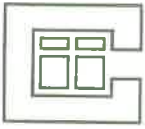


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# PRESS RELEASE

## The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry to Carlow Chamber of Commerce at 9 p.m. on Friday, 26 October 1979

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### CREDIT AVAILABILITY & INTEREST RATES

Despite the adverse effects of the postal strike and the long winter it now seems likely that the volume of industrial output will grow by about 7% in 1979 and that there will be a significant increase in industrial employment. However, it will need an exceptional effort by the whole community to restore industrial growth to a 9% level during 1980.

While the number of new jobs associated with IDA grant approvals has increased steadily each year since 1975, there is no guarantee that these jobs will come on stream and be realised according to the original schedule.

There are strong indications that the growth in the international economy is expected to decline during 1980. The European Commission expects a growth in the output of the European Community of 2% in 1980 compared with 3% this year. This slowdown in demand, is due in part to a transfer of wealth from Europe to the OPEC countries. This reduction in the rate of growth of the European market may slowdown the rate at which some firms will build up production capacity in Ireland.

Another important factor influencing industrial growth in Ireland over the next year is the tight credit situation and current very high interest rates. Whereas manufacturing firms can borrow abroad for certain specific trade related activities, and are allowed to cover the exchange risk, they are precluded from such cover for

foreign borrowing in general. This means that, with inflation running at 13%, many manufacturing firms are unable to borrow sufficient working capital to maintain the existing level of output from the banking system.

The situation clearly becomes much more difficult for firms which want to expand. This requires an even higher level of borrowing. If some firms have difficulty in maintaining the existing level of output because of credit restrictions, it is obvious that many more firms are constrained from growing.

Even if adequate credit were available, the exceptionally high level of interest rates at present has an obvious inhibiting effect on investment. If a firm has to pay interest rates close to 20% for additional capital, it must see the prospect of returns of this magnitude on the sale of completed goods. The majority of Irish industrial firms are not earning a return on capital of 20% so that they are forced to keep short term borrowing to a minimum in order to ensure the economic survival of the company. Many firms have already cut back on stock levels for this reason, and many more intend to cut back.

#### RESULTS OF SURVEY

The following are preliminary results of a survey of 150 manufacturing firms taken this week, and indicate the seriousness of the problem :

- One quarter of the firms surveyed state that their existing level of output is currently constrained by lack of credit .
- One third of the firms surveyed state that growth in output is currently constrained by lack of credit .
- Almost half of the firms surveyed have already cut back on material stock levels because of high interest rates.

- Half of the firms surveyed intend to cut back on material stock levels because of high interest rates.
- One quarter of the firms surveyed have already postponed investment projects because of high interest rates.
- One third of the firms surveyed intend to cut back on investment because of high interest rates.

Of the firms responding to the above survey

About 45% have less than 100 employees

About 35% have between 100 and 250 employees

About 20% have more than 250 employees.

#### RECOMMENDATION

It is vitally important that this slowing down or postponing of manufacturing investment because of credit restrictions and high interest rates is reversed as quickly as possible. Unless this is done, the growth in manufacturing output on which the whole economy depends will slow down.

The Government has indicated its objective to hold the exchange rate of the Irish pound in line with EMS currencies. The rate of increase in domestic costs such as wages, is still much higher in EMS member States on average. It is vitally important that the pace of manufacturing investment is accelerated in order to minimise the disadvantage of high domestic cost increases.

The manufacturing sector has shown itself to be the primary growth sector in the economy. Although less than 1/3rd of the economy's labour force works in industry, almost 2/3rds of job vacancies at the

end of June were for industrial employees. Employment in manufacturing industry has been on an underlying upward trend for the last 50 years. This trend must be accelerated. It is hard to see any other way in which Ireland can reach its full potential as a modern economy.

I would, therefore, urge that :

The Government should, without further delay, take up the exchange risk on foreign borrowing for manufacturing firms. This will ensure that funds can be made available to Irish industry at the same cost as to industries in other EMS member states, such as Germany and France. There will be no cost to the Exchequer if the Government's objective of maintaining the exchange rate of the Irish currency against other EMS currencies is maintained.

There is very little time to lose if a slowdown in industrial growth due to credit restrictions and high interest rates is to be avoided during the coming year.

END