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COMMISSION OF THE EUROPEAN COMMUNITIES

INTERNAL INFORMATION on AGRICULTURE

Credit to Agriculture

VI. Ireland

COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE-GENERAL FOR AGRICULTURE

Directorate Agricultural Economics – Division «Balance-sheets, Studies, Statistical Information»

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FOREWORD

The present study on Credit to Agriculture in Ireland has been carried out within the framework of the study-programme of the Directorate-General for Agriculture, Commission of the European Communities, by

Mr. Matthew L. HYLAND
Chief Agricultural Advisor
Bank of Ireland
DUBLIN

The results of similar monographs for most of the original Member States, i.e. Belgium, France and the G.D. of Luxembourg(1), the F.R. of Germany(2) and Italy(3) have already been circulated, while similar reports have recently been issued for Denmark(4) and the United Kingdom(5).

The Divisions "Balance-sheets, Studies, Statistical Information" and "Conditions of Competition and Market Structures" of the Directorate-General for Agriculture have participated in this project.

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The present study does not necessarily reflect the opinion of the Commission of the European Communities and does in no way prejudice its future standpoint on this subject.

Original : English

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(1)	"Informations Internes sur l'Agriculture",	n° 102	(French, German)
(2)	ibid.	n° 104	(German)
(3)	ibid	n° 113	(Italian, French)
(4)	"Internal Information on Agriculture",	n° 146	(English)
(5)	ibid.	n° 147	(English)

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LIST OF TABLES

TERMS OF REFERENCE

In the terms of reference provided for this study, Agriculture was defined as embracing:

(a) the production of agricultural and horticultural commodities but excluding fish enterprises.

(b) the agricultural infrastructure in so far as it is connected with agricultural enterprises.

(c) the activities upstream and downstream from farming, including the supply area and the primary processing and marketing of agricultural commodities in so far as these activities originate from entities like producer groups, agricultural cooperatives, etc.

INTRODUCTION

The most important lenders to agriculture are:

1. The Associated Banks comprising four separate institutions. Two of these are public companies registered in Ireland, the other two are subsidiaries of English Clearing Banks.

   The Associated Banks are so designated because they are associated with the Central Bank for specific purposes. This association operates through the Bank's Standing Committee, a body consisting of representatives of the four banks.

2. The Non-Associated Banks: Some are branches of large North American multi-national banks either in association with Irish banks or independent. Others are subsidiaries of European banks. Each member of the Associated Banks either owns or shares in the ownership of one or more.

3. The Agricultural Credit Corporation Ltd., is a State owned company created by the Agricultural Credit Act no. 24 of 1927 under the Company's Act of 1908 and after. Various amending acts have since extended the Corporation's powers and functions.

Its purpose is to increase the volume of credit to the Irish Agricultural industry and ancillary enterprises. It is not a licensed bank and consequently does not come under control of the Central Bank, but rather operates directly under the Minister of Finance.

4. The Irish Land Commission which is a State Institution operating in the Department of Lands. It was set-up in 1881 initially to ensure satisfactory conditions of tenure for tenant farmers and subsequently to purchase the farms from the landlords and resell, advancing the entire cost by way of long term credit to the purchasers.

DEFINITIONS:

Credit — In Ireland the term "credit" is not usually applied to cash advances made by lending institutions. These are more commonly referred to as loans. The word "credit" is used in the more general sense to describe loan volume or loan type.

Farmers This term is used to describe primary producers. Its meaning is confined to activities associated with the production of crops and stock.

Nature of loan funds - The credit funds used by the Associated and non-associated banks and other Finance Houses are provided from the normal course of banking activities.

Those of the Agricultural Credit Corporation (ACC) contain an element of Government finance, some foreign borrowing detailed in Chapter 3, but derive mainly from private investors.

The Irish Land Commission (ILC) obtains all its funds from Government sources.

CHAPTER 1

Relative Importance of Agricultural Credit in the Capital Market

Firstly, only the credit used by farmers and obtained by way of loans is considered in this chapter. Merchant credit arising in the normal course of trading in transactions of buying and selling is omitted from this chapter but is included in Chapter 2. Later in Chapter 1 the study is extended to include the whole sector of agriculture as outlined in the Terms of Reference.

TABLE 1 Credit to Farmers[1] from Lending Institutions

Amount outstanding in £m at the end of each year stated.

Lending Source	Year 1963			Year 1968			Year 1972			Year 1973		
	a Farmers	b Total Economy	% a/b	a Farmers	b Total Economy	% a/b	a Farmers	b Total Economy	% a/b	a Farmers	b Total Economy	% a/b
Associated Banks	40.74	248.336	16.40	55.164	379.465	14.54	104.10	576.40	18.06	126.05	693.5	18.18
Non-Associated Banks					77.037		8.20	230.55	3.56	11.00	294.45	3.74
ACC	5.966	6.10	97.8	21.05	21.30	98.83	44.32	49.85	88.91	65.88	73.64	89.46
Other Finance Houses	1.90	34.70	5.5%	4.02	66.951	6%	9.68	129.181	7.5%	15.04	176.970	8.5%
I.L.C.	39	39	100	37	37	100	36	36	100	36	36	100
Total All Sources	87.606	328.136	26.69	117.234	581.753	20.15	202.30	1021.981	19.19	253.97	1274.56	19.93

(1) All Irish farms are owner operated units, therefore,the term farmer used throughout this study implies that the owners work their farms to produce crops, livestock and livestock products. Cattle marketing is also included in Table 1. (See, Appendix 5 - page xix)

SOURCE: Central Bank Reports

(3)

TABLE 1 Extension

Year 1974

Lending Source	a Farmers	b Total Economy	% a/b
Associated Banks	142.9	772.25	18.50
Non-Associated Banks	16.85	348.70	4.83
ACC	85.81	103.52	82.89
Other Finance Houses	18.56	213.40	8.7
I.L.C.	36	36	100
TOTALS	300.12	1,473.87	20.36

TABLE 2

Comparative Growth in Credit to Farmers/Total Economy

	YEAR 1963/1968		YEAR 1968/1972		YEAR 1972/1973		YEAR 1973/1974		YEAR 1963/1974	
	Growth £m (1)	(2)	Growth £m (1)	(2)	Growth £m (1)	(2)	Growth £m (1)	(2)	Growth £m (1)	(2)
Farmers	29.63	134	85.07	173	51.70	126	46.15	118.2	212.51	342
Total Economy	253.617	177	440.228	176	252.58	125	199.31	115.6	1145.73	449.2

(1) Indicates growth within period
(2) Expresses growth from base 100 in 1963

Growth in credit did not take place evenly throughout the decade studied nor during the years within the periods taken. This is true of all credit to all sectors and the yearly movement within the periods has been plotted and reproduced in Figure 2.

NOTES ON TABLE 1

1.1 The first table in this chapter represents the full extent to which credit information is available from official statistics. Up to now the credit institutions either do not classify their loans according to duration or are not required to furnish such details for publication. Indeed the Associated Banks, which are the main lenders to agriculture, did not - prior to 1972 - make loans on fixed repayment conditions but rather on the overdraft system. Consequently, they have no record of loan durations. As all loans are now converted to and made on fixed repayment arrangements the Associated Banks can record the necessary data.

1.2 The requirements for the collection of data for official publication do not specify rigid definitions of what constitutes agricultural credit and so the statistics which are available do not reflect accurately at any one time the credit extended to agriculture or to any section of it. Neither do they provide a reliable basis for comparison as between the different sources of credit or of one year with another.

1.3 A further complication in any effort to calculate credit utilisation and availability is that some lending agencies secure part of their lending resources outside the country.

1.4 The non-associated banks did not record separately their lending to agriculture until 1972 and consequently no data appear in Table 1 prior to that year. In view of their small loan volume in 1972 - less than 4% of total lending - it can be assumed that the non-associated banks were not significant lenders to agriculture in the preceeding years.

1.5 The Category 'Other Finance Houses' includes all Hire Purchase and Instalment Credit Companies, Industrial Banks and State Sponsored Institutions. Some of these institutions record specific types of lending to the farming community such as that in respect of farm machinery purchases. Loans made for the purchase of motor cars, lorries or household equipment are not classified by type of borrower but it is assumed that 10% of total loans, including Hire Purchase agreements and instalment credit, is taken up by the farming community for the purchase of these items. This is the percentage used by the Central Statistics Office.

1.6 The Agricultural Credit Corporation do not publish an analysis of their lending by type of borrower. They have, however, furnished for publication in this report the necessary analysis of their lending for the period being studied.

1.7 There are no statistics available from the banks for December 31, 1968 or for the same date in subsequent years as returns are made to the Central Bank as at late November and late February following. As the issue of credit to all sectors, including agriculture, through this period was increasing substantially it was thought justifiable to take the mean of the published figures for November and February. This, of course, assumes that the rate of increase took place evenly throughout the intervening period. Similar calculations were made in respect of 1972, 1973 and 1974.

1.8 Faced with these deficiencies it was necessary to resort to much calculations, surveys and estimates of credit utilisation by primary producers.

COMMENTS ON TABLE 1

2.1 The Associated Banks -
In the period 1963-1968 credit outstanding to farmers from the Associated Banks increased by about £15m or an average of £3m per year. At the same time the percentage of total credits outstanding to farmers - as compared with the total economy - reduced by almost 2%.

2.2 During the following four years 1968-1972 the average rate of increase in credit outstanding to farmers quadrupled, the average increase per year being £12.234m.

2.3 The most striking growth, however, took place in 1973 which is a reflection of the confidence by both farmers and banks in the future for agriculture within the EEC.

2.4 Because of the large volume of seasonal and short term loans made by the Associated Banks the actual amount of credit outstanding at any one time does not reflect the total amount of loans made. Banks do not disclose returns of their total permissions so that statistics are not available for any year to enable one to give a figure which would accurately represent each institutions' activities in providing credit to the different sectors of the economy.

2.5 In the period 1963-1968 there was a remarkable growth in credit to the farming community by the Agricultural Credit Corporation amounting to £3m per year. This was in response to the increased activity of the Corporation following the 1961 Agricultural Credit Act.

2.6 During the following four years the rate of lending almost doubled to an average £5.82m per year.

2.7 In the remaining two years the growth of lending by the Agricultural Credit Corporation to the farming community averaged £20.74m per year. More than 50% of this growth was accounted for by loans of up to 5 years' duration and about 32% by loans of over 10 years' duration.

2.8 Credit outstanding to farmers from the Irish Land Commission is in respect of land purchase described elsewhere and long term loans provided for the purchase of lime and fertilisers under the land Rehabilitation Project. (1)

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(1) Introduced in 1949 by the Government, Land Rehabilitation Project gives long term loans to purchase fertilisers. Repayments are made through the Irish Land Commission.

2.9 A very considerable amount of the new institutional credit to farmers was used for modernising the dairy and beef cattle enterprises, and for land improvement. At the same time there was a noticeable investment in the farmers' houses to provide better amenities and equipment.

LOAN DURATIONS

As stated elsewhere banks have not been able to record data on loan durations and for this reason precise information in this respect cannot be furnished. The reporter, however, has been able to examine a considerable amount of data, relating to 1972, 1973 and 1974, from surveys and analyses of lending sufficient to get a general idea of the proportion of credit falling into each of the different duration categories for these years. The information from these sources indicates a considerable amount of variation between different parts of the country influenced by the system of farming practiced. Table 3 gives the general picture which emerges from the data available. It must be stressed, however, that this picture cannot be taken as accurately expressing the present situation in regard to loan durations. Such precise information must await the installation of loan analysis facilities by banks and other multi-purpose lending institutions.

Loans made now by the Irish Land Commission are for periods of 40 years.

Precise information on loan durations has been supplied by the Agricultural Credit Corporation and Table 5 sets out the position.

It will be noted, from Table 4 Extension, that a declining proportion of the Corporations' funds is being directed into long term credit. In 1963 credit for periods of 10 years and over represented 66% of total lending and credit for periods of up to 5 years only 14%. By 1973 loans for periods of 10 years and over had reduced to 27% and loans of up to 5 years accounted for 54% of total lending. This change in the lending pattern is a reflection more of deliberate policy on the part of the Corporation rather than trends in credit demand.

TABLE 3

ASSOCIATED BANKS

ESTIMATED PERCENTAGE OF LOANS ACCORDING TO LOAN DURATIONS 1972/73

Purpose	Duration					
	Short Term		Medium Term		Long Term	
	0-1 Year	1-3 Years	3-5 Years	5-7 Years	Over 7 Years	TOTAL
	%	%	%	%	%	%
armers	40	13	19	13	15	100
Total 11 Sectors	50	10	15	9	16	100

The data in Table 3 was applied to the figures for total credits to farmers from the Associated Banks as set out in Table 1, column (a) for each year. Table 4 has been constructed from these calculations. In using these figures, the defects to which the basic data are subject should be kept in mind. Table 4 refers only to lending by the Associated Banks.

TABLE 4

CREDITS TO FARMERS ACCORDING TO LOAN DURATION

(Associated Banks only)

	DURATION					
Year	Short Term		Medium Term		Long Term	
	0 - 1 Year	1 - 3 Years	3 - 5 Years	5 - 7 Years	Over 7 Years	TOTAL
	£m	£m	£m	£m	£m	£m
1963	16.30	5.30	7.74	5.30	6.11	40.75
1968	22.07	7.17	10.48	7.17	8.28	55.17
1972	41.64	13.53	19.78	13.53	15.62	104.10
1973	50.42	16.39	23.95	16.39	18.91	126.06
1974	57.16	18.58	27.15	18.58	21.43	142.90
CREDITS TO TOTAL ECONOMY (Associated Banks only)						
1963	124.17	24.83	34.77	22.35	39.73	245.85
1968	189.73	37.95	53.13	34.15	60.71	375.67
1972	288.20	57.64	80.70	51.88	92.22	570.64
1973	346.75	69.35	97.09	62.42	110.96	686.57
1974	386.12	77.23	115.84	69.50	123.56	772.25

TABLE 4 Extension   AGRICULTURAL CREDIT CORPORATION

Total Lending According to Loan Duration   £'000

	YEAR 1963		YEAR 1968		YEAR 1972		YEAR 1973	
	Amount	%	Amount	%	Amount	%	Amount	%
Under 1 year			800	3.75	6,000	12.05	7,500	10.23
1-5 years	850	13.93	7,500	35.2	20,000	40.2	32,000	43.66
*1-10 years	1,220	20.0	5,000	23.47	10,800	21.68	13,800	18.83
Over 10 years	4,030	66.06	8,000	37.56	13,000	26.10	20,000	27.28
TOTAL:	6,100		21,300		49,800		73,300	

* Treated as "over 5 and up to 10 years"

TABLE 5

LOANS TO AGRICULTURE - £m

Type of Credit	1963			1968			1972			1973		
	a Agric.	b Total Econ.	% a of b	a Agric.	b Total Econ.	% a of b	a Agric.	b Total Econ.	% a of b	a Agric.	b Total Econ.	% a of b
1. Associated Banks	44.29	248.336	17.835	96.356	379.465	25.4	144.75	576.40	25.1	213.05	693.5	33.3
2. Non-Assoc. Banks					77.037		18.50	230.55	8.0	47.80	294.45	16.2
3. Other Finance Houses	2.95	34.70	8.5	6.02	66.951	9.0	12.91	129.181	10.0	21.24	176.97	12.0
4. A.C.C.	6.10	6.10	100	21.30	21.30	100	49.80	49.800	100	73.64	73.64	100
5. I.L.C.	39.00	39.00	100	37.00	37.00	100	36.00	36.00	100	36.00	36.00	100
6. I.C.C.				0.70	16.05	4.4	2.11	26.63	7.9	3.00	27.32	10.9
TOTALS	92.34	328.136	28.14	161.376	597.803	27	264.07	1048.561	25.18	394.73	1301.88	30.32

TABLE 5 Extension

LOANS TO AGRICULTURE - £m

	1974		
	a Agriculture	b Total Economy	% a/b
1. Associated Banks	245.7	772.25	31.8
2. Non-Associated Banks	59.0	348.7	16.9
3. Other Finance Houses	27.31	213.4	12.8
4. A.C.C.	103.52	103.52	100
5. I.L.C.	36.0	36.0	100
6. I.C.C.	4.78	39.07	12.2
TOTALS:	476.31	1,513.19	31.48

COMMENTS ON TABLE 5

In this Table the sources of credit are numbered 1-6 inclusive and the amount provided by each source is dealt with separately hereunder.

1. The Associated Banks. The total credits in the column headed Agriculture (a) in each year represent the credit to farmers, to the dairy industry as defined on page 22 and to the other parts of the agricultural processing and marketing activities in accordance with the terms of reference. It will be appreciated, bearing in mind comment 3.3 and 3.4 (page 23) that much of the material is not derived from precise statistical data.

Since the Agricultural Credit Corporation obtains some of its credit resources - usually between £1m and £2m - from the Irish Associated Banks and assuming such resources are re-lent to agriculture, it would seem justifiable to include the appropriate amounts in this column. To do so, however, might give a false picture of the amount of credit reaching agriculture as it is assumed the Agricultural Credit Corporation, in its submission, will have included this in its credit allocations.

2. The Non-Associated Banks. As referred to in 1.4, page 9, analyses of credit from the non-associated banks were not furnished prior to 1972. The figures given in line 2 of the Table represent the same categories of borrowers as those in line 1.

3. Other Finance Houses. These represent all the other licensed banks, hire purchase and instalment credit companies not included in line 1 and 2 of Table 5, except the Agricultural Credit Corporation and Industrial Credit Company. Statistics for this category of credit supply, (i.e., Other Finance Houses) were not recorded prior to 1968 consequently no entry is made in respect of 1963. These Finance Houses have not been required to classify their credit as is the case with the other banks, therefore, the amount of credit from these sources utilised by the agricultural industry in any year can only be estimated within broad limits. It is necessary to note that the more important Instalment Credit Institutions, and some industrial banks, are subsidiaries of the Associated Banks.

4. The Agricultural Credit Corporation Ltd. As explained in pages 2 and 3 the credit facilities provided by the Agricultural Credit Corporation are confined to the Agricultural Industry.

5. <u>The Industrial Credit Company</u> - this is a State owned credit institution set-up to make credit available to the manufacturing and distributive industries. Prior to 1968 it did not classify its loans to identify the amount of credit provided to the food industry, hence no figures are included for 1963 in the column 'Agriculture'.

6. <u>Irish Land Commission</u> - a State institution within the Department of Lands. As explained in the Introduction (item 4) credits are provided in respect of land acquired and resold either as economic farm units or parcels of land to make existing units economic. Loans are also obtainable by farmers from the Irish Land Commission for the erection of new dwelling houses or the reconstruction of existing houses.

CLASSIFICATION OF BANK ADVANCES

Quarterly returns of credit are furnished by the Associated Banks to the Central Bank in February, May, August and November each year and these are published in the Bank's Quarterly Bulletin. In respect of 1963 the figures are taken as at January 21, 1964. Returns are required by the Central Bank under 22 categories as reproduced below and the analyses of lending published by the Central Bank are under these classifications.

