

**Launch of Forfás Consumer Pricing Report 2003 and NCC  
Inflation Statement**

“Reducing inflation and improving Ireland’s international cost competitiveness should become the immediate economic priority for the Irish Government and Social Partners.” according to National Competitiveness Council (NCC) chairman, Mr William Burgess.

Mr. Burgess was speaking at the publication of the **NCC Statement on Inflation**, which analyses the factors behind the high rate of inflation in Ireland in recent years. The report also assesses the implications for the competitiveness of Irish industry and suggests actions needed to reduce inflation and to improve Ireland’s international competitiveness. The report was launched together with the **Forfás Consumer Pricing Report 2003** which benchmarks Ireland’s price performance against our European partners. The key findings of the Forfás pricing report form the basis of the analysis and recommendations in the NCC statement on inflation.

**Key Findings - Forfás Consumer Pricing Report 2003**

- Increases in consumer prices over the past five years have sharply outpaced those of our European neighbours. This has resulted in an estimated overall consumer price level which is 12% above the Euro area average. The strong inflation differential has continued into 2003, resulting in a further divergence in consumer price levels, adding to already high competitiveness risks.
- Ireland is now estimated to have been the second most expensive country in the eurozone in 2002 for consumer prices, marginally behind Finland. It is likely that Ireland will become the most expensive country in the eurozone during 2003.
- The non-internationally traded sectors were the primary drivers of consumer price inflation in Ireland in 2002. The study also revealed that another important driver of inflation in 2002 was price increases in goods and services which are subject to some level of direct government influence.

- Among individual expenditure categories, “pubs & restaurants” were the most important driver of national inflation – accounting for nearly 30% of the increase in the price of the standard basket of consumer goods/ services in the year to end January 2003. Combined with alcoholic beverages and tobacco (19%), transport (16%), and miscellaneous goods & services (15%), these non-internationally traded sectors accounted for 80% of national inflation in 2002.
- Ireland was the most expensive country in the eurozone for foodstuffs from low-priced outlets in 2002, the second most expensive for foodstuffs from mid-priced outlets and the third most expensive for foodstuffs from high-priced retail outlets. Ireland was also found to be the second most expensive country in which to buy non-food consumables in the eurozone across all retail types.

Commenting on the report findings Mr Martin Cronin, chief executive, Forfás said “Although a competitive price environment is only one key element of the competitiveness agenda, it is clear that Ireland’s rapid rise towards the top of the European pricing league, could pose a significant threat to maintaining the economic successes of recent years”. Mr. Cronin continued “The roadmap of recommendations set out by the NCC in its Statement on Inflation merits consideration as a formula to reinforce competitiveness and protect existing employment levels”.

Against the backdrop of the anti-inflation initiative announced in the latest social partnership agreement, the NCC has set out actions that are required, across a wide range of policies, to quickly lower Ireland’s inflation rate and eliminate the inflation differential with our European neighbours.

Introducing the NCC Statement on Inflation, Mr Burgess stated “The continuing overshoot in consumer price levels and inflation, confirmed by the Forfás Pricing Report, is seriously hampering efforts to improve competitiveness. It is vital that swift action is taken to resolve this inflation problem which is made even more critical by the weak global economic environment and the recent strong appreciation of the euro against sterling and the dollar”. He added “Further cost escalation and pressure on competitiveness will put at

risk employment and growth in many internationally trading sectors and will, if left unchecked, adversely affect the economic well-being of the country”.

The NCC recommends the following actions to address inflation:

**Setting a credible inflation target:** The Government, in conjunction with the social partners, should lower public expectations of future inflation by committing itself to a credible inflation target. The NCC recommends that Government targets an inflation rate equal to the euro area average. At worst, Irish inflation should not exceed the average euro area rate by more than half of a percentage point.

**Incomes Policy:** The NCC recommends that all the Social Partners, in conjunction with Government, maintain their commitment to moderating inflation through continued engagement in the social partnership process and by implementing agreed actions in relation to both wage demands and price increases.

**Administered Prices and Excise Duties:** The thrust of Government economic policy in 2003 should be to reduce the rate of inflation by avoiding further increases in customs and excise duties, VAT and administered prices (such as the costs of education, health insurance etc) for the remainder of 2003 and in Budget 2004. The Council recognised the difficulty faced by Government in financing necessary improvements to public services and national infrastructure while at the same time observing the constraint of the EU Stability and Growth Pact.

Other recommendations to Government contained within the Statement focus on the role of fiscal policy, competition policy, better regulation and improving access to the Irish market for foreign service providers.

Commenting on the need to urgently implement these recommendations, Mr. Burgess stated “If public expectations about future price increases and consequent wage demands do not adjust to the new competitiveness realities facing Irish companies, then Ireland’s convergence towards euro area average inflation rates will come about through a painful loss of both employment and output in the internationally traded sector.” He continued “But this need not happen. The challenge for Irish policy-makers is to ensure that this convergence in inflation and prices takes place without unnecessary loss of domestic

employment and output. Assuming immediate implementation, the recommendations set out by the Council are designed to achieve a soft-landing”.

Ends.