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PRESS RELEASE

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STATEMENT BY LIAM CONNELLAN, DIRECTOR GENERAL,
CONFEDERATION OF IRISH INDUSTRY
ON PUBLICATION OF INFLATION FIGURES FOR MID-AUGUST

LOW INFLATION AND REDUCED DEBT THE KEY TO INCREASING EMPLOYMENT

I welcome the continued fall in Irish inflation announced to-day. This confirms our standing as a stable member of the narrow band EMS currencies. Low Irish inflation has enabled Irish firms to increase their share of the British market leading to higher output and employment despite the significant fall-off in the growth of demand in the British market. The 8% lower inflation in Ireland has offset the impact of the weakening of sterling and enabled employment and living standards in Ireland to show steady improvement despite increasingly difficult international trading conditions.

The international economic environment has become more difficult in recent months. Nevertheless the way forward for Ireland is clear. Government policies to bring about a steady reduction of our national debt must be sustained in order to maintain investor confidence and improve the capacity of the economy to create lasting employment. We must achieve a continuing improvement in the competitiveness of Irish products so as to increase our market share, and sustain output and employment even in the present difficult market conditions. Our ability to maintain inflation and interest rates in line with our EMS partners is a vital condition for continued expansion. The fact that this has been achieved over the last three years should give us the confidence to continue the process without interruption next year.

Over the last year the benefits of our strong currency, low inflation, policy have become more obvious. Industrial investment and output have continued to expand although two of our main markets, Britain and the United States, are now in near recession conditions. The fall in international stock markets, the decline in agricultural prices and the Gulf crisis have combined to create a mood of uncertainty in business. It is now vitally important that the climate of confidence and the mood of consensus which has existed in recent years in Ireland be maintained. Because some of our main markets are stagnating, this must be offset by increasing our market share and by becoming more competitive. The recent high rate of business investment must be sustained, and exceptional efforts made to fill the newly created capacity by generating higher demand for more competitive products.

The climate of confidence in recent years has been created primarily by the Government's success in getting the national debt, initially under control and later, on a downward path. Although this achievement required many difficult decisions, it led to greater economic growth, increased employment and eventually to a fall-off in emigration.

The process must be continued in the coming budget.

While some progress has been made in reducing national debt, it remains well over 100% of national output and twice as high as the average in the European Community. Ten per cent of our national output each year must still be allocated to paying the interest on this debt. Its magnitude leaves Ireland very vulnerable to any substantial hike in international interest rates or the impact of a severe international recession. Countries who have much lower national debt are much better placed to cope with these potential problems than we are. Yet we have clear evidence that the confidence engendered by the process of reducing debt has resulted in an Irish investment rate almost twice as great as the European average rate in 1989 and 1990. It is of the utmost importance that this trend be continued. The converse effect could also occur. A slow down in the process of reducing our national debt would inevitably result in a loss of confidence, and less investment leading to a slower growth in output and employment.

By a continuation of existing policies Ireland can ensure that its inflation remains in line with the narrow band countries of the EMS and that our interest rates come closer to those of the Deutschmark. Even today our interest rates are almost 3% higher than the Deutschmark indicating that there is still scope for improvement. Belgium has succeeded in bringing its interest rate down to 9%. This should be our target also. A continued fall in Exchequer borrowing will help to make this possible. Every 1% fall in mortgage interest rates would reduce the payments of the average mortgage holder by £22 per month. Every 1% fall in interest rates would also reduce the interest rate burden on the Exchequer and leave more funds available for the creation of employment.

At present Ireland's inflation is close to that in the narrow band EMS countries. The German rate is 2.9%, the French rate is 3%. There is at present little reason why Irish inflation should rise significantly in the coming months. The oil price increase must be kept in perspective. Oil accounts for less than 5% of consumer spending in the Irish economy and oil price increases will be offset by the impact of the relative strengthening of the Irish pound vis-a-vis sterling and the dollar, the fall in agricultural prices and the very low level of general European inflation. Irish wholesale prices are still below their level of a year ago.

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