1. Agriculture
2. Mining, Quarrying and Turf
3. Building and Construction
4. Dairy Produce
5. Other Food, Drink and Tobacco
6. Engineering and Metals
7. Textiles, Leather and Clothing
8. Paper and Printing
9. Other Manufacturing
10. Hire Purchase Finance Companies
11. Property Companies
12. Other Financial
13. Transport, Communications and Power
14. Tourism
15. Retail Distribution
16. Wholesale Distribution
17. Professional, Scientific and Miscellaneous Services

18. Personal

19. Schools, Charities, Churches, Hospitals, etc.

20. Local Authorities

21. Government

22. Unclassified

NOTES ON TABLE 5 (these notes should be read in conjunction with the foregoing section entitled 'Classification of Bank Advances')

3.1 The category - Agriculture - as used by the Central Bank includes all types of farming, cattle marketing and fishing. Credit to the fishing industry has been eliminated from the figures given in Tables 1 and 5.

3.2 Category 4 - Dairy Produce - relates solely to the dairy industry, consequently it includes all credit made available by banks to milk processing factories. The relative figures are included in Table 5.

3.3 Category 5 includes, in addition to agro-industry, some elements such as tobacco, soft drink, wines and margarine which are not in any way related to Irish agricultural production. There is no means of accurately segregating these foreign components from the processing of the domestically produced commodities in this category and one has had to rely on estimates based on limited survey information.

3.4 Category 7 embraces amongst a wide variety of industrial activities, the woollen industry and the leather industries which are part of agro-industry. Since they do not contribute a significant proportion of the entire category they are omitted from consideration.

3.5 Category 12. "Other Financial" includes credit afforded by the Banks to all financial institutions other than Industrial Banks and Hire Purchase Finance Companies. It is assumed that all the funds recorded in this category in the Central Bank reports are relent to the public with the agricultural industry getting its share.

In the case of the Agricultural Credit Corporation, which is included in this category of bank borrowers, the entire amount represented by its Bank overdraft, as returned in its annual accounts, is lent to the agricultural industry.

3.6 Categories 15 and 16 embrace all credit made available by the Associated Banks to merchants. Much of this credit is used to finance credit sales of farm materials and the cash purchase of grains and other farm commodities.

3.7 Many of the other categories have a content of borrowing which is used directly to support credit trading with the farming community.

LOCAL AUTHORITIES FINANCING

The Local Authorities, using funds made available by the Exchequer, make long term loans and grants to designated categories of the public including small farmers for the purpose of building dwellings. These loans are not classified on a vocational basis so that it is not possible to get an accurate record of the loans made to or outstanding with the farming community. The estimates included in the Balance Sheets are based on a sample return from a small number of representative Local Bodies. The figures are highly suspect.

STATE FINANCING

Apart from the financing of land purchase by the Irish Land Commission, there is now no other active lending by Government Departments. Prior to the expansion of the activities of the Agricultural Credit Corporation a limited number of loans for specific purposes was made by the Department of Agriculture. Some repayments on these are still outstanding. Some other Departments make very small loans, many less than £100 in the depressed areas in various schemes. Not more than £250,000 would have been issued by way of loan funds under these schemes.

PRIVATE FINANCING

A substantial amount of self financing within farms has been a recognised feature of Irish farming from year to year. Apart from this there is no recognisable nor indeed worthwhile measure of private financing by borrowing. That is to say that the practice, common in other countries, whereby transfers of farms and property within families is financed initially by the family does not obtain in Ireland. Parents or relatives may provide guarantees for institutional loans taken by sons or young people entering farming.

AGRICULTURE AS A SOURCE OF CAPITAL

It is not possible to obtain from official statistics any information which might lead one to even an estimate of the contribution which farmers' savings make towards the resources of the lending agencies. None of the agencies reveals the source of its funds, indeed many of them do not classify its origin.

Any effort to make an estimate is frustrated by many difficulties, not the least of which being (a) that a significant amount of the savings made by farmers do not arise from agricultural production and (b) the absence of a clear definition of farmers.

In the small farm areas, particularly in the west of the country which is classified as depressed, many small farmers obtain 'off farm' employment which provides their main source of income. Their frugal habits enable them to make substantial savings which are entrusted to state institutions and banks.

Over the years there has been a heavy flow of emigration to the U.K. and the U.S. from these small farms in the depressed areas and the emigrants send back home considerable sums of money much of which is not immediately nor indeed ultimately spent but is deposited as savings with the banks and state savings institutions.

Part of the income to farmers in the depressed areas arises from the earnings of seasonal migrant workers who return home to their farms for periods of three to six months each year. The numbers of these have diminished very much in recent years.

Many people engaged in business and professions in rural towns own farms and are frequently classed as farmers although the major part of their savings may arise from sources other than farming.

It is known that a substantial amount of savings is retained in the personal possession of the farmer owners and does not become available to the Capital Market. The extent of this amount has been estimated to be about 5% of the total liquid reserves of the farming community. Prevailing high interest rates during the past three years and other factors have attracted a considerable amount of these funds into the savings institutions.

When F.W. Gilmore*, Deputy Governor of the U.S. Farm Credit Administration, made a study of Farm Credit in Ireland in 1959, he estimated farmers' savings at that time to be about £100m and this was thought to be reasonably near the

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* Farm Credit in Ireland. F.W. Gilmore (1959)

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actual amount which was at that time on deposit from the farming community in the various money repositories of the State. In making this estimate, however, Gilmore was concerned only with ownership and not with the origin of the funds, the identity of which was impossible to establish because of the conditions referred to above.

Much of the profits from farming in the past was diverted to savings rather than to education and the provision of domestic amenities. While farming techniques were based on tradition and experience it was thought wiser to secure for the future the maximum measure of liquid cash rather than invest profits in the institutional education of future farmers or the improvement of living conditions. This belief has changed in the progressive areas of the country but the traditional urge to save rather than invest profits in the farm persists amongst the less enterprising farm families.

The capacity of the farming community to finance improvements to provide better living conditions and increase savings has shown a steady upward movement - with the exception of 1966 - between the years 1962 and 1971. Thereafter, to the end of 1973, the growth was dramatic. The essential data representing this movement is set out in Table 6.

During the period studied there was a sustained increase in farm output in real terms which more than matched the higher cost and quantities of material inputs. The results for 1972 and 1973, however, are more attributable to better commodity prices than increased output.

It is noteworthy that through the period income per family worker increased more than four times while net output increase was less than three times - a reflection of the reducing farm population.

TABLE 6

AGRICULTURAL OUTPUT AND RELATED STATISTICS (1)
1963 - 1974

YEAR	GROSS OUTPUT (£m)	FARM MATERIALS (£m)	NET OUTPUT (£m)	INCOME FROM SELF EMPLOYMENT (£m)	FAMILY LABOUR FORCE ('ooo)	INCOME PER FAMILY WORKER (£)
1963	215	43	172	121	309	391
1964	240	45	195	142	301	472
1965	252	53	199	141	289	488
1966	248	53	195	133	285	466
1967	266	57	209	146	275	531
1968	304	67	237	168	266	631
1969	319	73	246	171	257	665
1970	343	81	262	181	244	742
1971	388	95	293	200	236	847
1972	480	102	378	276	231	1,195
1973	623	145	478	364	226	1,611
1974	631	173	458	323	220	1,467

(1) Data from Central Statistics Office Publications

TABLE 7

CAPITAL FORMATION IN AGRICULTURE (Current Prices)

Years inclusive

Item	1963	1964-1968	1969-1972	1973
Land Improvements	4.4	25.4	24.2	6
Farm Buildings	4.9	41.4	52.6	17
Plant and Machinery	11.8	76.0	111.7	44
Less Land Sold	- 1.4	-20.0	- 44.4	23
TOTAL	19.7	122.8	144.1	44
Value of changes in Livestock Numbers	+3.6	+34.7	+64.4	+65

A comparison of Table 6 and Table 7 indicates:-

(a) the extent to which farmers have been enabled to finance expansion

(b) and increase reserves in the decade 1963-1973

Accepting Gilmore's estimate of £100m in 1959 and taking into account the evidence in Tables 6 and 7 and having regard to the changes which have taken place meantime in the agricultural economy and the habits of the farming community, the liquid assets of farmers are considered to be not less than £250m.

CHAPTER 2

Indebtedness of Agriculture

ASSETS: The Land

In the statistics published by the Central Statistics Office (see Table 8) the total land area is recorded at 17.0m acres. The following table is reproduced from their annual publications. The important component of the table is arable land totalling 11,839,522 acres - 4,791,308 hectares - and which is classified as the productive farmland capable of being tilled and used for different crops.

Woods and forests are recorded at 676,622 acres and an area of 8,321 under orchards and other fruit crops. The remainder, including the area under roads, rivers, mountain pasture, rough grazing, farmyards and dwelling houses, is classified as non-agricultural land and totals 4,499,232 acres - 1,820,783 hectares.

Table 8 Land Classifications - Central Statistics Office

	Item	Area St. Acres June 1970	Hectares
1.	Total Area of Good Land (Excl. Fruit)	11,839,522	4,791,308
2.	Woods and Forests	676,622	273,822
3.	Area of Orchards (Incl. Other Fruit)	8,321	3,367
4.	Non-Agricultural Land	4,499,232	1,820,783

The Central Statistics Office figures for total area under Crops and Pasture, which is referred to above as good land, includes the area under ditches and fences as well as much of the area designated Mountain and Hill in the figures of the Agricultural Research Institute. See Table 9

The farmland, comprising 11,839,522 acres - 4,791.308 hectares - has not been broken down further in the official statistics but it varies widely in productivity and fertility and much of it has limited agricultural use.

With the aim of assessing the agricultural land resources of the state, the Agricultural Research Institute has completed surveys and studies yielding a total figure which is about 1m acres - 404,690 hectares - less than recorded* in the official statistics. The Agricultural Research Institute has classified the land on the basis of soil type, drainage status, elevation and known grazing capacity. A summary of its classification is given hereunder and these figures, rather than those of the Central Statistics Office, will be used in this study.

TABLE 9

	Acres (m)	Hectares (m)
Lowland Mineral Land		
Dry	7.284	2.95
Wet A	1.728	0.70
Wet B	1.827	0.74
Mountain and Hill	3.63	1.47
Lowland Peat	1.962	.78

The land classified as dry mineral soil is the most productive and most valuable land. It is not concentrated in a specific area but is scattered throughout most of the country, occurring principally in the east, midlands and south.

* Analysis of Land Potential for Grazing in Ireland. J. Lee 1974

The wet land recorded in Table 9 is reasonably useful for grass growth but has limited use for tillage. It can be brought to a high level of production by drainage but some of it, at least, would still be somewhat restricted in use and demand more skill in management than category 1.

Of the area devoted to woods and forests only 100,000 acres - 40,469 hectares - is in private ownership the remainder is owned by the State. The value of this privately owned area is very variable extending from quite valueless scrub to mature soft-wood, the economic value of which depends on the costs of extraction which are high in the case of small units.

The area under orchards includes the acreage planted to all fruits. Much of the orchards are old plantations which have very little value. The soft fruit plantations are short lived and have to be frequently renewed, consequently the total value of the plantations is of little consequence and the separate land valuation included in the Schedule of Assets disregards them.

The total area under glass, both heated and unheated is included in the Schedule of Assets together with appropriate values which have been related to the age of the structures and the amount of equipment installed.

Much of the land classified under 'Mountain and Hill' is used for sheep and cattle grazing. Its value, particularly at elevations below 1,000 feet - 300 metres - has been enhanced in recent years by the introduction of new reclamation techniques and increased grants which are now available for improvement. Areas over 1,000 feet - 300 metres -

are limited in use and grazing capacity. In the high rainfall areas of the west and north, soil erosion is severe and the land so affected has no agricultural value.

In the west and north-west large tracts of mountain land are not used for stock grazing. They have been or are being acquired for forest development by the State. The value included in the Schedule of Assets derives from information supplied by the Department of Lands and other sources and represents the average of the prices and value of mountain and hill land having regard to its uses.

VALUATION OF THE LAND AREA:

In any effort to put a fair valuation on the agricultural land, one is confronted by a number of considerations such as the variety of options in land use, productivity, market opportunities and the sale value of farm units. This last factor has been very much influenced by the size of the unit offered - small units usually realising very much higher prices per acre than larger units, although during 1972 and 1973 the reverse tendency has been showing. The Lowland Peat area has no significant value for livestock or general crop production. It is used mainly as a source of fuel and for forest plantations. The value included in the Schedule of Assets is the average sale price appropriate to the relevant years.

Taking into account all the factors the reporter decided that the fairest basis of valuation was to give the same value per acre/hectare for all the land in each category. These valuations are set out in the Schedule of Farm Assets for each of the years 1963, 1968, 1972 and 1973.

TABLE 10

LAND VALUATIONS

As compiled from information supplied by Department of Lands, sale prices by public auction and otherwise and land quality considerations.

£000

	1963			1968		1972		1973	
	Area Acres	Unit Value £	Total Value £	Unit Value £	Total Value £	Unit Value £	Total Value £	Unit Value £	Total Value £
Lowland Mineral									
Dry	7.284 x	80 =	582.720	150 =	1,092.600	400 =	2,913.600	500 =	3,642.000
Wet A	1.728 x	50 =	86.400	90 =	155.520	240 =	414.720	300 =	518.400
Wet B	1.827 x	35 =	63.945	60 =	109.620	200 =	365.400	250 =	456.750
Mountain and Hill	3.630 x	10 =	36.300	15 =	54.450	40 =	145.200	60 =	217.800
Lowlevel Peat	1.926	2 =	3.852	5 =	9.630	10 =	19.260	20 =	38.520
Total	16.395		773.217		1,421.820		3,858.180		4,873.470

Land values in 1974 are calculated to have declined by 15% giving an overall total figure of £4,142,475,000 as representing the land value at the end of 1974.

The very noticeable increase in land values in the five year period following 1968 really began in 1970. It was spurred on by the prospect of higher commodity prices on accession to the EEC on the one hand and competition from new entrants to farming seeking to hedge against inflation on the other. The urge to purchase land was supported by a ready supply of loan funds from all lending institutions.

Farm Buildings

No separate evaluation of either farm buildings or farmers' dwelling houses has been made before now. It has been necessary, therefore, to use various methods of evaluation and make use of information from a number of sources in an attempt to arrive at an estimate. The sources consulted are - Agricultural Research Institute; The Department of Agriculture; Central Statistics Office; Valuation Office; The Irish Land Commission; The Department of Local Government.

In calculating the value of the farm buildings, account was taken of the original cost and the amount of grants available in each case. Building costs moved slightly upwards between 1963 and 1968, but increased substantially thereafter. A very significant increase in building costs occurred between 1972 and 1973

Prior to 1963 the annual investment in farm buildings was modest. Since then, because of improved farm stock prices and growing prosperity amongst the farming community together with better prospects for livestock and livestock product enterprises giving rise to increasing livestock populations, the long felt need to provide more suitable accommodation for stock began to be filled in earnest.

STOCK HOUSING VALUATIONS:

DAIRY-COW HOUSES:

The most sophisticated housing requirement is in herds of more than 50 cows, consequently they represent the highest investment in housing per cow. On the basis of present costs (1973) a fully equipped yard and milking parlour, dairy and slurry unit would cost £220 per cow. Allowing for grants and modifications an average farm investment per cow is assumed at £130 for houses built and equipped in 1973. Taking into account all dairy houses of all ages, an average investment of £60 per cow is considered reasonable in this size category leaving equipment out of account as that is included under farm machinery.

Smaller sized units are scaled down to represent the appropriate level of investment. Units accommodating 30 cows and less are usually more simple in both housing and equipment.

OTHER CATTLE HOUSES:

Winter housing is normally provided for all cattle under one year. Buildings are generally simple and inexpensive, many having been converted from other use. The value of these is estimated at £9.2m.

Cattle, other than the categories - milch cows and under one-year - number 3.3m. In many of the western and midland counties such as Galway, Clare, Kerry, Roscommon, Westmeath, Longford it is not the practice to house all cattle in winter. An estimate of two-fifths of this number is taken as the total housed in the categories included. Housing types vary in cost from cheap simple structures to expensive sophisticated units. They are valued in total at £27m.

PIGHOUSES: Of a total sow population, including gilts of about 116,000, 38,000 are in units of over 50 sows all of which are well built and fitted. These are costed nett on average at £I00 per sow. A further 40,000 are valued at £40 and the remainder at £20.

FATTENING UNITS: Total fattening accommodation consists of about 600,000 pig places and 80% of this is in units averaging 600 pigs. Cost is taken at £I5 per pig nett. Accommodation for small pigs is calculated at £2m.

HORSE HOUSES: Thoroughbred horses number about 20,000. Stabling and ancillary buildings are costly. Accommodation is valued at £3,960,000. This is a modest estimate as very much more would now be expended to provide the necessary facilities.

About half the working horses are normally housed in winter. Many of the houses are old and simple; they are valued at £20 per horse.

Total £4.5m.

POULTRY HOUSES: Broiler houses, breeding units and large laying units represent the major investment in the poultry enterprise. Housing is valued at £4m.

Grain, forage and machinery stores not included in the above are valued at £12m.

TABLE 11

VALUATION OF FARM BUILDINGS

Cow Houses and Dairies:

Herd Size		No.		Unit Value £		Total Value £
50+	=	186,000	x	60	=	11,160,000
30-50	=	262,400	x	40	=	10,496,000
20-30	=	267,700	x	30	=	8,031,000
10-20	=	354,000	x	30	=	10,620,000
5-10	=	173,800	x	20	=	3,476,000
1-5	=	145,000	x	10	=	1,450,000
		1,389,000				45,233,000

Other Housing for:-

Cattle under 1-year 1,844,200 x 5	9,220,000	
Other Cattle 3.3m	27,000,000	
Pigs	17,160,000	
Horses	4,500,000	
Poultry	4,000,000	
Grain and forage stores machinery and other houses not included in above	12,000,000	
		119,113,000

The values shown in the following table are for the five years 1963, 1968, 1972 and 1973. They are estimated to reflect the capital formation in farm buildings, depreciation and cost inflation.

VALUATIONS OF FARM BUILDINGS

	1963	1968	1972	1973	1974
Value £m	£37	£52	£80	£119	£127

VALUATION OF FARM DWELLINGS

No attempt has been made heretofore to put a sale value on farm dwellings. As they are usually not sold separately from farms there is no ready means of valuing them. Difficulties of access, remoteness of locations and the deficiency or complete absence of facilities do not permit the normal sale price standards to be applied in such a valuation.

It must be recognised, however, that many farmhouses have a high standard of household facilities. Since 1960 and particularly since 1968 many facilities for better living have been provided. With inducements by way of grants and loans a large proportion of the old farmhouses have either been re-built or modernised.

The tendency common in other countries for city and town dwellers to move into the country either entirely or for week-ends has been growing in Ireland since 1968 putting pressure on farm house prices. Even remoteness as a factor in farm house values has not the same significance as in the past.

