PRESS RELEASE

Address by Liam Connellan, Director General, Confederation of Irish Industry, at CII Cork Council Lunch, Monday, 16th September 1991 at Arbutus Lodge Hotel, 1.00p.m.

FIRM MANAGEMENT OF PUBLIC FINANCES NECESSARY TO MAINTAIN CONFIDENCE

The programme of reducing Exchequer borrowing, which was implemented from 1987 until 1990, had an exceptionally positive impact on the climate for investment in Ireland. Inflation and interest rates fell sharply and about 70,000 net additional jobs were created in the business sectors of the economy which brought business sector employment to its highest level in the history of the State.

The recessions in Britain and the United States over the last twelve months have resulted in a show-down in the rate of economic growth in Ireland, and unemployment has increased sharply because of the cessation of emigration. Slower economic growth has resulted in lower tax revenue, and public expenditure has increased partly because of increased social welfare spending arising from higher unemployment. It now seems likely that Exchequer borrowing will be at least £100 million more than targeted at the time of the January budget. It is vitally important that this new target is not exceeded.

A continuing decline in Exchequer borrowing is vital in keeping down interest rates and inflation and preserving Ireland's hard-won reputation as one of the more stable low-inflation economies within the European Community. It will ensure that foreign institutions will continue to invest in Irish government bonds, and that Ireland can sustain its case to be included in the group of EC member states which will implement monetary union, and adopt a single currency before the end of the decade. Our participation in this group of countries will be particularly important in maintaining the high level of confidence in Ireland as a location for investment.

There is now increasing evidence that the recovery from the slow-down of the last twelve months commenced about mid-year. Export performance has begun to improve; order books in early August were higher than they had been for almost a year; and job advertisements in the newspapers have shown a steady improvement over the last two months. Consumer demand in Britain and the United States has started to grow for the first time in almost a year. However, these indicators of recovery come after more than a year of very little growth. They do, however, increase the likelihood that a gradual recovery has begun.

It is essential that there should be no worsening of the fiscal position in 1992 as this would harm the emerging recovery in Ireland. The pressure on public expenditure will remain great as a result of the recent increase in unemployment. This means that offsetting reductions in expenditure will have to be found to avoid a further deterioration in the Exchequer finances. The process of reducing Exchequer borrowing must be continued in order to keep down inflation and interest rates and ensure that industry can remain competitive and avail of the opportunities of increase output and employment if, as is hoped, the recovery which is now under way continues.

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