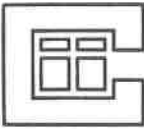


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# PRESS RELEASE

## The Confederation of Irish Industry

Speech by Liam Connellan, Director General, Confederation of Irish Industry at Monthly Luncheon of the Association of Management Consulting Organisations at Kildare Street and University Club, St Stephen's Green, Dublin 2, at 1 p.m. on Thursday, 25 March 1982.

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### Exchange Rate Guarantees Necessary to Sustain Industrial Output

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The raising of associated bank interest rates to 19% earlier this week will place a very severe burden on manufacturing, if offsetting action is not taken.

There are many reasons for the increase in Irish interest rates. The main reasons are that Irish imports have been growing more rapidly than exports, with the result that firms have had to borrow more in order to make up the difference. This additional borrowing has increased the demand for a limited supply of money and, therefore, increased its cost. There has been upward pressure on interest rates too because of the increased working capital requirements of firms due to continuing high inflation, as firms have to fund increased working capital before generating revenue from sales.

The pressure was felt, first, on the interbank market where the cost of short term funds has recently increased to about 20%. It was inevitable that the interest rates charged by the Associated Banks would be increased in order to maintain equilibrium between the two parts of the banking system. The impact of this 2% increase on the cost of borrowing money from the total banking system would, if no remedial action

were taken, be about £22 million for manufacturing industry in a full year. To put this figure in perspective, £22 million represents the working capital required to maintain 3,500 people in employment. This gives some indication of the number of jobs which could be at risk over a twelve month period.

Another factor must be taken into account. This is that Irish industry must have finance available to it at similar rates to its competitors. Last week three month rates on the interbank market in some of our main competing markets were as follows :

West Germany	10.0%
Holland	9.4%
Belgium	13.8%
Britain	13.7%
France	15.0%

The current three month rate in Ireland is approximately 20%.

These rates provide an indication of the different costs of money in other European countries. Foreign buyers of Irish products are not interested in why Irish interest costs are higher than in other countries. They still expect Irish industry to keep its prices down to the 7 - 10% rate of price increase obtainable in our major markets. It is therefore essential that Irish industry can obtain funds at rates similar to its main competitors.

There are already well established mechanisms available which could enable this objective to be achieved. These are :

- a) An Exchange Rate Guarantee scheme. Eighteen months ago a limited exchange rate guarantee scheme of £50 million was introduced which enabled firms to borrow German marks at a rate  $4\frac{3}{8}\%$  above the cost of borrowing this money abroad. Under this scheme loans can currently be provided to eligible Irish manufacturing firms at about 14%, without exchange risk. However, the current scheme is limited to small and medium sized firms, with a fixed asset limit of £2½million.

I would strongly urge that this scheme should now be expanded to include all manufacturing firms exposed to international competition, and which would otherwise have to pay at least 19% , and in many cases 24%, for money borrowed for working capital purposes.

- b) Tax Based Lending. In certain circumstances banks can provide low cost finance to industry because of capital allowances and financing arrangements under Section 84 of the Corporation Tax Act of 1976. These arrangements enable the benefits of allowances against banking taxation to be passed on to the manufacturing sector in the form of low cost finance. I believe that there is still scope to expand the current schemes so that finance for the productive sector can be provided at lower rates. It must be recognised that this would result in a lower payment of taxation by banks to the Exchequer but the benefit would be transferred to the manufacturing sector in order to sustain industrial output in exceptionally difficult trading conditions.

Conclusion

It is vitally important that these measures are taken in order to stimulate growth in manufacturing output and to maintain employment. The Central Bank would still control the total amount of credit available in the economy. Higher industrial exports would be possible and this would result in a reduction of the balance of payments deficit, with consequent favourable affects on interest rates generally.

The output of industry in Ireland has held up remarkably well during 1981 when industry in many European countries has been declining. It is essential that sustained industrial growth is restored. The IDA has recently indicated that about 350 manufacturing firms are currently at risk. It is essential that, where possible, measures are taken to prevent any diminution of the industrial base so that the economy will be better placed to participate in any upturn of international trade and to expand employment.

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