The sale price of dwelling houses generally can be associated with their Rateable Valuations which are fixed on the basis of location, structure, size, facilities, etc. Such relationships are not valid in the case of farm houses, for the reasons stated above. While farm dwellings are valued separately there is no published statistic showing the range and valuations of all the farm dwellings in the state. There is, however, a published analysis of households according to socio/ economic groupings and one of these provides the most reliable census available of farm dwellings classified according to the total Rateable Valuation of the farms inclusive of land and buildings.

Since the Rateable Valuation is an indication of the size and productive capacity of each farm and taking the broad assumption that the quality and value of each house reflects the income of the owner, an average value can be estimated for each category in the published table of Rateable Valuations. Table 11 sets out details of these groupings and the factors used. It is necessary to emphasise, however, that the method employed in these calculations is subject to many errors. Exact values must await detailed surveys, the results of which will themselves be quickly out-dated by the highly dynamic nature of modern life.

TABLE 12

FARM DWELLINGS VALUATION

Rateable Valuation £	No. Houses	Value/ House £	Total Value 1963 £	Value/ House £	Total Value 1968 £	Value/ House £	Total Value 1972 £	Value/ House £	Total Value 1973 £
Under 2	9,470	165	1,562,550	210	1,988,700	330	3,125,100	360	3,409,200
2 - 4	11,400	270	3,078,000	330	3,762,000	600	6,840,000	660	7,524,000
4 - 7	18,200	440	8,008,000	522	9,509,500	935	17,017,000	1,100	20,020,000
7 - 10	17,460	595	10,388,700	722	12,614,850	1,275	22,261,500	1,530	26,713,800
10 - 15	27,900	750	20,925,000	875	24,412,500	1,687	47,081,250	2,000	55,800,000
15 - 20	23,000	875	20,125,000	1,050	24,150,000	2,100	48,300,000	2,450	56,350,000
20 - 30	32,600	1,000	32,600,000	1,250	40,750,000	2,375	77,425,000	2,750	89,650,000
30 - 50	29,100	1,050	30,555,000	1,400	40,740,000	2,625	76,387,500	3,150	91,665,000
50 - 100	21,300	1,500	31,950,000	1,875	39,937,500	3,375	71,887,500	4,125	87,862,500
100+	9,400	2,000	18,800,000	2,500	23,500,000	4,500	42,300,000	5,500	51,700,000
	199,830		177,992,250		221,365,050		412,624,850		490,694,500

The cost of new farm dwellings are calculated to have increased by 11% through 1974. Having regard to depreciation and the limited investment in dwellings through the year the value of farm dwellings at the end of 1974 is estimated to be £510,322,000

TABLE 13

VALUE OF LAND AND BUILDINGS

	1963 £	1968 £	1972 £	1973 £	1974 £
Land	773,217,000	1,421,820,000	3,858,180,000	4,873,470,000	4,142,475,000
Dwellings	177,992,250	221,365,000	412,624,850	490,694,500	510,322,000
Farm Buildings	37,000,000	52,000,000	80,000,000	119,000,000	127,000,000
TOTAL	988,209,250	1,695,185,000	4,350,804,850	5,483,164,500	4,779,797,000

LIVESTOCK VALUATIONS

Through the years livestock have been enumerated twice yearly in June and December. Frequently there is difficulty in reconciling the figures in some categories as between June and December in the same year and as between one year and another. Rather than try to make adjustments to reconcile the population figures one decided to accept the June figures as the more correct and these have been used throughout.

There is, of course, an understandable variation in the livestock population between June and December and numbers in categories; particularly of younger stock, can vary greatly. However, in terms of livestock units* there is not a material difference.

The livestock classifications used in the study are those which were traditionally recorded and published by the Central Statistics Office.

Stock valuations in all cases have been taken from the December prices.

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* A livestock unit (L.U.) is a 533kg. milking cow or equivalent

VALUE OF LIVESTOCK - 1963 Numbers for June
Prices for December

ITEM	Number (000)	Unit Value £	Total Value £000	
CATTLE:				
Bulls	15.7	80	1.256	
Milch Cows	1,322.5	70	92.575	
In-calf Heifers	159.9	75	11.993	
Cattle 3-yrs and over	227.6	80	18.208	
2/3 years	827.7	60	49.662	
1/2 years	1,138.8	40	45.552	
0/1 year	1,167.8	20	23.356	
Total:-				242.602
SHEEP:				
Rams	65.3	8	0.522	
Ewes	2,084.9	6	12.509	
Lambs over 1-year	456.7	5	2.284	
Lambs under 1-year	2,083.9	4	8.336	
Total:-				23.651
HORSES:				
Working	136.8	60	8.208	
Thoroughbred	14.6	100	1.460	
Other	38.7	50	1.935	
Total:-				11.603
PIGS:				
Boars	3.3	10	0.033	
Sows	110.8	10	1.108	
Gilts	12.3	12	0.148	
Other Pigs over 6 mths.	68.2	10	0.682	
3/6 months	425.7	6	2.554	
Under 3 mths.	481.7	3	1.445	
Total:-				5.970
POULTRY	11,888.0	0.25		2.972
TOTAL VALUE LIVESTOCK:			£286,798,000	

VALUE OF LIVESTOCK - 1968 Numbers for June
Prices for December

ITEM	Number (000)	Unit Value £	Total Value £000	
CATTLE:				
Bulls	13.6	120	1.632	
Milch Cows	1,607.4	100	160.740	
In-calf Heifers	182.7	110	20.097	
Cattle 3-yrs. and over	212.8	95	20.216	
2/3 years	896.7	90	80.703	
1/2 years	1,294.7	45	58.261	
0/1 year	1,363.7	20	27.274	
Total:-				368.923
SHEEP:				
Rams	55.0	10	0.550	
Ewes	1,882.1	8	15.057	
Lambs over 1-year	339.0	7	2.373	
Lambs under 1-year	1,801.1	3	5.403	
Total:-				23.383
HORSES:				
Working	100.8	70	7.056	
Thoroughbred	17.8	150	2.670	
Other	14.9	60	0.894	
Total:-				10.620
PIGS:				
Boars	2.5	17	0.043	
Sows	105.3	17	1.790	
Gilts	12.7	20	0.254	
Other Pigs over 6 mths.	66.7	17	1.133	
3/6 months	407.4	10	4.074	
Under 3 mths.	468.7	5	2.344	
Total:-				9.638
POULTRY	10,492.4	0.30		3.148
TOTAL VALUE LIVESTOCK:			£415,712,000	

VALUE OF LIVESTOCK - 1972 Numbers for June
Prices for December

ITEM	Number (000)	Unit Value £	Total Value £m	
CATTLE:				
Bulls	15.8	200	3.160	
Milch Cows	1,894.8	150	284.220	
In-calf Heifers	249.8	200	49.960	
Cattle 3-yrs. and over	177.4	180	31.932	
2/3 years	943.7	150	141.555	
1/2 years	1,534.8	120	184.176	
0/1 year	1,621.9	100	162.190	
Total:-				857,193.000
SHEEP:				
Rams	50.5	12	0.606	
Ewes	1,873.8	10	18.738	
Lambs over 1-year	377.3	10	3.773	
Lambs under 1-year	1,958.8	5	9.794	
Total:-				32.911,000
HORSES:				
Working	68.2	150	10.230	
Thoroughbred	19.5	400	7.800	
Other	24.4	100	2.440	
Total:-				20.470.000
PIGS:				
Boars	2.8.	25	0.070	
Sows	116.2	25	2.905	
Gilts	12.7	30	0.381	
Other Pigs over 6 mths.	61.6	25	1.540	
3/6 months	489.0	15	7.335	
Under 3 mths.	516.8	10	5.168	
Total:-				17.399.000
POULTRY	11.733.8	0.40		4.693.000
TOTAL VALUE LIVESTOCK:			£932,666,000	

VALUE OF LIVESTOCK - 1973

Numbers for June
Prices for December

ITEM	Number (000)	Unit Value £	Total Value £000	
CATTLE:				
Bulls	16,800	200	3,360	
Milch Cows	2,104,000	160	336,640	
In-calf Heifers	252,000	150	37,800	
Cattle 3-yrs. and over	171,000	170	29,070	
2/3 years	974,100	140	136,374	
1/2 years	1,613,700	100	161,370	
0/1 year	1,844,200	80	147,536	
Total:-				852,150,000
SHEEP:				
Rams	49,800	12	597	
Ewes	1,858,400	10	18,584	
Lambs over 1-year	370,200	12	4,442	
Lambs under 1-year	1,934,600	5	9,673	
Total:-				33,297,000
HORSES:				
Working	57,900	150	8,685	
Thoroughbred	19,800	400	7,920	
Other	25,000	100	2,500	
Total:-				19,105,000
PIGS:				
Boars	2,900	30	87	
Sows	111,200	40	4,448	
Gilts	18,200	40	728	
Other Pigs over 6 mths.	57,000	32	1,824	
3/6 months	437,000	20	8,740	
Under 3 mths.	487,900	10	4,879	
Total:-				20,706,000
POULTRY			5,742	5,742,480
TOTAL VALUE LIVESTOCK			£931,000,000	

VALUE OF LIVESTOCK - 1974

Numbers for June
Prices for December

ITEM	Number (000)	Unit Value £	Total Value £000	
CATTLE:				
Bulls	17.6	200	3.520	
Milch Cows	2,165.1	160	346.416	
In-calf Heifers	207.1	150	31.065	
Cattle 3-yrs. and over	223.3	170	37.916	
2/3 years	1,074.7	120	128.964	
1/2 years	1,744.5	80	139.560	
0/1 year	1,837.7	40	73.508	
Total:-				760.994
SHEEP:				
Rams	48.0	12	576	
Ewes	1,747.8	10	17.478	
Lambs over 1-year	377.5	15	5,662	
Lambs under 1-year	1,825.6	5	9,128	
Total:-				32.844
HORSES:				
Working	47.8	150	7.170	
Thoroughbred	20.7	300	6.210	
Other	25.3	100	2.530	
Total:-				15.910
PIGS				
Boars	2.6	50	0.130	
Sows	47.2	50	2.360	
Gilts	8.9	60	534	
Other Pigs over 6 mths.	63.8	36	2.296	
3/6 months	399.5	22	8.789	
Under 3 months	379.0	12	4.148	
Total:-				18.257
POULTRY	11,004.0	0.50		5.502

TOTAL VALUE LIVESTOCK: £833,508,000

TABLE 14

TOTAL VALUE OF LIVESTOCK

£000

	1963	1968	1972	1973	1974
Cattle	242.602	368.923	857.193	852.150	760.994
Sheep	23.651	23.383	32.911	33.297	32.844
Horses	11.603	10.620	20.470	19.105	15.910
Pigs	5.970	9.638	17.399	20.706	18.258
Poultry	2.972	3.148	4.693	5.742	5.502
TOTAL	286.798	415.712	932.666	931.000	833.508

FARM MACHINERY VALUATIONS

Any attempt to value the machinery on farms is subject to wide errors. Three methods have been considered but the results they yield show irreconcilable variations.

Using the product of Gross Capital Formation - as determined by the Central Statistics Office and assuming a multiplier of 5, gives a value which is much in excess of the total investment in machinery by the farming community. This overestimate arises no doubt from the basis of calculation used by the Central Statistics Office which is concerned more with the total amount of agricultural type machines and vehicles retained in the country than actually owned by farmers. The available figures for Capital Formation in Farm Machinery as determined by the Central Statistics Office are shown hereunder.

TABLE 15

FIXED CAPITAL FORMATION - FARM MACHINERY

£m

1963	1964-1968	1969-1973	1973
11.8	76.0	111.7	44

A complete census of machinery on farms is made for the Central Statistics Office on a quinquennial basis. Putting a contemporary value on the different machines yields a figure which is much below the value indicated by that derived from the Fixed Capital Formation. The following valuation sets out these for the census years 1965 and 1970.

The Agricultural Institute make an Annual Farm Survey which records investment in machinery on each farm in the sample. These records represent the most reliable estimate of machinery on farms. Their figures, therefore, have been accepted and used. Survey results have been recorded for 1968 onwards but estimates from these have been assumed in respect of 1963.

The Agricultural Institute survey is based on a total number of 220,000 farms which is in excess of the number of wholetime farmers or viable farms. For the years 1968, 1972 and 1973 the average investment per farm in machinery as determined in the survey was £191, £400 and £410 respectively. Partial results in respect of 1974 indicate an increase to £507 per farm.

Since the investment per farm in agricultural machinery produced by the Agricultural Institute does not include motor cars, there is a reasonably close relationship between their valuation and that derived from the quinquennial census.

CENSUS OF FARM MACHINERY VALUATION - 1965**

Tractors	60,167	@	£400	=	£24,066,800
Ploughs*	60,000	@	40	=	2,400,000
Harrows*	50,000	@	20	=	1,000,000
Cultivators*	25,000	@	30	=	750,000
Corn Drills	19,420	@	50	=	971,000
Fertiliser Distributors	19,886	@	50	=	994,300
Mowers*	45,000	@	40	=	1,800,000
Balers*	5,000	@	200	=	1,000,000
Forage Harvestors	3,268	@	150	=	490,200
Combine Harvestors					
Baggers					
Bulk	5,842	@	1,000	=	5,842,000
Grain Driers	764	@	300	=	229,200
Milking Parlour Equipment*	5,000	@	450	=	2,250,000
Milking Machines	23,627	@	150	=	3,544,050
Milk Coolers	11,577	@	40	=	463,080
Motor Lorries and Vans*					
2 ton and over*	1,500	@	400	=	600,000
Under 2 ton*	4,000	@	300	=	1,200,000
Motor Cars*	55,000	@	350	=	19,250,000
Farmyard Manure Spreaders	10,679	@	100	=	1,679,000
Reapers and Binders	15,358	@	100	=	1,535,800
Grinding and Crushing Mills	10,977	@	70	=	768,390
TOTAL					£70,833,820

*Estimates of Number

** Central Statistics Office

CENSUS OF FARM MACHINERY VALUATION - 1970*

Tractors	84,349	@	£600	= £	50,609,400
Ploughs (Tractor)	59,592	@	60	=	2,681,640
Harrows	62,318	@	25	=	1,557,950
Cultivators	35,840	@	40	=	1,433,600
Corn Drills	11,519	@	70	=	806,330
Fertiliser Distributors	29,127	@	70	=	2,038,890
Mowers (Tractor)	56,725	@	50	=	2,836,350
Balers	8,305	@	300	=	2,491,500
Forage Harvesters	6,956	@	200	=	1,391,200
Combine Harvesters:-					
Bagger	4,543	@	1,000	=	4,543,000
Bulk	1,732	@	2,000	=	3,464,000
Grain Driers	909	@	400	=	363,600
Milking Parlour Equipment	8,209	@	600	=	4,925,400
Milking Machines	35,175	@	200	=	7,035,000
Milk Coolers	32,798	@	50	=	1,639,900
Motor Lorries 2 ton and over (Unleaden Weight)	2,031	@	500	=	1,015,500
Motor Lorries, Vans & Station Wagons under 2 ton (Unleaden Weight)	5,244	@	400	=	2,097,600
Motor Cars	82,686	@	500	=	41,343,000
					£132,273,760

* Central Statistics Office

FARM MACHINERY VALUATION - AGRICULTURAL INSTITUTE

TABLE 16

£000

	1963	1968	1972	1973	1974
Farm Machinery	28,000	42,020	88,000	90,200	111.540

DEADSTOCK VALUATION:

No detailed census of deadstock on farms at December 31 is available so that it is not possible to give an accurate valuation. Again one has to resort to estimates and assumptions. The valuations put on all commodities are based on moderate market prices and related to costs of production and comparative feeding values.

CEREALS

The quantity of grain retained on farms is assumed to be the difference between the total quantity produced and the total sold to grain merchants. The quantity produced is determined by the Central Statistics Office and published in the annual census of production. Valuations are based on the fixed prices operating for wheat and barley and moderate market prices for oats.

Feeding of the new season's grain to pigs usually begins soon after harvesting in September but grain feeding to cattle does not, as a rule, commence until December. It is assumed, therefore, that about 75% of the total grain retained is still on the farms on December 31. The appropriate quantities and values are set out in Table 17.

CEREAL STOCKS ON FARMS AT DECEMBER 31st

TABLE 17

	1963		1968		1972		1973	
	Quantity (tons)	Value (£m)	Quantity (tons)	Value (£m)	Quantity (tons)	Value (£m)	Quantity (tons)	Value (£m)
Barley	172,500	3.45	118,686	2.85	138,525	3.88	210,000	9.55
Oats	314,475	6.28	217,086	4.78	119,400	3.30	107,220	4.39
Wheat	82,000	2.20	---	---	13,000	0.44	25,200	1.38
TOTAL	568,975	11.93	335,772	7.63	270,925	7.62	342,420	15,32

CEREAL STOCKS ON FARMS AT DECEMBER 31st

TABLE 17 Extension

1974

	Quantity (tons)	Value (£m)
Barley	261,800	13.09
Oats	104,586	5.23
Wheat	21,882	1.27
TOTAL	388,268	19.59

POTATOES

Stocks of potatoes on farms as at December 31 are taken for each year at half the total produced and valued slightly above production costs (i.e. £4/ton 1963 etc.) Very little potatoes are fed to livestock. Table 18 shows the calculations used.

DEADSTOCK EVAULATION - POTATOES

TABLE 18

POTATOES	ACREAGE (ooo)	PRODUCTION 8 Tons/Acre	STOCK DEC. 31 (ooo tons)	PRICE/TON £	VALUE £m
1963	204	1,632	816	.4.00	3.3
1968	147	1,176	588	6.00	3.5
1972	109	872	436	10.00	4.4
1973	118	944	472	10.00	4.7
1974	99	792	396	12.50	5.0

HAY AND SILAGE

It is assumed that stocks of hay and silage on farms at December 31 are about two-thirds of total production the remainder having been consumed. Table 19 sets out the calculated quantities and values.

TABLE 19

DEADSTOCK EVALUATION
HAY AND SILAGE

HAY AND SILAGE	ACREAGE (000)	PRODUCTION (000 tons)		STOCK DEC. 31 (000 tons)		VALUE £m
		Hay	Silage	Hay	Silage	
1963	1918	1535	2298	1024	1632	£4.7
1968	2086	1566	3120	1044	2080	9.3
1972	2418	1687	4338	1125	2892	22.7
1973	2518	1700	4908	1134	3272	48.85
1974	2548	1620	4703	1080	3135	47.68

STRAW

All the straw produced is used on farms. Virtually no straw is sold for industrial uses. It is estimated that two-thirds of total production is on the farms at December 31. Details and calculations are set out in Table 20.

