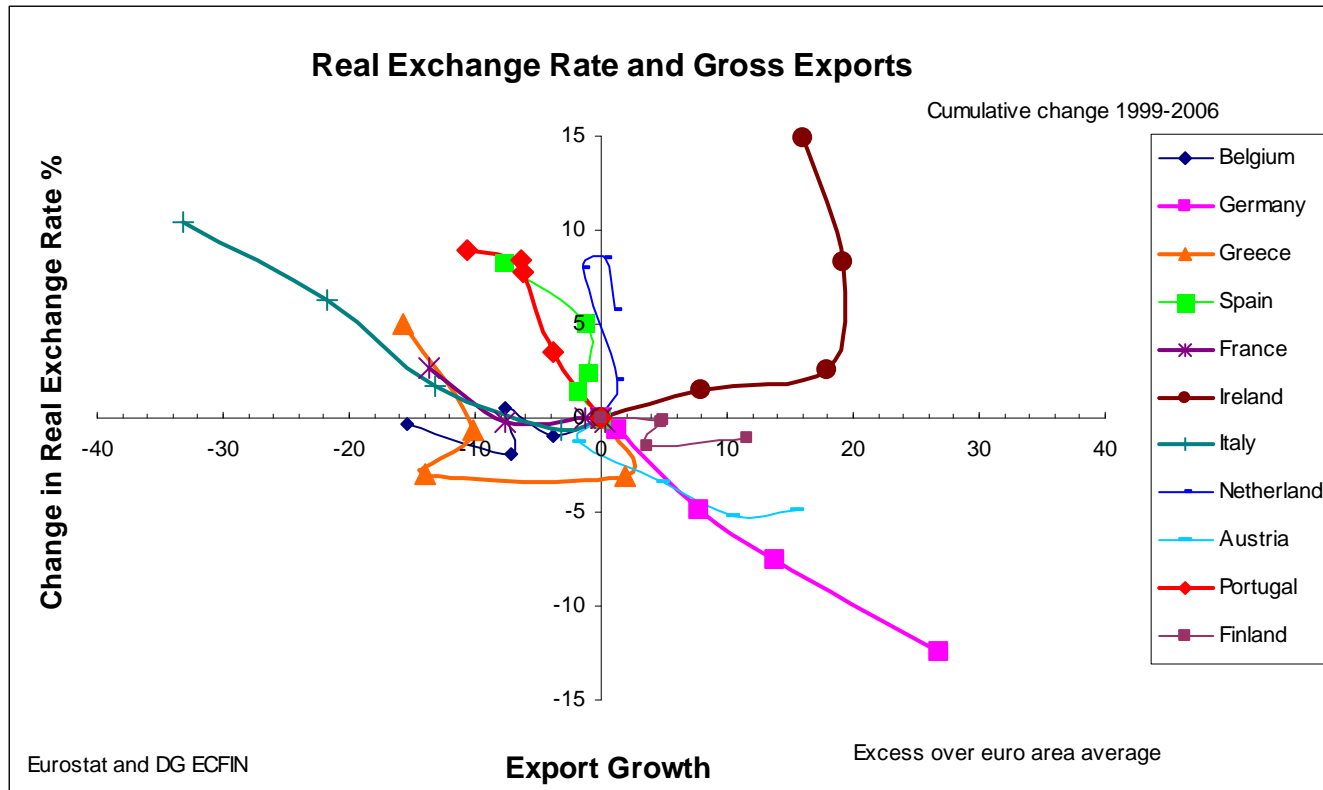
- Evidence suggests that the government should try to avoid:
 - increases in tax burden on factor incomes
 - reductions in capital spending



Banking system and innovation

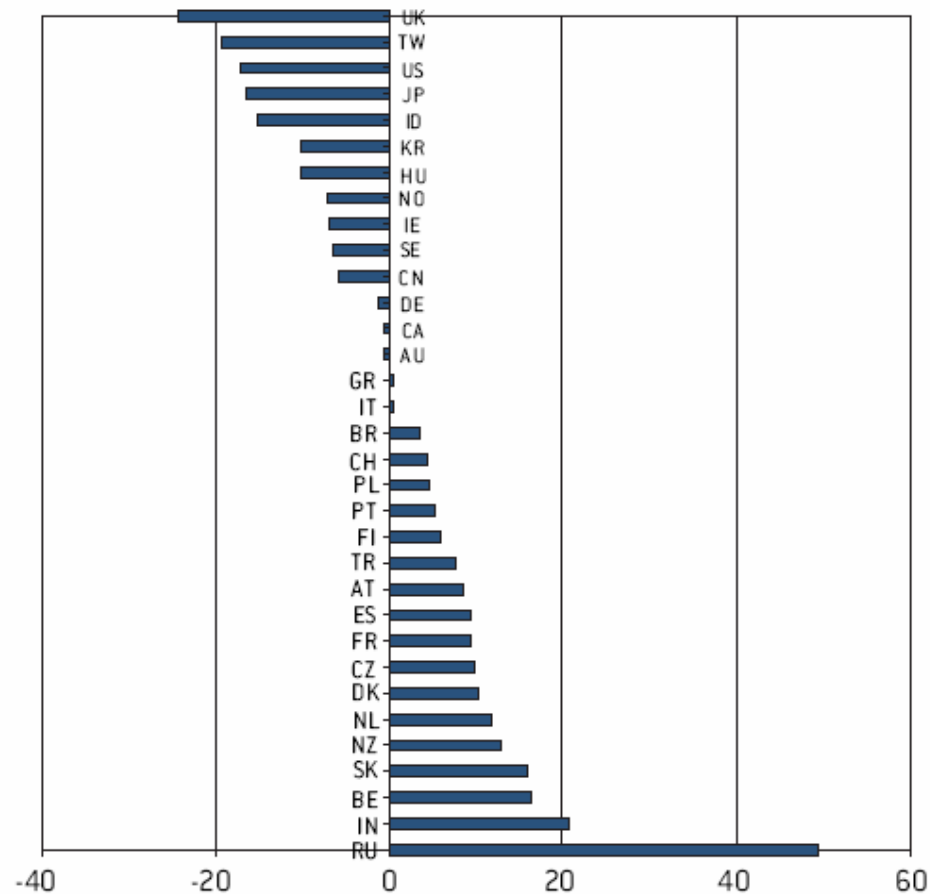
- During downturns, firms tend to cut spending on R&D and other long-term growth-enhancing investments
- Banks may become risk averse
 - Property hangover
 - Global credit crunch

Wage responsiveness: A tale of two EMU countries



Climate change policies

Figure 3: carbon intensity of the export mix [% with reference to EU avg.]





Conclusions

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- Climate change policies