TABLE 20

DEADSTOCK EVALUATION

STRAW

Straw	Acreage (ooo)	Production (ooo tons) ½ TON/ACRE	Stock Dec. 31	Price/Ton £	Value £m
1963	994	497	330	0.50	0.17
1968	896	448	252	1.00	0.25
1972	919	459	306	3.00	0.92
1973	867	434	290	4.00	1.16
1974	852	426	284	7.00	1.99

DEADSTOCK EVALUATION - ROOTS

TABLE 21

(Yield 20 tons/acre) (Feeding Value one-tenth barley)

	ACRES	PRODUCTION (000 tons)	STOCK DEC. 31 (000 tons)	VALUE £m
Mangels				
1963	46,300	926	926	1.90
1968	29,500	590	590	1.50
1972	17,000	340	340	1.00
1973	14,200	284	284	1.27
1974	12,900	258	258	1.30

TABLE 22

(Yield 20 tons/acre) (Feeding one-eight barley)

	ACRES	PRODUCTION (000 tons)	STOCK DEC. 31 (000 tons)	VALUE £m
Swedes				
1963	97,400	1,948	1,298	3.24
1968	107,700	2,154	1,434	4.30
1972	75,600	1,512	1,008	3.52
1973	67,900	1,358	904	5.06
1974	61,300	1,226	816	5.10

TABLE 23

(Yield 20 tons/acre) (Feeding Value one-quarter barley)

	ACRES	PRODUCTION (000 tons)	STOCK DEC. 31 (000 tons)	VALUE £m
Fodder Beet				
1963	13,200	264	264	1.06
1968	8,400	168	168	.81
1972	7,100	142	142	.80
1973	6,800	136	136	1.22
1974	6,900	138	138	1.38

TABLE 24

CEREALS

	1963	1968	1972	1973	1974
Barley price/ton £	20	24	28	45	50
Wheat price/ton £	27	35	34	55	58
Oats price/ton £	20	22	28	41	52.50

TABLE 25

TOTAL VALUE OF STOCKS AT DECEMBER 31

in £m

	1963	1968	1972	1973	1974
Hay and Silage	4.70	9.30	22.70	48.85	47.68
Straw	0.17	0.25	0.92	1.16	1.99
Potatoes	3.30	3.50	4.40	4.70	5.00
Cereals	11.93	7.63	7.62	15.32	19.59
Roots	6.46	6.80	5.51	7.55	7.78
TOTAL	26.56	27.48	41.15	77.58	82.04

MERCHANT (SUPPLIERS) CREDIT

In the past this was probably the most significant source of short term credit to the farming community. Its informal nature based, on the one hand, on the close relationships between country merchants and the rural community and, on the other hand, on the mutual confidence between the merchants and the commercial banks. This two-way relationship of the merchants whereby they negotiated sufficient credit facilities from the Banks to enable them make sales on forward settlement, at times related to the convenience of the farmers' income pattern, provided an easy and flexible credit system.

The growth of technological and economic innovation and its application to farm commodity production during the past twenty-five years, has not alone increased the volume and variety of farm material purchases but has also changed the purchasing pattern. The development of commercial farming backed by a gradual application of guaranteed commodity prices encouraged the Banks and the Agricultural Credit Corporation to share directly in it. One of the effects of their efforts was to divert a considerable amount of the credit, which was previously afforded to merchants, directly to the farming community, thereby not only saving interest charges but also enabling the farmers get the best possible cash terms for their material purchases.

Until the mid-1950's, when cattle sales marts were organised, Cooperative Societies were almost entirely confined to the dairying areas. Efforts to extend the cooperative system were not rewarded and indeed many of the cooperative dairy societies either didn't have the urge to develop trading enterprises or met with strong local opposition when they endeavoured to do so. Some, however, were more enterprising and successful particularly in the mixed farming areas where they now operate large grain handling units, deal in seeds, fertilisers and other farm materials and also manufacture feedstuffs.

Other than dairy societies, only a very small number of cooperatives engage in trading. The private merchants are, therefore, a very powerful force in the chain of farm production.

Apart from the milk produced for direct liquid consumption, the normal pattern of production flows from a spring calving schedule in which May, June, July and August are the peak months for supply.

Fertilisers for application to grassland and feed for cattle are usually purchased from January, February onwards, either for credit or cash. Credit purchases reach their highest point in April but the accounts for these are usually liquidated by mid-June either by cheque payments or deductions from the suppliers milk accounts.

Credit purchases - whether from cooperatives or private merchants - of seeds and fertilisers for grain production are usually discharged either by deduction from grain delivery accounts or by direct payments earlier. Merchant credit cost is considerably in excess of institutional credit charges consequently there is an increasing tendency to seek institutional credit and purchase for cash.

It is clear from the foregoing that merchant credit for fertilisers, seeds and cattle foods is seasonal and varies in volume and duration in accordance with commodity production patterns. In the case of pig and poultry enterprises a shorter cycle operates. Some of the cooperatives in the small farming areas employ a revolving credit system of supplying members' requirements whereby a minimum of six month's credit is permitted on all recurring purchases. High interest charges and the societies' credit needs for expansion and re-equipment have forced them to encourage members towards cash purchasing.

It will be appreciated that, because of the seasonal and changing nature of merchant credit and since there are no published statistics to guide one, the task of estimating its volume is subject to very wide errors. The figures appearing in the Balance Sheets on pages 75, 76, 77 and 78 are estimates based on limited surveys. Apart from the defective method of assembling them they do not reflect the extent to which merchant credit is availed of throughout the year. With the growth of bank/primary group relationships, the scarcity and high cost of credit and the cooperatives credit needs to meet expansion and trading requirements, merchant credit is seen as a diminishing service.

There is a limited amount of credit associated with contract production. The Irish Sugar Company is the most significant source of this form of credit which is used to cover cost of seeds and fertilisers supplied by the company to growers (under contract) of sugar beet and vegetables for processing in the company's factories. A total of £1.85m, £3.97m, £4.1m, £3.97m and £6.5m was availed of in 1968, 1972, 1973 1974 and 1975 respectively.

There is also a much lesser volume of credit provided by animal food manufactorers for the purchase of stock and food by the individual producers. It is confined entirely to the pig and poultry enterprises. Total credit from this source would not exceed £0.25m.

BALANCE SHEET OF IRISH FARMING

AS AT DECEMBER 31, 1963

ASSETS	£	LIABILITIES	£
Land	773,217,000	Associated Banks	40,740,000
Dwellings	117,992,250	Non Associated Banks	--
Farm Buildings	37,000,000	Agricultural Credit Corporation	5,966,000
Livestock	286,798,000	Irish Land Commission	39,000,000
Machinery	44,100,000	Hire Purchase Companies	1,900,000
Crops and Deadstock[1]	26,560,000	Trade Credit	5,000,000
Long Term Assets[2]	1,835,000	Local Authorities[3]	3,700,000
Total:	1,287,502,250		96,306,000
		NET WORTH:	1,191,196,250

1. This represents current capital
2. Represents shareholders' equity in Cooperative Societies
3. Estimated amount outstanding on dwelling house loans from the Local Authorities

BALANCE SHEET OF IRISH FARMING

AS AT DECEMBER 31, 1968

ASSETS	£	LIABILITIES	£
Land	1,421,820,000	Associated Banks	55,164,000
Dwellings	221,365,000	Non Associated Banks	--
Farm Buildings	52,000,000	Agricultural Credit	
Livestock	415,712,000	Corporation	21,050,000
Machinery	73,500,000	Irish Land Commission	37,000,000
Crops and Deadstock[1]	27,480,000	Hire Purchase Companies	4,020,000
Long Term Assets[2]	15,995,000	Trade Credit	6,000,000
		Local Authorities[3]	4,600,000
Total:	2,227,872,000		127,834,000
		NET WORTH:	2,100,038,000

1. This represents current capital
2. Represents shareholders' equity in Cooperative Societies
3. Estimated amount outstanding on dwelling house loans from the Local Authorities

BALANCE SHEET OF IRISH FARMING
AS AT DECEMBER 31, 1972

ASSETS	£	LIABILITIES	£
Land	3,858,180,000	Associated Banks	104,100,000
Dwellings	412,624,850	Non Associated Banks	8,200,000
Farm Buildings	80,000,000	Agricultural Credit	
Livestock	932,666,000	Corporation	44,320,000
Machinery	137,400,000	Irish Land Commission	36,000,000
Crops and Deadstock (1)	41,150,000	Hire Purchase Companies	9,680,000
Long Term Assets (2)	34,539,000	Trade Credit	9,000,000
		Local Authorities (3)	6,900,000
Total:	5,496,559,850		218,200,000
		NET WORTH:	5,278,359,850

1. This represents current capital
2. Represents shareholders' equity in Cooperative Societies
3. Estimated amount outstanding on dwelling house loans from the Local Authorities

BALANCE SHEET OF IRISH FARMING
AS AT DECEMBER 31, 1973

ASSETS	£	LIABILITIES	£
Land	4,873,470,000	Associated Banks	126,050,000
Dwellings	490,694,500	Non Associated Banks	11,000,000
Farm Buildings	119,000,000	Agricultural Credit Corporation	65,910,000
Livestock	931,000,000	Irish Land Commission	36,000,000
Machinery	141,200,000	Hire Purchase Companies	15,040,000
Crops and Deadstock(1)	77,810,000	Trade Credit	9,900,000
Long Term Assets(2)	41,000,000	Local Authorities(3)	7,300,000
Total:	6,674,174,500		271,200,000
		NET WORTH:	6,402,974,500

1. This represents current capital
2. Not available
3. Estimated amount outstanding on dwelling house loans from the Local Authorities

BALANCE SHEET OF IRISH FARMING
AS AT December 31, 1974

Land	4,142,475,000	Associated Banks	142.9
Dwellings	510,322,000	Non-Associated Banks	16.85
Farm Buildings	127,000,000	Agricultural Credit Corporation Ltd.	85.81
Livestock	833,508,000	Irish Land Commission	36.00
Machinery	161,540,000	Hire Purchase Companies	18.56
Crops and Deadstock	82,040,000	Trade Credit *	
Long Term Assets	33,000,000	Local Authorities *	
Total:	5,889,885,000		

* not available

CHAPTER 3. The State Influence on the Availability and the Allocation of Credits in General and Agricultural Credits in Particular.

To facilitate understanding of the Irish banking system, the capital market and credit control it is pertinent to recall that:

(a) Although national independence was achieved in 1921 a common currency with Great Britain continued until 1928 when the newly formed Currency Commission issued the first Irish Legal Tender notes and these were fully backed by sterling payable in London. Irish currency continues in identical paper and coin denominations with Great Britain.

(b) The Central Bank was established in 1943 when it superseded the Currency Commission and was given the function of "taking (within the limit of the powers for the time being vested in it by law) such steps as the Board may from time to time deem appropriate and advisable towards safeguarding the integrity of the currency". Many of the powers and functions of a Central Bank were initially withheld but have been acquired gradually.

(c) In 1958 the Central Bank undertook the settling of all cheques between the members of the Dublin

Clearing Committee and which had been previously settled in London.

(d) Prior to National Independence all the Associated Banks now represented in the four banking groups were part of the British banking system. Up to 1969 the Associated Banks maintained balances in London to provide liquidity. London was the traditional holder of Irish bank balances and no inducement to change it was offered until 1964 when the Central Bank was empowered for the first time to pay interest on deposits. Subsequently the London balances were gradually withdrawn and by the end of 1969 they had all been transferred to the Central Bank in Dublin.

(e) As most of Irelands' foreign trade has been and is with Great Britain emphasis in Irish currency legislation is placed on maintaining parity of exchange with sterling.

In the light of the foregoing the role of the Central Bank in summary is to ensure the efficient operation of the banks in the interest of the Community. It is concerned that banks should be a safe repository for savings and a ready and competitive source of credit for short and medium term needs.

CONTROL OF CREDIT ISSUE

Prior to the 1971 Central Bank Act, which became law in September 1971, the Central Bank exercised control of credit by quantitative restrictions advised on an annual basis and reviewed quarterly. These restrictions were determined by the Central Bank in consultation with the Associated Banks. Their force rested on persuasion.

The Central Bank Act of 1971 constituted the Central Bank as bank licencing authority vesting it with power of discretion and power to impose conditions. This was a major change from the position which previously obtained when banks operated under licences granted by the Revenue Commissioners without restriction.

As a step towards securing effective control on the issue of credit, the Central Bank, using its newly acquired powers, established liquidity ratios for the individual licenced banks by requiring them to maintain specific ratios between certain types of assets and liabilities. It exercises this control through a monitoring service on the issue of credit by individual banks.

The Central Bank also operates a Lender of Last Resort function to maintain liquidity in licenced banks by rediscounting Exchequer Bills held by the banks. Should the need for liquidity arise from excessive lending, the rediscounting charge will involve a penalty which is set to vary with the amount of the excess.

In its efforts to serve its basic purpose the Central Bank has been primarily concerned with the Associated Banks which are not alone the predominant lenders but also, because of their multipurpose activities and their widespread representation throughout the country, they are more exposed to inflationary pressures than the more specialised and more centralised non-associated banks. Nevertheless, the non-associated banks have more recently been brought under controls similar to those applying to the Associated Banks and are now required to maintain balances with the Central Bank. In fact all aspects of credit supply by licenced banks as well as Government borrowing for its Capital Programme are considered critically by the Central Bank and its views and advice are made known to the Government in advance of final decisions.

The following table sets out the current liquidity ratio requirements of the Central Bank:

	Primary Ratio %	Secondary Ratio %	Total %
Associated Banks	13	30	43
Non-associated banks	13	10	23

The use of liquidity ratios gives the individual banks much more flexibility than they have had as the amount of new credit permission is related to the lending resources of each institution. In exercising control of credit the Central Bank takes account of the accumulation of loan funds by the banking system. In fact the limits set out in its guidelines are geared to an increase in money supply in line with the anticipated increase in G.N.P. When the assumed increase in money supply is exceeded by an individual bank or by all banks the capacity to lend beyond the net credit figure arises. Provided the economy is not damaged by so doing, this increased capacity can be exploited without restrictions either currently or in retrospect. The reverse situation is controlled by increasing the Primary Liquidity Ratio.

Liquidity Ratios are reviewed from time to time through each year and may be raised or lowered as the economy is estimated to require.

It is clear from the foregoing that credit policy in the banking system is determined by the Central Bank which operates controls to ensure the implementation of those policies.

LENDING TO AGRICULTURE

Agriculture, because of its importance to the National economy in production and exports, has enjoyed preferential treatment by the individual banks. Occasionally, however, it has been found necessary to confine the issue of credit to purely productive purposes in agriculture. Within the constraints set by the Central Bank the Associated Banks endeavour to meet the needs of agriculture and more particularly those of the primary producers.

A copy of the Central Bank's most recent statements on Monetary Policy are reproduced herewith:

Statement on Monetary Policy

The Statement on Monetary Policy, which is reproduced here, was issued by the Central Bank on 21 June, 1974.

The Central Bank desires that monetary arrangements should support the maximum sustainable growth of output and employment. To this end, and in the light of the budget and more recent economic forecasts, monetary policy has been adjusted so as to conform to the Government's objective of raising real national output by around 4½ per cent., while limiting the balance-of-payments deficit to some £150 million and the rise in prices to 15 per cent. or so. However, the growth in bank lending this year has already been very rapid and the rise of 10 per cent. in non-Government lending by the banking system between January and April 1974 was much greater than might reasonably have been anticipated even after allowing for the exceptionally heavy demands on the banks in the early part of the year. The Bank is concerned to avoid the risk of monetary policy itself adding to the inflationary forces at work in the economy particularly as these already threaten to raise both prices and the external deficit above the levels indicated.

The Bank believes that the aims of Government economic policy for 1974 can be achieved if the monetary policy guidelines set out in this statement are observed. The general effect of these guidelines is to allow bank credit for productive purposes, and also the total supply of money, to be increased at about the same rate as the prospective increase in Gross Domestic Expenditure. This will accommodate the exceptional increase in working capital needs this year.

No change is at present being made in the liquidity ratios which the Associated Banks are required to maintain—13 per cent. primary and 30 per cent. secondary. Borrowing by the Associated Banks from the Central Bank by rediscounting of Exchequer Bills will continue to attract penal rates of interest. Capital inflows are expected to strengthen the growth in the resources of the banking system over the coming months and in the absence of evidence of significant efforts to repurchase Exchequer Bills from the Bank the penalty for rediscounting will be increased. The primary ratio requirement of the Merchant Banks and the North American Banks is to be raised, by mid-August, from its present level of 10 per cent. to one of 13 per cent.

It is essential that all additions to credit should be reserved for the purposes that are currently most productive in terms of increasing output and employment. Sufficient funds will be available for these purposes only if credit for non-productive purposes is not increased. Accordingly, all banks are being requested to permit no net increase in lending over the months ahead (i.e. no new credit apart from the proceeds of repayment of previous lending) for personal and other non-productive purposes and there should be no lending whatsoever for speculative purposes. In particular, there should be no increase between the quarterly return dates in May and November next in the following categories of advances: Category 10 (Banks and hire purchase finance companies), Category 11 (Property companies), Category 12 (Other financial) and Category 18 (Personal). This special limitation does not, however, apply to lending for house purchase, including bridging accommodation. Subject to this exemption, if the level of lending outstanding in November next in the categories indicated exceeds the May figure, the bank concerned will be obliged to maintain on deposit with the Central Bank an amount equal to such excess, for as long as the latter continues to obtain. These deposits would not be included when calculating primary liquidity ratios, and would not attract commercial rates of interest.

Steps are also being taken to extend the secondary liquidity ratio arrangements to the Industrial and Other categories of banks. These banks are being required to increase their holdings of Irish Government paper to the level of 5 per cent. of their resources by mid-August, and to 10 per cent by the bank return date in November, by which date all non-Associated banks should be observing a secondary liquidity ratio of 10 per cent.

There will be no general departure from the special 50 per cent. requirement in relation to net inflows of capital through licensed banks. However, the Bank is prepared to approve external financing through the Associated, Merchant, North American and Continental categories of banks in certain cases which are clearly in the national interest. Thus, subject to prior consultation with the Bank, capital inflows not subject to the 50 per cent. requirement may be permitted in order to assist in the financing of major industrial development projects. Any such inflows would also be exempted from the normal primary and secondary ratio requirements.

Monetary policy will be kept under continuous review. Should the need emerge, the foregoing policy measures will be adjusted.

Interest Rates

Discussions have recently been held with the Associated Banks with a view to securing early reductions in certain categories of interest rates. The Central Bank desired that changes in interest rates should support its policy of reserving credit for productive purposes and affording some interest rate relief to such borrowers. The Associated Banks have accordingly decided to reduce the rate of interest applicable to all lending in the AAA and AA categories by $\frac{3}{4}$ per cent. with effect from the close of business on Monday next, 24 June. The rate of interest payable on deposits of £5,000 and over will be reduced by $1\frac{1}{2}$ per cent. as from the same date. The rates applying to lending in the A category and to deposits of amounts up to £5,000 will not be reduced.

Monetary Policy 1975

This statement on monetary policy was issued by the Central Bank on 7 March 1975.

In normal circumstances economic policy would be directed towards achieving a high rate of economic and social advance in conditions of reasonable price stability. Unfortunately, a satisfactory rate of increase in output and employment is at present frustrated by a very steep rate of price inflation and a massive external deficit. The immediate aims of policy, in these abnormal conditions, are:

1. to attain as much growth in national output as is possible under present domestic and international disadvantages (an increase of between 1 and 2 per cent. in real GNP seems as much as can be hoped for);
2. to sustain employment as far as possible;
3. to keep the rate of price increase within the high range which already seems unavoidable; and
4. to achieve some reduction in the over-extended balance-of-payments deficit.

Monetary policy in 1975 will seek to support these interim objectives. At the same time the Central Bank must try not to allow an unnecessarily large increase in the money supply. Inflation would be aggravated if the Bank were to facilitate increases in expenditure which would generate a further rise in prices or nullify an improvement in the external balance without promoting any significant and sustainable increase in national output. The worsening of the inflationary situation has already depressed investment and employment and it is an urgent necessity to begin to take action to reduce the Irish rate of price increase in order to protect existing social and economic standards and to avert further serious loss of jobs. Decisions about the future rate of increase in money incomes are of particular importance in this respect.

The increase in the money supply in 1975 must recognise that a large, though perhaps diminishing, part of our price inflation is still being imported and cannot be offset by domestic policies. It must also cover the increases in incomes arising from the 1974 National Pay Agreement, which are expected to add about 25 per cent. to the wages and salaries bill in 1975. It is assumed that increases negotiated under any new Agreement will conform to the principles outlined in the White Paper *A National Partnership*. If, however, the outcome of these negotiations were at variance with this assumption, or if public expenditure and borrowing prospects were to differ substantially from those set out in the 1975 Budget, it would obviously be necessary to re-order monetary policy so that it would still conform to the objectives already mentioned. There must, therefore, be a continuing review of monetary policy by reference to any significant changes in domestic or external conditions.

It is expected that gross domestic expenditure will increase by about 22 per cent. in 1975. To support this increase it is the intention of the Central Bank that the growth in the money supply should be of the same order. The Bank is prepared to take such steps as may be necessary to ensure that bank liquidity is adequate for this purpose. Taking account of the probable net contribution to the money supply from external transactions, including borrowing, it would be consistent with this general programme that bank lending to the private sector should increase at a somewhat higher rate than gross domestic expenditure.

The Bank desires that bank credit should continue to be directed towards productive purposes and that it should not be extended for speculative projects, which neither create additional real assets nor add to the level of employment. Subject to a continuing ban on borrowing for speculative purposes, it is considered desirable to provide some stimulus to economic activity and create a more favourable climate for investment by relaxing the limitations on lending to the personal and financial sectors. Therefore, each licensed bank is being permitted to increase by 17 per cent. between February 1975 and February 1976 the aggregate of its lending to the following categories: Category 10 (Banks and hire purchase companies), Category 11 (Property companies), Category 12 (Other financial) and Category 18 (Personal); lending for house purchase, including "bridging accommodation", will remain outside the scope of any such limitation. Subject to this exemption, if the level of lending outstanding in February 1976 in the categories indicated exceeds the February 1975 figure by more than 17 per cent., the bank concerned will be obliged to maintain on deposit with the Central Bank an amount equal to such excess, for as long as the latter continues.

The Central Bank does not consider it desirable that there should be a *general* relaxation of the requirement that banks should deposit with it 50 per cent. of any net inflow from abroad which they effect. This requirement will continue in operation and will take 18 February 1975 for its reference point. Inflows through licensed banks for major industrial development projects will, however, continue to be exempt from liquidity ratio requirements.

THE AGRICULTURAL CREDIT CORPORATION

As stated in the Introduction to this study the Agricultural Credit Corporation is a state owned Company, is not a licenced bank and operates directly under the Department of Finance.

Virtually all the share capital is held by the Minister for Finance on behalf of the State. Both the share capital of the Company and its borrowing powers are controlled within limits set from time to time by amending Agricultural Credit Acts.

Initially the authorised share capital of the Corporation was £500,000. The Agricultural Credit Act of 1973 increased the authorisation to £10m consisting of 20m shares of 50p each. Of these a total of 13,496,000 shares have been issued and are outstanding all fully paid up. The Minister for Finance holds 13,495,992, the remaining 8 shares being held by the Directors and the Secretary to the Department of Finance.

By virtue of his shareholding position the Minister for Finance appoints the Directors and Chairman.

The Company's borrowing powers have been substantially altered and extended under various Agricultural Credit Acts since its creation in 1927. Under these Acts, the Company may raise or borrow money in any manner it thinks fit, provided that the consent of the Minister for Finance has been obtained. In addition, such borrowing is limited to a total amount which was increased by the Agricultural Credit Act 1973, from the previous £70,000,000 to £120,000,000. The Company is authorised to borrow in currencies other than Irish pounds and all borrowings are either provided to the Company by the State or are backed by a State guarantee, the bank overdraft of about £2m as of now being the only exception.

In addition to share capital the State also advances loans from the Exchequer directly to the Company at rates of interest related, but somewhat below, money market levels. A list of such loans with appropriate Interest charges by the State and taken from the Company's Balance Sheet at April 30, 1974 is given hereunder:

	1974	1973
	£	£
6 % Exchequer Advance	1,800,000	1,800,000
6¼% Exchequer Advance	3,600,000	3,600,000
7 % Exchequer Advance	1,250,000	1,250,000
7¾% Exchequer Advance	798,000	798,000
8½% Exchequer Advance	252,000	252,000
11 % Exchequer Advance (Repayable 1977)	4,000,000	-
12¼% Exchequer Advance (Repayable 1977)	4,000,000	-
3½% State-Guaranteed Mortgage Stock 1966/76	766,000	766,000

By far the most important source of funds for the Company in recent years has been interest bearing deposits and Farm Credit Bonds from the private sector of the economy All such borrowings from the Capital Market are State guaranteed.

When these sources of credit funds are insufficient to support the lending demand recourse is had to external borrowing and a growing reliance on this source of funds is evident in recent years. These loans are also backed by State guarantees but the Corporation carries the entire exchange risk which in the year 1974/75 accounted for £2.7m of the Company's losses.

The following extracts of Capital, Reserves and Liabilities from the Company's 1974 and 1975 Balance Sheets show the sources of total funds and the comparative dependence on the various sources:

Capital, Reserves and Liabilities:

	1975 £	1974 £	1973 £
Share Capital	6,748,000	6,748,000	6,748,000
Revenue Reserves (loss)	(1,888,504)	794,854	791,070
Shareholders' Funds	4,859,496	7,542,854	7,539,070
Loans	40,996,543	30,132,028	8,466,000
Deferred Liability	-	398,099	408,366
Deferred Taxation	-	115,140	135,765
Deposit Accounts and Farm Credit Bonds	73,062,391	50,627,498	41,119,181
Bank Overdraft	1,588,412	750,492	2,156,077
Creditors	4,020,757	2,072,126	827,198
Current Taxation	-	124,125	127,110
Dividend Proposed	-	43,862	87,724
	£124,527,599	£91,806,224	£60,866,491

An analysis of the Company's foreign borrowing as at July 31, 1974 is given hereunder:

ORIGIN	IRISH POUND EQUIVALENT	CURRENT INTEREST RATES
	£000	
Swiss Franc Revolving Credit, due 1975	4,022	11½%
8½% Swiss Franc Loan 1974/89	2,798	8½%
Eurodollar Revolving Credit, due 1974	6,414	varies from day to day
European Investment Bank 8¾% Loan (repayable in instalments up to 1987)	800	8¾%
European Investment Bank 9½% Loan (repayable in instalments up to 1988)	3,301	9½%
International Bank for Reconstruction & Development	1,279	7¼%

The absence of a chequing account facility and the backing provided by a State guarantee for borrowings relieves the Agricultural Credit Corporation from any liquidity ratio restrictions. The Company is, therefore, capable of lending to the full limit of its resources. It is, however, in a position of dependence in so far as these resources are determined by the State. Furthermore, in periods of resource scarcity arising from adverse economic tendencies, both domestic and foreign, lending policies, often restrictive, are either imposed or agreed in consultation.

In addition to the small capital base which it has to service from profits the Corporation enjoys a considerable tax advantage on profits in so far as it is not subject to Corporation Profits Tax now running at approximately 50% against a 35% Tax applied to the Agricultural Credit Corporation.

INDUSTRIAL CREDIT COMPANY

The Industrial Credit Company is a state owned institution set up by statute in 1933. Its authorised share capital is £12m of £1 each, of which £8,830,000 are issued and fully paid up and virtually all of which are held by the Minister for Finance on behalf of the state. The Minister for Finance appoints the directors and chairman.

The Company's function is to provide credit to the manufacturing and distributive industries and it can fulfil this by direct loans of suitable durations, by taking Ordinary or Preference Shares in Companies requiring financial assistance and by purchase and lease back of industrial or commercial premises. In addition the provision of Venture Capital has been an important part of the Company's activities. Financing of international operations particularly imports has been undertaken by the Company.

The Industrial Credit Company operates from a central office in Dublin with branches at two other important industrial centres, Cork and Limerick.

Finance for the Company's operations is provided from Share Capital, reserves, Exchequer advances, bank loans, deposits and foreign loans mostly from the IBRD.[1] An extract from the 1973 Balance Sheet given below shows the comparative dependence

1. International Bank for Reconstruction and Development

on each source:

*

	£ooo
Share Capital, Authorised 12,000,000 @ £1	
Issued and fully paid up 8,830,000 shares @ £1 each	8,830
Reserves	1,680
Exchequer Advance	12,455
Bank Loans	1,307
Loan from IBRD	1,299
Deposits	2,040
	27,611

* Source, Annual Reports Industrial Credit Company

IRISH LAND COMMISSION

Irish farm structure and the problems of land tenure have had a fundamental influence on credit availability in the past. Some of that influence still remains. In order fully to appreciate its effects, a short history of land tenure and farm structural reform is provided.

Prior to 1880 practically all the farmland outside the enclosed estates was farmed by tenant farmers who paid an annual rent to the owner-landlord. These tenants were mostly depressed, had no rights of tenure, and were generally referred to as "tenants-at-will". Evictions were commonplace. Following widespread agitation the then Government set up in 1881 a body called the Irish Land Commission which initially fixed the tenure and conditions under which the farms were to be henceforth held - these became widely known as the Three F's, viz. Fair Rent, Fixity of Tenure and Free Sale.

Subsequently, through various acts of the British Parliament, and in a reform movement directly undertaken for the elimination of the landlord/tenant system, the Irish Land Commission purchased these farms from the landlords and by a vesting process confirmed the tenants as owners.

The first Land Act passed by our new native Government which finally abolished the landlord/tenant System of tenure, came into effect in 1923. Aided by this and later Acts the Irish Land Commission compulsorily acquired many large underexploited properties for the relief of congestion - that is the improvement of sub-standard land units involving enlargement in terms of size and/or re-building in terms of structure. This process still continues. Up to now the Irish Land Commission did not intervene in making land purchase loans in circumstances other than described and other limited exchange arrangements dealt with on page

Whether farmers were vested in the holdings which they worked as tenants or were established on newly-created farms, on which the Commission built dwellings and farmyards before occupation, the entire capital investment (other than the cost of dwellings provided mainly by Free Grant) was made available by the Irish Land Commission on the basis of long term loans up to 60 years; these loans are being repaid in the form of Land Annuities payable half-yearly. The farmers, however, taking up new farms had to purchase livestock and machinery from their own resources.

For many years almost all farmers have owned their land. To-day there is virtually no farm held on tenancy. Some of the purchase loans advanced by the Irish Land Commission have been fully repaid but since subdivision of large farms still continues new loans are constantly being created. The amounts of loans outstanding to the Irish Land Commission are identified in the Balance Sheets of Irish Farming.

Because of the depressed state of the tenant farmers and the frequency of evictions the basis for a credit policy (apart from land purchase itself) did not exist prior to the early part of the present century. Various devices were established in an effort to raise money to tide over stringent situations and eventually in 1895 a cooperative credit system of the Raiffeisen type was introduced. In 1912, three-hundred-and-eight (308) Raiffeisen credit banks were in operation but they remained small and ineffective as a source of credit. For various reasons, largely associated with inexperience of the executives and the absence of confidence in and by the farming community, they gradually ceased to function and finally disappeared in the mid-1950's.

The Irish Land Commission acquire land either by Compulsory Orders under the various Land Acts or by purchase in the open market. Payment for such purchases is made by cash in respect of open market operations and usually by the issue of Land Bonds in the case of compulsory acquisitions. These Land Bonds are issued at interest rates related to the most recent National Loan rate, a condition made obligatory by the Land Bond Acts of 1933 and 1934.

On resale of this acquired land to tenants, the interest charged to purchasers is similarly related and is fixed throughout the loan repayment period. Interest charges on outstanding loans, therefore, vary from a minimum of about 4% up to the current level of 12¾%.

THE CAPITAL MARKET

The particular controls exercised by the Central Bank relating to the accumulation of resources are operated by consultation, primarily with the Associated Banks. In persuance of its commitment to the welfare of the community the Central Bank is concerned to regulate remuneration of Deposit Accounts so that all sections of the economy get a fair proportion of available surplus funds. The Home-Building Societies and the Agricultural Credit Corporation, are protected against undue competition so as to enable them to collect resources at reasonable deposit interest rates.

Deposit interest rates vary from time to time depending on money supply. They are fixed by the Associated Banks in consultation with the Central Bank. Parallel adjustments are usually made by the other lending bodies. It has been customary for the Associated Banks to apply two rates of remuneration related to amounts deposited rather than to the time deposited. Three rates are now applied. The prevailing rates of remuneration on deposits at the end of years 1963 - 1974 are shown on Table 26.

As can be observed from Table 26 the Associated Banks remunerate solely on a volume basis, while the Agricultural Credit Corporation varies rates according to volume and time.

The non-associated banks do not conform to an agreed remuneration rate on deposits but they usually pay rates in excess of those available from the Associated Banks. Most of the non-associated banks limit the acceptance of deposits to very large sums and consequently are not in significant competition with the Building Societies, the banks or the Agricultural Credit Corporation for farmers' surplus funds.

TABLE 26

DEPOSIT RATES - AS AT DECEMBER 31st

Associated Banks - Tax not paid					
AMOUNT	1963	1968	1972	1973	1974
£0-5,000	1½%	3½%	4%	8%	8%
£2,000-£25,000	1½%	3½%	4%	10½%	9%
Over £25,000	2½%	5%	5¼%	12%	10½%
Agricultural Credit Corporation - Tax not paid					
All funds Special rates for Deposits over £5,000	4½%	4½%-6%	7½% (1 yr.) 7% (9 mths.) 6½% (6 mths.) 6% (3 mths.) 5½% (1 mth.) 5% (7 days)	9% (7 days) 9½% (1 mth.) 10% (6 mts.)	10% (7 days) £0-5,000 12% (6 mths.) £5,000-10,000 13% (6 mths.) 10,000 +
Building Societies - Tax paid					
All funds	3¾%	4¼%	4¾%	7½%	8%

RESOURCE ACCUMULATION

There is no direct statutory interference as to the amount of deposits accumulated by banks from within the State. As part of its endeavour to encourage savings, however, the Government provides tax relief on interest income from Irish owned deposits. Such relief is limited to £70 for each person or £140 interest income in respect of husband and wife. This concession applies equally to every person whether a farmer or not. There are no special concessions provided to the Associated Banks for the collection of loan funds intended for disbursement to the Agricultural sector. Interest on deposits owned by non-residents are not subject to State tax.

All bank deposit accounts are withdrawable on demand, current account balances and permitted limits on overdrafts are withdrawable by cheque without notice.

It will be noted from Table 26 that, while the Associated Banks are obliged to maintain a lower rate of remuneration than the Building Societies in respect of deposits under £5,000, the Agricultural Credit Corporation is free to remunerate now at 2% higher (i.e. 8% against 10%). The justification for this is perhaps to be found in the advantage possessed by the banks in deriving some of their loan funds from non-remunerated current account balances.

In 1962 the Agricultural Credit Corporation was empowered to issue Five Year Credit Bonds which are remunerated by interest at 4½% payable half-yearly and a bonus of 2% tax free on maturity. The issue of these bonds has now terminated.

All sums invested with the Agricultural Credit Corporation, whether by way of deposit or Credit Bonds, together with remuneration, are guaranteed by the Government.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)

In 1973 the International Bank for Reconstruction and Development approved a loan of $25m U.S. Dollars to the Agricultural Credit Corporation as principal borrower with the Associated Banks as participating borrowers. The loan was approved - following protracted negotiations between the Irish Department of Finance and the International Bank for Reconstruction and Development - for the purpose of encouraging specific farm enterprise developments detailed below.

The funds provided by the World Bank (IBRD) will constitute 66% of the total loan volume under the Project, the remaining 34% being provided by the Agricultural Credit Corporation and the Associated Banks through which bodies the credit is made available to the primary producers.

Loans under the scheme are granted for periods varying from eight years, in the case of pig projects, to twelve years in the case of cattle projects. A moratorium of up to four years may be granted during which interest only is paid. Funds are available to farmers whose main occupation is farming and whose major source of income is farming. Enterprises qualifying for World Bank loans include:-

- Cattle systems - where average number of cattle on the farm does not exceed 120 livestock units.
- Dairy beef - where 50% of sales are from cattle.

Pigs - breeding - where the number of sows is not greater than 75.

Pigs - fattening - where the number of pig fattening places is not greater than 500.

In October 1974 authority was given to include specific types of Sheep enterprises.

Applications for World Bank funds are channeled through the Associated Banks and the Agricultural Credit Corporation and each application is accompanied by a farm development plan projected over a three-year period.

Loans may be made in instalments to coincide with the progressing farm development.

Interest on the World Bank Loan element of each loan (66%) is fixed at 9¾% while interest on the remaining 34% of each loan, provided by the lending institution, varies with prevailing bank lending rates. A composite rate - at present 11¼% - is charged on each loan.

An upper and lower limit for each loan is set by IBRD but may be varied either generally or in particular cases from time to time. The present limits are -

Maximum loan £40,000 (which can be exceeded with sanction from Washington)

It is anticipated that the entire loan will be exhausted in the spring of 1976.

The issue of credit to farmers under the IBRD Scheme is controlled by a Project Director assisted by an Advisory Committee representing the lending institutions, Department of Finance, Department of Agriculture and the Central Bank, farming organisations and advisory service.

YOUNG MEN ENTERING FARMING

There are no special loan schemes to enable young men without financial resources to enter farming except through the operation of the Irish Land Commission where the allocation of land or farms is in accordance with the general principles laid down from time to time and which give no special preference to such applicants.

In the allocation of land the Irish Land Commission must be satisfied that each beneficiary is capable of good husbandry and there is an obligation to maintain a level of production satisfactory to the Commission. Power to resume ownership in the event of neglect is retained by the Commission and is sometimes exercised.

Because of the nature of their lending resources, banks are not geared to support the long term credit needs of young men entering farming with a low equity base. In general banks limit loan durations to a maximum of seven years. Agriculture, however, is a special exception in that loans from the Associated Banks under the World Bank Project extend to 12 years and for other approved development purposes, including the Farm Modernisation Programme, loans are provided for periods of 10 years. The amount of each loan and its duration are determined by the repayment capacity which the application of the proposed loan funds can be shown to generate.

Furthermore, in times of credit scarcity banks are restricted by Central Bank guidelines as to the purposes for which they can make loans. The general effect of these is to confine credit operations to purely productive projects. In such circumstances credit for land purchase is strongly discouraged.

Despite these restrictions, however, many young men - particularly farmers' sons of proven ability - enter farming with the aid of bank loans backed or supported by their parents or families.

Because of the history of Irish land tenure, already referred to, mortgage guarantees have never had much practical value in Ireland. While the mortgage gives right of sale to the lender, organised resistance makes sales impossible should the borrower irretrievably fail to meet his contract. This has been a serious defect in Irish farm credit and has dictated a conservative approach by all lending institutions. Gilmore (1) was much concerned with the existence of this defect as he recognised that it weakened the base of any credit service.

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(1) Report - Farm Credit in Ireland. F.W. Gilmore (1959)

GRANTS AND SUBSIDIES

Land Project: Prior to the introduction of the Farm Modernisation Programme under EEC Directive 159/1972 capital grants to improve the productive capacity of agricultural or potentially agricultural land had been available for twenty years. Already about 2.25m acres of land have been improved under the Land Project Scheme. Grants were payable for such reclamation work as drainage, removal of scrub, boulders and unnecessary fences etc., to an amount equal to two-thirds the estimated cost of the work (up to three-quarters in specified areas) subject to a maximum of £50 per acre in underdeveloped areas and £45 per acre in other areas.

Special grants were available to improve mountain grazing areas by fencing and fertilising.

Indirect grants by way of subsidies on all Potassic and Phosphatic fertilisers have been applied for many years. These amounted to about 20% of the total cost.

Grants have also been paid for the construction, extension, improvement or repair of farm buildings. The amount of grant in relation to total estimated cost of the work done in each case had increased over the years to about 30%. Grant aid was also provided towards the cost of building all types of stock and storage houses.

The Agricultural Credit Corporation has operated a restrictive policy on credit for land purchase for a number of years. It is applied both in regard to the unit loan size and the type of applicant. This policy is summarised in the following extract from the Chairman's annual statement for the financial year 1974/75 -

> "The drop from £7.1m to £4.9m in loans for land purchase reflects the marked reduction which took place in the amount of land coming on the market together with the more stringent policy which was applied to this segment of our business. We have found it possible in the current year to liberalise policy in this respect, the criterion being to ensure that genuine farmers are in a position to enlarge and restructure their holdings."

Farmers or aspiring farmers have free access to credit but they have no special or determined right to obtain it. Nevertheless, no credit worthy applicant for farm credit will normally be denied it. The intense competition between the different lending institutions ensures this.

The purchase of certain types of farm machinery was also grant assisted.

Substantial grants are paid under the Beef Cattle Incentive Scheme introduced in 1968, to induce dairy farmers to switch over to beef cattle breeding. The grant for qualifying cows is £21 for the first (i.e. the third cow in the herd), £19 for the next and £16 for each subsequent qualifying cow. This scheme continues.

PIGS

Grants equal to about 25% of the cost have been available for the purchase of selected young sows.

Small Farm Incentive Bonus Scheme: This scheme was aimed at helping the small farmers whose land area did not exceed 50 acres and whose Gross Margins were less than £1,000.

Participants in the scheme had to follow a development plan aimed at increasing Gross Margins above the threshold of £1,000 in six years. A bonus or grant was payable during the currency of the plan to a total of £500 on each farm.

Grants and Loans for Dwellings: Special State grants are payable to certain categories of persons providing houses for their own occupation in rural areas. Persons deriving their income solely or mainly from agriculture and whose rateable valuations do not exceed £60 are eligible. The amounts of grants vary from £175 to £450 depending on rateable valuation and size of house.

Grants are also payable in respect of improvements to and reconstruction of dwellings.

Loans: Local authorities make loans available in rural areas for the building of new houses and the reconstruction of existing houses. Loans are limited to 95% of the value of the house and are not available to farmers whose rateable valuation exceeds £60 or whose income exceeds what a farm of such valuation would be expected to yield. The entry in the Balance Sheets for Agriculture in Chapter 2 represents an estimate of the loans outstanding with farmers under this scheme

<u>Land Purchase Facilities</u>: The Land Commission operate a loan scheme to enable progressive smallholders in congested areas to purchase in the open market alternative farms of their own choice, subject to making their existing lands available to the Land Commission for land settlement as part of the loan arrangements.

A maximum loan equal to three times the agreed market value of the applicant's existing holding is obtainable under the scheme, provided that the total of the loan, so calculated and the market value of the holding being sold to the Land Commission by the borrower, will not exceed £10,000. Where the agreed market value of the applicant's holding is less than £1,000 he may obtain a loan of up to £3,000. Loans are normally repayable, as to principal and interest, over a period of 35 years, the interest rate being the same as that prescribed in the Land Bond Order current at the date the loan is sanctioned.

The scheme provides for a graduated abatement of principal and interest over the first 2½ years of the repayment period. Moreover, a qualified applicant will be eligible for a reasonable contribution, by way of free grant, towards his expenses in connection with the purchase of his new farm and, in addition, stamp duty will not be payable by him in respect of this transaction.

Supplementary Housing Loans: The Land Commission operates another scheme whereby loans of up to £500 are made to occupiers of lands purchased under the Land Acts (irrespective of the valuation) who, if they are paying annuities, are not in arrear with annuity instalments. The loans are provided to supplement grants from the Department of Local Government for the erection of new dwellinghouses and the reconstruction of existing houses.

GOVERNMENT INTEREST SUBSIDISED LOAN SCHEMES TO FARMERS

1. Government subsidisation of interest ratès has not been a feature of agricultural lending in Ireland. In special cases, however, to relieve distress, lending schemes with limited application have been introduced. Particulars of these are given hereunder. In June 1972, the Government introduced a scheme to subsidise interest on loans to small farmers for the purpose of purchasing or holding breeding stock mainly cattle but not excluding sheep and pigs. The Scheme was intended to end in March 1973 when it was expected to be replaced by the Farm Modernisation Programme under EEC Directive 159/1972. In fact the Scheme continued until the end of 1973.

The conditions of the Scheme provided:

(a) That Term Loans repayable over three years by half-yearly instalments would be made available through the Associated Banks and the Agricultural Credit Corporation.

(b) The maximum loan under the Scheme to any farmer to be £1,000.

(c) Interest to be charged in accordance with normal lending practice which provides for adjustment in interest charges in line with changes in the lending rates. The prevailing lending rate at the time the loan scheme was introduced was 7.75%.

(d) An interest subsidy of 4% per annum to be paid by the Government leaving the effective rate charged to the borrower at 3.75%.

A total of £4.3m was borrowed under this Scheme from the Associated Banks and the Agricultural Credit Corporation by approximately 5,000 farmers.

2. Brucellosis Relief Scheme: In April 1972 the Government introduced an interest subsidised loan scheme in the Brucellosis clearance areas. These loans were intended to enable breeding herd owners whose herds were found to have a high incidence of Brucellosis and who were consequently compelled to sell infected breeding animals for slaughter to restock with good quality cows.

The loan scheme carried the following conditions:

(a) Loans would be made available for the purchase of good quality breeding or milking cows to replace infected animals.

(b) The Scheme would be confined to the clearance areas which at that time extended to seven counties.

(c) Loans could be taken up between April 1972 and October 31, 1972.

(d) The interest subsidy would be 5½% per annum.

(e) The loans would extend for a period of five years and were repayable half-yearly.

The total amount of credit taken up by farmers under this Scheme was £1.5m.

3. A Scheme operated jointly by the Agricultural Credit Corporation and the Associated Banks enables farmers to obtain credit for the purchase of fertilisers at a preferential rate of interest. Credit is provided by the banks under a guarantee of payment by the Agricultural Credit Corporation. The interest charged is about 1% under the prevailing rate for one year loans which are repayable in full within a twelve month period. More favourable interest charges were made on these loans prior to the introduction of Term Lending.

OTHER SCHEMES

4. A small number of minor interest-subsidised loan schemes have been introduced by the Government from time to time in very special and limited situations such as relief in flooded areas or to repair storm damage. These loans are made through the Agricultural Credit Corporation and the interest subsidies paid by the State range from 4½% to 6½%.

A list of interest subsidised loans is given hereunder:

Loan Purpose and Name	Donegal Flood Damage Loan	Cavan/Leitrim Flood Damage Loan	Storm Damage Loan
Available	1971	1970	1961
Loan Duration	4 years	4 years	15 years
Interest Subsidy	6½%	6½%	4½%
Interest from Borrower	nil	nil	2%
Repayments	½-yearly	½-yearly	½-yearly
Total number of Loans	432	127	309
Total amount of Credit	£92,630	£18,800	£55,740
Average loan size	£214.42	£148.03	£180.39

State guarantees have been provided to the Agricultural Credit Corporation in respect of 13 loans made by the Corporation very largely to Cooperative Societies. A total of £2,220,256 is at present outstanding from the Corporation on such loans and of this sum one loan accounts for £1,536,575.

FERTILISER CREDIT SCHEME

Prior to the introduction of the Farm Modernisation Programme 159/1972, a Fertiliser Credit Scheme was operated by the Land Rehabilitation Project whereby a 90% loan for the purchase of fertilisers and lime could be obtained. This facility was provided to enable farmers with underdeveloped land to apply whatever fertilisers were necessary to make good any deficiencies disclosed by soil analysis.

Repayments, to include principle and interest, were fixed at £4 per cent per annum and were made through the Irish Land Commission. The repayment period was 60 years.

CHAPTER 4

Structure and Costs of Agricultural Crediting

The Lending Institutions:

1. The Associated Banks: Reference to Table 1 shows the importance of the Associated Banks in the total issue of credit. They have been and are likely to remain the predominant credit sources for the farming community. This is not to say, however, that lending patterns and techniques will remain constant. The four banks represented in the Associated Banks comprise the traditional Irish banking system - they are Allied Irish Bank; Bank of Ireland; Northern Bank and Ulster Bank.

As stated in the introduction negotiations between the banking system - as represented by the Associated Banks - and the Central Bank are conducted through the Banks' Standing Committee. While such negotiations constitute the major function of the Banks' Standing Committee is not its only one. It also agrees, in respect of all members, rates of interest on deposits and loans within the limits negotiated with the Central Bank. Consequently there is no competition between the members of the Associated Banks on the question of rates. There is, however, keen competition and rivalry between all the banks for deposits and new sound lending opportunities.

The funds of the Associated Banks are represented by interest bearing deposits and current account balances which are not interest bearing. The volume ratio of deposits to current account balances is about 2.5 : 1 with a tendency to widen when deposit rates run high. In fact the ratio now is 3 : 1.

Through a network of branches and sub-offices, supported in sparsely populated areas with travelling banks, the services of one or more of the Associated Banks are within easy reach of every farmer. Table 27 shows the comparative representation of all four banks in **Ireland.**

TABLE 27	Branches	Sub-branches	Travelling Banks
Bank of Ireland	285	151	10
Allied Bank	266	94	10
Ulster	72	46	2
Northern	43	25	-
TOTAL:	666	316	22

Over the past three years through a policy of amalgamations and decentralisation many changes have taken place in the Irish banking system. All the Associated Banks now have or are in the process of developing a division of functions whereby corporate and retail banking operations are performed and controlled by separate departments. This form of structure enables the banks to enlarge the variety of their services and to function more efficiently.

All the banks engage in import and export financing. The two largest members of the Association have overseas branches in Britain and the United States and maintain representative offices on the European mainland.

Rural banks are staffed by a Manager, Assistant Manager and assistants numbering from two upwards. The senior personnel in these branches and particularly the Managers almost invariably have rural backgrounds and have had long experience in rural banking. While they have only limited training in modern farming, many take a keen interest in rural welfare, on the other hand some take none. However, it is not unusual for some rural branch Managers to have a reasonably good understanding of the business of livestock enterprises. These, unfortunately, are not very numerous. Almost without exception they manifest and express a strong sympathy with the interests and efforts of their farming clients.

Both Allied Irish Bank and Bank of Ireland maintain a staff of Agricultural Science Graduates who provide a supporting service to management and advise on the formulation of the banks' agricultural policy. The Ulster Bank and Northern Bank have a similar service commensurate with their size.

In matters of credit each branch manager is empowered or vested with discretion to lend up to a specified limit to any individual applicant for credit. Where a loan application exceeds the Manager's discretionary limit it is referred to a superior office of the bank for decision.

A loan application for the purpose of a farm development programme is usually accompanied by a Development Plan setting out a statement of the work proposed to be done, targets of production, the investment involved for fixed capital and operating needs and projected income and expenditure flows. Such plans are prepared either by the farm advisory service or a specialist farm management consultancy service.

Where management personnel does not feel competent to assess such applications they are referred to the technical agricultural advisory service. Upon analysis of the plan and supporting documents the bank's technical expert may find it necessary to visit the farm and farmer concerned before furnishing his report and recommendations. A similar exercise is usually necessary in the case of large loan applications of a seasonal nature particularly when they are associated with livestock enterprises. Occasionally farmer customers request the service of a bank's expert to prepare a development plan.

Farmers who are known customers at a bank branch and who have had a good relationship with the bank personnel, experience no difficulty in negotiating loans for operating needs. Applications from new customers, however, and young men entering farming whose expertise and proficiency has not been proved are subjected to more searching analyses particularly where the loan durations are likely to exceed three years.

The criteria applied in loan application assessments are as follows, and in order of importance -

1. Managerial capacity of the farmer or operator.
2. Loan purpose must be seen to increase income and improve the efficiency of the farm unit.
3. Condition of the farm, land quality, buildings, stock and machinery.
4. Profit potential of the farm or enterprises being operated.
5. Existing borrowings both by way of loans and trade creditors.
6. Personal and family commitments both existing and likely to arise.
7. Repayment capacity (i.e., nett cash income less personal living costs) for the duration of the loan.
8. Title to the farm and security.

In short credit worthiness implies a proficiency in farm management, capability to manage money, a reasonable loan burden, loan purpose aimed at increasing farm output, ability to repay within the projected loan duration and adequate security.

Assessment of a loan application may result in an adjustment up or down of the amount sought. Any such adjustment, of course, is made with the farmer's consent. When the assessment is completed the loan duration is determined and the moratorium period agreed to suit each particular circumstance. Repayments are usually arranged to suit the income pattern of the farming system.

Should the assessment of a loan application disclose a necessity for a longer repayment period than a bank would normally grant, the applicant is referred to the Agricultural Credit Corporation and ideally is assisted in making his approach.

Loans for the purpose of establishing beef breeding herds and carrying the progeny through to the fat stage merit the longest moratorium periods - usually three years. Much shorter moratorium periods are applied to loans for the financing of dairy herds as income arises shortly after purchase.

Loans are made for -

(a) All purposes of a development nature, including land improvement, buildings, equipment purchase, stocking and for the purchase of feed and fertilisers.

(b) Seasonal and operating requirements.

(c) Land purchase. In periods of credit scarcity lending for land purchase is restricted and occasionally prohibited, except in specified circumstances.

(d) Motor cars.

Farm borrowers of substantial sums are requested to keep and present farm accounts but these are not always furnished. Indeed, despite a great deal of encouragement by the banks to the farming community to keep farm accounts not more than a small proportion of farmers - 8%/10% - have kept adequate accounts in the past. The proposed application of the Farm Modernisation Programme supplies a sufficient measure of compulsion to ensure that the majority of farmers will be able to produce annual farm accounts in the future. These accounts will not only be of considerable support to farmers seeking credit, but they will also make it easier for the banks to supervise that credit when granted.

It is the practice with most banks when a Term Loan is made to a large borrower that an annual or less frequent visit and progress report is required from the banks' technical staff.

Branch managers maintain a resource file for each of their farmer debtor customers. Ideally this is up-dated annually but not all managers find it possible to do so. Managers who take a keen interest in farming are reasonably well aware of the farming ability of their clients, their capacity to work and manage their farms and the income from them.

Titles to ownership of farms are in many cases faulty due to intestacies and failure to secure complete legal transfers on inheritance. Normally banks do not take legal mortgages on farms against loans, but they do seek a deposit of the farm deeds which confers a lien on the property. Where a mortgate to another lender already exists a second mortgage on the property is then usually taken against the new loan.

Occasionally security against loans is provided by an existing Insurance Policy and or stock exchange certificates. Chattel mortgages are not normally taken by banks.

Special loan schemes have been introduced by most banks over the past 15 years whereby farmers could obtain loans more freely for development projects. An example is the dairy cow purchase Loan Scheme introduced by one bank in 1959 - and still available - enabling dairy farmers to improve and expand their herds. Loans are granted for 4½ years including a half-year moratorium and a four year's repayment period. Repayments are made through arrangements with the creameries by means of deductions from the borrowers accounts. No security is required other than an undertaking from the creamery to make the necessary deductions on behalf of the bank.

At the same time long term loan schemes were introduced to help farmers improve their farmyards. Repayment periods extended to 14 years.

Loan applications for the purchase of motor cars are usually diverted by most banks to their Instalment Credit Companies which have specially reduced interest rates for farmer borrowers. Some of these companies also operate Loan Schcmes for farm development, whereby farmers who are unable to provide the security normally required by banks or the Agricultural Credit Corporation can obtain the necessary loan funds to support their development programmes.

The Associated Banks make no special charges to farmer borrowers save in the exceptional case where a mortgage has to be taken. When such mortgages are prepared by the Bank's Legal Department a modest charge for the service is made. The scale of charges applied by one bank for 1973 is given hereunder:

TABLE 28

Amount of Mortgage	Charge	Actual Charge for Mortgage
Up to £5,000	1%	£5,000 - 50
£5,000 - £10,000	0.5%	£10,000 - 75
£10,000 - £20,000	0.25%	£20,000 - 100

In the case of corporate non-farming clients where elaborate Balance Sheet analyses have to be made, necessitating one or more visits to the applicant's premises, stock and equipment assessment, a negotiating fee estimated to cover the inordinate analytical work involved is applied. Mortgage costs associated with such loans are also charged to the borrower.

TERM LENDING

Prior to 1972 loans were made by banks on the overdraft system. When a loan was negotiated an overdraft was established for the total amount which was withdrawn as required, interest being charged on a daily basis on the actual amount outstanding. Usually this overdraft incorporated a working account to which income was lodged thereby reducing the interest charge. Overdraft interest was calculated half-yearly and either charged to the account or paid when due.

Loans negotiated under this system were not tied to a definite repayment schedule although a total period of repayment was in all cases fixed and an outline schedule of repayments arranged. These were not rigidly defined nor were they imposed.

It was and remains a fundamental principle of all overdraft lending that loans are repayable on demand This weakness in the system manifested itself in periods of resource scarcity where borrowers were necessarily asked to accelerate repayments or discharge overdraft loans in full. A further fault in the system was the uniform interest charge irrespective of how readily or rapidly the loan was repaid.

The view had been current for some years that a uniform interest system was inequitable and that good borrowers who were capable of planning their finances and production so as to meet their loan commitments promptly, should enjoy a preferential rate of interest as compared to borrowers less diciplined.

A more serious defect in overdraft lending was the impossibility of control when Government policy required a reduction in consumer spending and perhaps in all spending. Under the overdraft system borrowers drawings were usually made by cheque against a negotiated limit. As credit restraints could only be effectively applied to new lending and as borrowers had the right of drawing to the limit of existing permissions, harmonisation of lending to the guidelines was not possible to achieve satisfactorily

In order more effectively to apply discipline in the system of lending and ensure more predictable compliance with credit policy the Central Bank proposed a change in lending procedures in 1971 whereby the use of the overdraft would be limited to loans capable of being repaid within a year and loans for longer periods would be negotiated for specified periods and subject to specific terms of repayment. This new system has been applied since 1972 to all new loans and in the intervening period almost all existing overdrafts have been converted.

Under the former overdraft system a single interest rate was charged irrespective of the loan duration although in a great many cases these overdrafts were never fully liquidated from farm profits. With the introduction of Term Lending, differential interest rates were applied according to classes of borrowers and loan durations. An example of the applicable rates for farmers is given in the revised table of rates issued by the Banks' Standing Committee in April 1975 and reproduced hereunder. These new rates represented a reduction of ¾% interest on productive lending.

IRISH BANKS' STANDING COMMITTEE

REVISED TABLE OF IRISH BANKS' RATES ON ADVANCES AND DEPOSITS IN REPUBLIC OF IRELAND OFFICES.

LENDING RATE:

Operative as from close of business on April 9, 1975.

NEW SYSTEM

SCHEDULE OF RATES					
RATE CATEGORY CRITERIA	OVER-DRAFTS AND TERM LOANS UP TO 1 YEAR	TERM LOANS			* LOAN ACCOUNTS
		OVER 1 YEAR AND UP TO 3 YRS.	OVER 3 AND UP TO 5 YEARS	OVER 5 AND UP TO 7 YEARS	
AAA**	10.75	11.25	11.75	12.25	12.75
AA	11.50	12.00	12.50	13.00	13.50
A	13.50	14.25	15.00	15.50	16.25

* Loan Accounts: The Rates quoted above are minimum

SCHEMES

(a) Government Scheme for the Purchase of Fertilisers and Ground Limestone (AAA 1 Rate becoming 10.75%).

(b) Term Loans for Breeding Stock at Government subsidised Rates. (AA 2 Rate becoming 12.0%)

The Concessionary Rate of Interest for the Export of Capital Goods will remain unchanged at 8%.

World Bank Loan Composite Rate is being reduced to 11¼%.

DEPOSIT RATE:

Amounts under £5,000	7.25%
Amounts from £5,000 to £24,999	7.50%
Amounts £25,000 and over	8.00%

The AAA rate is confined to the following categories of borrowers:

(a) Government and Local Authority borrowing.

(b) Companies classed as Blue Chip in which risk is minimal.

(c) Guaranteed loans such as those for the purchase of fertilisers and ground limestone guaranteed by the Agricultural Credit Corporation.

(d) Category 19 of the Central Bank Classification of Advances, pages 21 and 22.

The AA rate is applied to farmers, agriculture generally and the productive sector. This includes categories 1-9 and 13-17 of the Central Bank Classification of Advances

All other borrowers not included above are subject to the A rate.

Interest on all loans is charged at the prevailing rate which may change from time to time. Formerly interest rates were constant for long periods, but more recently they have been subject to frequent fluctuations in line with money supply. The schedule of AA rates operative since January 1, 1973 given hereunder reflects the changes in the money market and conveys an idea of the costs and problems with which both bank and customer have to contend:-

SCHEDULE OF AA RATES - ASSOCIATED BANKS

Date	Overdrafts and Term Loans up to 1 year	TERM LOANS			
		Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 7 years	Loan Account
an. 1, 1973	8.25	8.75	9.25	9.75	10.25
Feb. 6, "	9.25	9.75	10.25	10.75	11.25
ar. 26, "	10.50	11.00	11.50	12.00	12.50
pr. 17, "	10.00	10.50	11.00	11.50	12.00
Jun. 26, "	9.5[illegible]	10.00	10.50	11.00	11.50
ug. 3, "	11.00	11.50	12.00	12.50	13.00
Sep. 10, "	11.75	12.25	12.75	13.25	13.75
ov. 30, "	13.25	13.75	14.25	14.75	15.25
une 24, 1974	12.50	13.00	13.50	14.00	14.50
Feb. 5, 1975	12.00	12.50	13.00	13.50	14.00
pr. 9, 1975	11.50	12.00	12.50	13.00	13.50

When a change of rate occurs during the currency of a term loan the customer is usually notified.

In this new lending system overdrafts are limited to loans for periods of less than 1 year and are applied to provide for fluctuating borrowings. A condition governing overdraft duration specifies that it must be in credit for 30 days in each year either consecutively or otherwise. Should a borrower fail to meet this condition the 1-3 year interest rate is charged.

Loan Accounts cater for a type of borrowing where it is not possible to establish a progressive and gradual reduction of the capital sum or where the repayment period clearly exceeds 7 years' duration. Loans under the World Bank Loan Scheme are exceptions, however.

Both Overdrafts and Loan Accounts are payable on demand whereas Term Loans, provided the conditions are met, are binding on bank and borrower alike and cannot be recalled unless the conditions are unreasonably unfulfilled. Term Loans may be re-negotiated for a longer term if the initially negotiated terms cannot be met. Conversely a Term Loan can be repaid in a shorter period. Should the repayment period be reduced sufficiently to fit another Term Loan category then the interest rate appropriate to the new category is charged.

Where a customer has more than one Term Loan or Loan Account he will be required to service each such loan as a separate borrowing.

DRAWINGS: All Term Loans carry conditions relating to drawings. When it is recalled that the purpose of conversion from overdraft to term lending was to secure a predictable response to Central Bank guidelines on credit, the necessity to impose drawing conditions is apparent. The particular disciplines in this regard provide that, unless otherwise negotiated, the entire amount of the Term Loan must be drawn down within six months. Where a Term Loan is not fully availed of within the limit set, the bank's obligation applies only to the amount drawn and the remainder if required must be renegotiated.

Furthermore, all Term Loans must be utilised for the purpose or purposes for which they are granted.

A Term Loan may be taken up by way of a direct debit to the Term Loan Account or by transfers as required to the customer's current account.

CHARGES: Other than interest payments, no charges are made on Term Loans which conform to the repayments schedules. Where, however, the conditions are not observed and in the absence of renegotiation a surcharge of ½% per month additional to the appropriate interest charge is applied. Excesses on overdrafts are similarly penalised.

All Current Accounts bear charges related to the volume of transactions. The level of these charges as at present in operation is given hereunder:

20

TABLE 29

TABLE OF CHARGES

(Current Accounts)

Transactions (per year)	Charge
50 or less	£1
Over 50 and up to 3,000	50p per 10
Over 3,000	£150 minimum charge

Continuous Credit Allowance:

Where an account has been continuously in credit during the charging period and has had a minimum credit balance of £100 or more, a notional allowance at the rate of 3% per annum will be made on the minimum balance (in multiples of £100) and applied in reduction of the charge.

The Non-Associated Banks: Many of these are of recent introduction. Their lending activities to the agricultural sector are confined to large, mostly corporate, operations. Normally they are short term lenders arranging loan conditions related to the nature of their funds and the project being financed.

Loan assessment techniques are similar in principle to those already described in respect of the Associated Banks. Their security requirements, however, because much larger sums of money are involved, are more important and more precise. Stock financing in the milk processing and meat industries constitutes the greater part of their lending to the agricultural sector.

Instalment Credit and Hire Purchase Companies: As has been mentioned elsewhere in this report, each of the Associated Banks owns one or more such companies. Each, however, maintains a separate organisation with a field staff engaged mainly in marketing its loans.

In addition to the usual instalment credit and Hire Purchase transactions, such as financing motor car and machinery purchases, they also engage in other forms of farm credit activities. These arise either by recommendation from a Bank Manager to a customer who is regarded as having reached the limit of risk appropriate to normal bank lending or by choice of the customer needing a less formal loan arrangement than is available from the banks.

The higher interest rates which these companies charge are justified by the higher cost of money and the greater risk accepted. Many of these companies, particularly those engaged in Hire Purchase transactions, operate through merchants and dealers who are agents for the machines or equipment being financed. In such cases the merchants receive a commission amounting to 1-2% of the total sum advanced.

All Hire Purchase transactions are subject to a contract, the conditions of which - including the interest charge - must comply with the terms of the Hire Purchase Act of 1946, amended in 1960.

The Agricultural Credit Corporation operates a Hire Purchase Division which conforms to the pattern outlined above except that all its marketing activities are confined to the company's personnel.

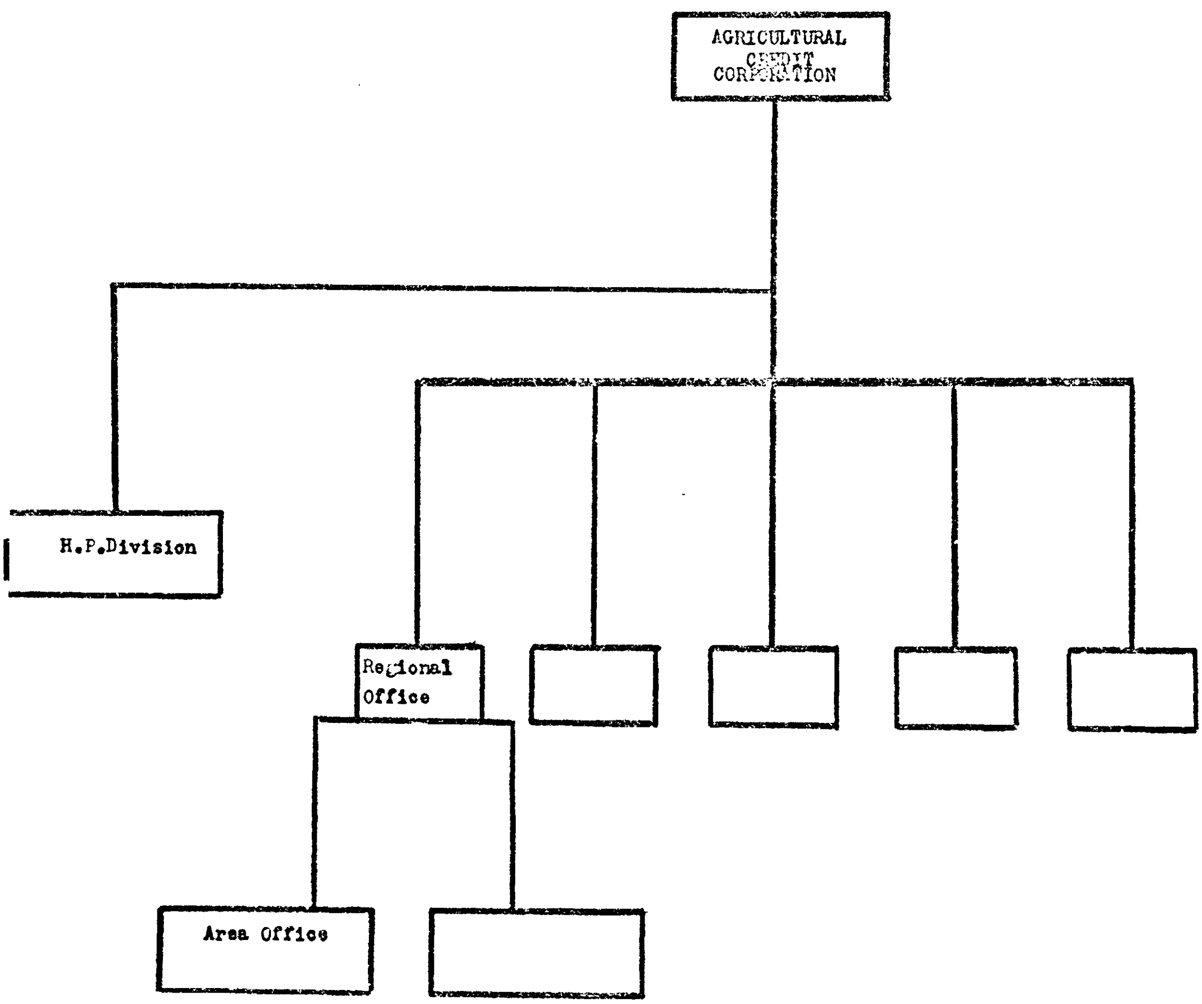
TABLE 30 INSTALMENT CREDIT AND HIRE PURCHASE INTEREST RATES

A chart of typical interest charges is given hereunder:

	Operating Interest Rates			
	1/2/1973	1/10/1973	1/12/1973	1/10/1974
Motor Loan	8%	8½%	9%	13%
Home Improvements	7%	7½%	8%	13%
Farm Plan	7½%	8%	9%	9%

THE AGRICULTURAL CREDIT CORPORATION:

Since 1963 when the corporation began to assemble a field staff, a process of decentralisation has been going on. This has now developed to the stage when the entire country is served by a network of 5 Regional Offices, controlling 17 Area Offices, that is a total of 22 Offices in addition to Headquarters. A total field staff of 35 is employed to service these offices and clients.



Supplied by Mr. J. Hickey, Agricultural Manager, Agricultural Credit Corporation

The duties of the field staff in summary are:

LOANS

1. The formulation of loan budgets for the areas.
2. The formulation of investment programmes for farmers, co-operatives and agri-business enterprises.
3. The assessment of creditworthiness of individuals and enterprises.
4. The making of decisions and recommendations on loan applications, and the completion of security of same.
5. The dissemination of information to farmers throughout the area on the availability of credit for agricultural development.
6. The collection of loan instalments where necessary.

DEPOSITS

1. The dissemination of information on the Deposit facilities available from the Agricultural Credit Corporation.
2. The completion of deposit receipts, etc. where depositors make contact with area staff.

ADMINISTRATION

1 The supervision of day-to-day activities of local office staff.

2. The planning of work in an area for optimum effectiveness.
3. The supervision and checking of cash lodgments from area offices on a daily basis.

The types of loans made by the Corporation are:-

(i) DEVELOPMENT LOANS

- Purchase of breeding livestock and farm machinery
- Drainage and land improvement, fencing and
- Construction and extensive improvement of permanent buildings, including dwelling houses, and purchase of land.
- Family settlements.
- Funding of Farm Debts
- Glasshouses and Poultry Units.

(ii) BUDGETED LOANS

- are made for the seasonal financing of essential farm operations. These loans range in amount from £300 to £10,000 (unsecured) but there is no upper limit on the amount if suitable security is available.

(iii) AGRI-BUSINESS LOANS

(iv) UNSECURED LOANS: Duration up to 7 years

(a) Loans of up to £2,000 are currently available in suitable cases at interest rates averagine 13½% per annum for any directly productive agricultural purpose.

- (b) For the purchase of dairy livestock - up to 7 years at $13\frac{1}{2}\%$. Repayment is made by the Cooperative to which the borrower delivers his milk.

(v) LOANS UNDER THE WORLD BANK LOAN SCHEME

- on the same terms as those applied by the Associated Banks.

(vi) INSTALMENT CREDIT

- A full range of Hire Purchase facilities is available from the Company at varying rates of interest, currently averaging 17% per annum.

The criteria for lending applied by the Agricultural Credit Corporation are similar to those applied by the banks and already listed. The method of lending, however, is different in so far as all applications for credit have to be forwarded to the Head Office in Dublin for confirmation in the case of loans within the discretion of the field staff and for decision in the case of applications outside it.

Since its inception the Corporation has mainly used the term loan system of credit with a fixed interest rate irrespective of the duration of the loan or the current cost of loan funds. Within the past two years a variable interest rate clause has been introduced into the Corporation's security documentation which takes account of both of these factors. Term loans are repayable under the annuity system. The majority of the Corporation's loans conform to a pattern of fixed half-yearly gale-days which fall due on each May 1 and November 1 whereas the repayment of seasonal and dairy livestock loans is tailored to conform to the cash flow of the individual customer.

More recently a differential system of interest charges has been introduced somewhat similar to that operated by the banks. The current charges are set out in the following table:-

TABLE 31

Operative from	Up to 1 year	1 - 5 years	6 - 9 years	10 years and over
May 1975	12%	13¾%	14½%	15%

Regardless of the purpose of the loan

A handling charge (which is deducted from the amount of the loan at date of issue) is also payable by borrowers as follows:-

Budgeted Loans and) Unsecured Term Loans)	0.5% of amount of loan
Secured Term Loans	1% of amount of loan

SIGNIFICANCE OF THE CREDIT INSTITUTIONS IN THE FIELD OF AGRICULTURAL CREDITS

The following table has been constructed from the data available in an effort to show the relative participation of the different lending institutions in the total issue of credit to the agricultural industry.

TABLE 32

As at December 31, 1974	£m	%
Associated Banks (1)	245.7	51.58
Non-Associated Banks	59.0	12.39
Other Finance Houses	27.31	5.73
Agricultural Credit Corporation	103.52	21.73
Industrial Credit Company	4.78	1.00
Irish Land Commission	36.00	7.56
	476.31	99.99

1. This figure does not include lending to grain, seeds, fertiliser and other merchants who service the Primary Producers nor does it include a large part of agro-industry. It is not possible to identify the specific lending by the Associated Banks for these purposes.

The Associated Banks recognised in 1958 that the provision of an adequate credit service to the agricultural industry required the assistance of a specialised field staff. Accordingly in that year three banks set up the basis of such a service, which has been considerably expanded since. Agriculture was the first sector of the economy to be so serviced by the banks. A total field staff of 16, 14 of whom are graduates in agriculture, provide a support service to all levels of management in the Associated Banks in dealing with credit to the agricultural community.

FUNDS OF THE CREDIT INSTITUTIONS

Details of the origin of lending funds have been given in Chapter 3. The Associated Banks derive their funds from interest bearing deposits and current accounts. Some of the non-associated banks, particularly those which are subsidiaries of or are partly owned by the Associated Banks, obtain a portion of their funds by borrowing. Their resources, however, are mostly represented by deposit and current account balances.

The position as at December 31, 1973 is given in the following table:-

PARTICULARS OF RESOURCES OBTAINED WITHIN THE STATE
December 1973

	Current Accounts £m	Deposits £m	Borrowings £m
Associated Banks			
Government (i)	16.3	0.3	-
Other (ii)	319.2	823.1	-
Non-associated Banks	16.6	454.9	30.1
Agricultural Credit Corporation	-	41.12	18.16
Industrial Credit Company	-	2.04	23.89 (1)

All members of the Associated Banks have branches outside the State, principally in Northern Ireland, but transfer of funds is controlled by the Central Bank.

In addition to the resources collected on the domestic capital market, an undisclosed volume of resources is contributed by depositors in the U.K. and the U.S. All members of the Associated Banks, through their offices in the U.K., raise a proportion of deposits from British sources. It is not possible to estimate the amount attributable to any one bank. These resources, however, should they enter the banking system outside the country, cannot be transferred without penalty to the parent banks in Ireland. Private holdings on the other hand can be placed by English residents in Irish banks without restriction and vice versa.

Occasionally, in order to meet particular needs, recourse is

(1) These figures relate to year ending April 30, 1973

had to the London money market for funds which are usually re-lent at interest rates linked to the London borrowing rate. In such cases, however, the Central Bank at present requires a 50% deposit which virtually prohibits its use.

A relaxation of this requirement is provided by the Central Bank for approved projects where the total capitalisation is in excess of £5 million and where it can be shown that domestic resources are not available to fund them.

Similar restrictions apply to the Agricultural Credit Corporation.

The interplay of economic and financial forces which tends to harmonise movements and levels of interest rates between member countries of trading blocks is much stronger between Ireland and Britain than elsewhere since both countries constitute a virtually integrated Capital Market within which there is free movement of funds. Although this arrangement has considerable advantages for Ireland, which is in need of external capital for development, it implies the necessity to adjust Irish rates to rate movements in England. On occasion Irish rates have had to be so adjusted upwards when ample lending funds were available in the Irish banking system. Refusal to do so would have permitted a flow of funds outwards to England attracted by the higher rates available there.

Adjustments in Irish interest rates are not made simultaneously with English rates, nor are they usually identical. The waiting time between the English and Irish changes depends largely on the extent of the change. A very significant change, likely to attract a substantial outflow of funds, calls for quick action.

It has been the experience that a somewhat lower interest level can be maintained in Ireland without risk to favourable capital movements. There are signs, however, that this happy situation may not continue as competition between English clearing banks for deposits increases in the independent environment in which they now operate.

TABLE 33

TOTAL CREDIT AS PERCENTAGE OF LENDING RESOURCES

	Resources £m	Total Credit £m	% Lending
Associated Banks	1,189.6 (1)	677.3 (1)	57
Non-associated Banks	471.5 (1)	345.4 (1)	73
Agricultural Credit Corporation	59.28	54.57	92
Industrial Credit Company	24.82+ 1.68 (2)	23.30	88

It will be recalled from Chapter 3 that the Liquidity Ratio required by the Central Bank to be maintained limits the Associated Banks lending to a maximum of 57% of lending resources. Excesses over this percentage attract penal rediscounting rates.

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(1) These figures do not include either resources from the Government or lending thereto.

(2) Represents Reserves (accumulated profit)

Loan conditions regarding security, guarantees, rights of borrowers under the different types of loans, loan durations and moritoria were dealt with in Chapter 3.

There are no published statistics showing the proportion of credit used for the purchase of land. Such figures are recorded by the Associated Banks and supplied to the Central Bank but they are not made available.

The amount of credit provided by the Associated Banks for land purchase varies considerably through time depending on Central Bank guidelines. During periods, such as in the recent past, when Central Bank policy restricted credit to all but productive purposes, credit for land purchase was advanced only when it could be shown clearly to fall within the category of productive lending.

Loans obtained for land acquisition are usually slow to be repaid so that in fact the proportion of credits outstanding in respect of land purchase does not alter appreciably from one year to another even despite temporary credit restrictions. Of the total loans outstanding with farmers from the Associated Banks about 15-20% are estimated to be in respect of land purchase.

During the past five years 1970/71 to 1974/75 loans for land purchase issued by the Agricultural Credit Corporation varied from 6% of total loan volume up to 15%; a reflection of the restrictive policy operated by the Corporation as referred to in the extract from its Chairman's Statement quoted on page 116.

CHAPTER 5 Impact of Economic Trends on Agricultural Credits

Economic Development

Because the Irish Economy is young in the sense of being Irish designed and directed, and because it is the least developed of the nine there is justification for providing a background picture against which the present state of agriculture may be more clearly seen and the likely developments appreciated.

During the first ten years of native government our almost total dependence on agricultural exports to the British market was accepted as inevitable and unalterable. There was little or no industrial base to support the economy or to provide employment opportunities for the surplus rural labour. Indeed, industrial production was permitted to decline.

In the early part of the 1930's this policy was redressed and an industrial base developed, beginning with an expansion in agricultural commodity production and processing, notably grain and sugar beet. This was quickly extended to cover a wide variety of products behind protective tarriff barriers. World War 11 halted industrial expansion which was resumed again when the restrictions imposed by the war and its aftermath eased and finally disappeared.

The worldwide recession in agriculture during the early 1930's and before was aggravated by the Anglo-Irish trade conflict referred to as the 'Economic War' When this ended in 1938 with a new political and trade agreement there was little time

time for agricultural development before the onset of World War 11.

The introduction of managed economies which became a feature of democratic countries in the decade of the 1940's was aimed at preventing a recurrence of the depression in Europe, which followed World War 1. In succeeding, it helped to boost Ireland's policy of reconstructing its industries and establishing new ones. At the same time, with the aid of Commonwealth preference for Irish export products, there was a reasonably encouraging export demand in Britain. Although the British deficiency payment's system for agricultural commodities, which operated, ultimately with modifications, from 1947 until February 1973 had serious repercussions.

In 1958 the Irish Government for the first time, embarked on a planned National Development Programme embracing the industrial, agricultural and the commercial sectors of the economy. It was a broad based plan in which targets for growth were set and the means identified by which they were to be achieved. Covering a five year period, the features of the country's economic position to which the development programme was addressed were a low income per head and the related phenomena of high emigration, high unemployment, low production and productivity.

Agricultural development proposals formed a major part of the programme, concentrating largely on livestock and livestock products. In 1956 agriculture supported 40% of the working population and accounted for 29% of national income, compared with 25% for industry and 14% for distribution and transport. The scope for expansion in agriculture was well known to be enormous, but the decisions to exploit it were over-shadowed by the problem of market outlets. Basing the case for an increase in gross agricultural output on the competitive advantages of a grass economy, the programme proposed increasing the cow population from the static level of 1.25 million to 1.5 million by 1964. In fact, this figure was exceeded. By 1963, the volume of gross agricultural output of cattle had increased by 17% and of crops by 33%.

The Second Programme For Economic Expansion immediately succeeded the first. By this time the base for further expansion had been established and the process of modernising agriculture set in motion. There was spectacular growth in mechanisation with the twin results of increased productivity and an increasing surplus of rural labour.

It was during the ten years of these two programmes that bovine tuberculosis eradication was undertaken and completed. The high incidence of the disease in the concentrated cattle areas and the consequent heavy slaughterings slowed down the rate of progress in the cattle and milk enterprises during those years.

Eradication of bovine tuberculosis was made compulsory by the import regulations of the U.K. to which Ireland had been exporting upwards of 500,000 prime cattle annually.

During the programme periods, the objectives of the industrial expansion plans, which were to provide employment opportunities for the surplus labour leaving agriculture and at the same time improve the balance of payments position were also achieved.

By 1969, GNP growth in real terms had increased to 4% per year which was three times as fast as in the previous decade. Nevertheless, this rate of growth was not regarded as sufficient to eliminate unemployment by 1980.

A third programme entitled "Economic and Social Development" covering the period 1969-1972 was proposed in 1969. Its time frame seemed to anticipate admission to the EEC by 1973.

The programme projected a growth of 17% in the economy as a whole over the four years, the major contribution coming from industry which was expected to increase by 28½% with 14% from the service sector and 7% from agriculture.

Cost inflation became a matter of serious national concern during the currency of the second programme, its impact increasing in line with growing international trade. Recurring manifestations of concern by the planners appear in the third programme. Indeed, its emphasis on social development and its proposals to protect the victims of inflation, to reduce its force and if possible to maintain it within reasonable limits, indicate the damaging effects both economically and socially inflation was producing.

The concern of the planners was fully justified by a prevailing inflation rate in 1969 of 7½% well in excess of any other European country. Arising principally from increases in money incomes without compensating productivity, it was not amenable to fiscal or monetary corrective measures. By the end of 1969 this high rate of inflation was clearly reflected in an increasing deficit on the international trading account. Corrective measures had to be applied which included income, credit and fiscal restraints.

FINANCIAL POLICY

Broad objectives of financial and monetary policy for the Irish economy were set out in the First Programme for Economic Expansion as favouring savings, encouraging enterprise and discouraging excessive consumption. It was recognised that a pre-condition of economic progress was a transfer of emphasis from the high rate of public investment in non-productive to productive projects.

Finance for the expansion programme was expected to be available from increased savings, liquidation of some external reserves and, if necessary, external borrowing from the World Bank or by capital inflows in the form of direct investment.

In the First Programme an outline of the functional growth of the Central Bank was foreshadowed. The powers which it subsequently acquired were necessary to ensure achievement of the expansion targets set out and that the maximum real benefits to the Nation would accrue.

As a means of reducing banking costs and freeing resources the planners suggested amalgamation of some of the existing eight banks. Action on this suggestion resulted in six of the banks integrating into two groups.

ASSOCIATED BANKS.

The formation of two large banking groups, Bank of Ireland and Allied Irish Bank, enabled each to widen considerably the variety of its services both for domestic and export financing. Decentralisation of structure provided more effective and efficient functioning which was necessary for the rapidly developing economy of the late 1960's and the present decade.

In the agricultural sector a special responsibility was seen to rest with the Associated Banks to support the development programme in making adequate credit available for productive purposes. The demand for capital in commodity production and primary processing was projected to increase substantially and cumulatively and the Associated Banks were requested to meet it to the limit of resources.

NON-ASSOCIATED BANKS:

The rapid growth of the non-associated banks in the late 1960's and early 1970's, particularly during the long closure of the Associated Banks in 1970, opened a new gateway for the movement of capital in and out of the country. In its efforts to control inflation and cope with impending recessions the Central Bank found this freedom to be a frustrating factor. It, therefore, took adequate powers to ensure that foreign borrowing by the non-associated banks would not be used to boost an already high level of domestic consumption but would, as far as possible, be applied towards increasing the productive export capacity. Indeed, all financial institutions moving capital into the country are now subject to these selective requirements.

AGRICULTURAL CREDIT CORPORATION:

The first Programme also proposed modification of existing lending practices by the Agricultural Credit Corporation of which the following are the most important:

1. "The security conditions stipulated by the Agricultural[1] Credit Corporation should be relaxed since there is little point in insisting on conditions which many farmers cannot satisfy.

(1) Economic Expansion, etc.

2. Any additional funds required by the Corporation should be made readily available from the Banks and, if necessary, from the Exchequer which should also guarantee the Corporation against financial loss.

3. There should be close working relationships between the Corporation and the Commercial Banks and the possibility of devising a system in which local bank branches would act as agents of the Corporation should be investigated.

4. The adequacy of present hire purchase facilities for farmers should be examined."

Subsequent legislation enlarged the functions of the Agricultural Credit Corporation, encouraged decentralisation of its structure, removed restrictions on its lending and provided protection against losses.

The 1961 Agricultural Credit Act already referred to enlarged the frame of the Agricultural Credit Corporation's activities and encouraged less reliance on mortgage security.

The suggestion contained in the First Programme, however, that bank branches should act as agents for the Corporation did not materialise. Its merit rested on the assumption that each institution engaged in different forms of financing. Indeed such was the case initially as the Corporation was established to provide long term capital to agriculture while the banks' resources were geared to short and medium term financing. Since the early 1960's, aided by an expanded resource base, the Agricultural Credit Corporation has engaged in a growing volume of short term lending. In the marketing of its loan services the Corporation's exphasis on short term lending is reflected in the changing composition of its loans during the years 1963 and 1973. See Table 4(a). This development, bringing the Corporation into direct competition with the banks, precluded any possibility of the type of cooperation envisaged.

Furthermore, the history of the Corporation up to the early 1960's was characterised by a conservatism in lending procedures not acceptable to the more progressive banks then serving agriculture and which consequently had no wish to be identified with it.

IRISH MONEY MARKET

An important development during the closing years of the 1960's, was the establishment of an Irish Money Market. Up to that time London had been the traditional holder of call money and short term acceptances for Irish Financial Institutions. The functional growth of the Central Bank enabled it gradually to attract these funds and by 1972 the entire banking system had transferred its dependence for liquidity from London to Dublin. Thus the Central Bank had been enabled more effectively to manage the economy, to determine an interest rate structure more suited to Irish conditions and to improve the marketability of Government Stocks.

In the decade of the 1960's there was little prospect that the planned growth rate could be sustained on domestic savings alone. Reliance on foreign capital was an accepted necessity and various incentives were offered to attract investment from abroad. Despite this action additional capital by way of foreign borrowings had to be procured. This explains why development over the past eight years has been so characterised by substantial inputs of foreign capital both by borrowing and private investment. The following table sets out the position:-

TABLE 34

SUMMARY OF BALANCE OF PAYMENTS

	1966	1967	1968	1969	1970	1971	1972	1973
Deficit on Trade	-124.5	-100.1	-152.9	-211.3	-213.0	-216.9	-191.8	-271
Net Invisible Receipts	108.4	115.3	136.6	142.2	147.7	145.9	143.4	192.8
Deficit Current Account	- 16.1	15.2	- 16.3	- 69.1	- 65.3	- 71.0	- 48.4	- 78.2
Net Capital Inflow	+ 38.5	+ 31.1	+ 8.4	+ 75.0	+ 67.7	+161.8	+106.1	+ 89.1
Changes in External Reserves	+ 22.4	+ 46.3	- 7.9	+ 5.9	+ 2.4	+ 90.8	+ 51.1	+ 3.1
Total External Reserves	253.1	299.4	291.5	297.4	290.3	381.1	432.2	435.3

CREDIT POLICY

Credit policy of the Central Bank has been dictated by its obligation to maintain, within its powers, the integrity of the currency. This implies taking whatever action is deemed necessary to control or limit inflation, maintain the nation's competitive position on export markets, enable production to expand and thus protect the balance of payments. Through the decade of the 1960's and up to now corrective action by way of credit restriction has had to be taken with increasing frequency. These periods of restriction in both quantity of credit and designation of purpose have been followed by corresponding periods of credit relaxation. The intermittent nature of restrictive

TABLE 34 Extension

1974	
Deficit on Trade	- 548
Net Invisible Receipts	+ 248
Deficit Current Account	- 300
Net Capital Inflow	+ 360
Changes in External Reserves	+ 60
Total External Reserves	+ 495.4

impositions has become a serious irritant to both primary producers and processors.

In every period of restriction credit for consumer spending becomes the first target and this more particularly concerns the private and professional sectors. To put such a restriction into effect is an extremely difficult obligation to discharge as these sectors provide an increasing proportion of the banks' resources. The relationship of the banks to this sector have been weakened by the addition of restrictive borrowing rates to the quantitive restrictions as shown in the table of rates in page of this report. While saying this it must be recognised that measures are necessary to control excessive expenditure on consumer goods and more particularly those of foreign origin.

Restrictions, relating to loan purposes aimed at channelling permitted credit to productive objectives, are carefully observed by the lending institutions. Agriculture shares fully, even preferentially in such allocations. It might be added that through the operation of Term Lending the Associated Banks are now in a much better position to provide a ready response to the credit controls imposed by the Central Bank than they were when under the overdraft system.

ACCESSION TO THE EEC AND INVESTMENT IMPLICATIONS

When in late 1971 accession of Ireland to the EEC became a distinct possibility a number of predictions were made outlining the effects on the agricultural economy which membership was likely to produce. While these predictions varied in regard to the prospects for a number of farm commodities all were agreed that the greatest benefits awaited the milk and cattle enterprises. This seemed beyond doubt as did also the wish of the Irish people to join the Community. With this conviction many enterprising farmers quickly prepared to take full advantage of membership by enlarging cattle breeding herds and extending housing and milking accommodation. Credit to support these efforts was freely available and generously utilised.

One of the less welcome but inescapable results of such enthusiasm was that the means of production which are in limited supply such as land and breeding livestock escalated rapidly in price giving rise to some concern as to the ultimate effects on enterprise profitability.

Some of the forecasts referred to predicted a doubling of the volume of livestock output by 1980. Calculations of the investment programme necessary to achieve this indicated the necessity for substantial inputs of capital in land improvement, livestock, housing and equipment, almost all of which was expected to come initially from increased borrowings and later to be provided from cash flow.

Not all the predictions reduced the physical expansion expectations to economic terms and only one detailed the credit implications. A table setting out these is reproduced below:

TABLE 35

SUMMARY OF INVESTMENT PROFILE IN AGRICULTURE*

£m (CURRENT VALUES)

	1973	1974	1975	1976	1977	1978
Fixed Capital	15.156	19.250	22.593	23.620	27.303	3.696
Stock	14.825	16.299	17.774	19.249	20.726	-----
Working Capital	4.537	9.564	11.956	14.538	17.439	14.558
Total	34.518	45.113	52.323	57.407	65.468	18.254
Cattle & Milk	29.643	38.408	43.383	46.259	51.533	8.766

It is clear from this forecast, and it was implicit in the others that after 1976 the increased cash flow generated by the expansion would provide the necessary investment capital. In fact when account is taken of the inordinate inflation and the capital formation in agriculture during 1972 and 1973, a greater than expected measure of self-financing was provided from profits.

The unexpected recession in the cattle industry from mid-1973 to the present has halted the planned expansion in cattle numbers and seriously discouraged investment.

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* Irish Grassland and Animal Production Association.

In the foregoing table an estimate of the capital required in the cattle and milk enterprises in relation to the total requirement is shown seperately so as to emphasise the impact which a depression in the cattle sector can have on the confidence of the entire agricultural industry. New investment in agriculture, therefore, during 1974 has been insignificant although increased borrowings have been made by the farming community but very largely to meet current expenses.

Application of the Farm Modernisation Programme in accordance with Directive 159/1972 and 160/1972 was delayed by structural problems in the technical service but even if these did not exist demand for investment capital would have been limited.

The depression in the Irish cattle industry, caused immediately by supplies of red meat surplus to effective demand on the Community market but more particularly by reduced exports of live cattle, has given a corresponding injection of confidence to the Irish meat factories whose profits through 1974 have been unprecedently high providing them with much of the capital needed for extension and re-equipping.

There seems little hope that a recovery in beef cattle prices and profits will be matched by a corresponding growth of confidence amongst the farming community in the cattle enterprise.

A movement out of cattle rearing into dairying, which offers much greater profit margins for the smaller farmers, can be expected. Despite the higher investment and labour implications in such a transfer it seems almost certain to take place to a significant degree. Credit support from the lending institutions will not be a limiting factor, except where the required expertise to handle a dairy herd efficiently is obviously absent. An adequate supply of suitable dairy stock is not likely to be available and lending institutions must exercise caution to ensure, as far as possible, that credit will not be used to inflate,artificially, dairy stock prices.

PROJECTED CAPITAL INVESTMENT

It is now clear that new projections are necessary which will take account of shifts in enterprise development, market possibilities, stock investment, inflation of building and equipment costs and the aids provided under Directive 159 and 160/1972 EEC. While participating farmers will have the option of accepting aid either by way of direct grants, or interest subsidies, the overwhelming majority will opt for the former. In fact aid in the latter form can be disregarded. The table, given below, represents an effort to estimate the nett capital investment in agriculture over the ten year period to 1985 by the three categories of farmers, that is - Commercial, Development and Transitional. A total figure of £500m is projected but it would be wrong to assume that the investment will be made at the rate of £50m per year. For a number of reasons it must be assumed that transition from beef cattle production to dairying will take place fairly quickly perhaps within two or three years. Expansion of existing herds in the dairying areas is more likely to be gradual as it is dependent on factors such as calf rearing and fertiliser prices. Initially the Modernisation Programme can be expected to proceed slowly because the new planning service being established will take some time to get moving smoothly.

TABLE 36

PROJECTED INVESTMENT PROFILE IN FARMING TO 1985

ITEM	CATEGORY OF FARMERS			
	Commercial	Development	Transitional	TOTALS
Expected Participation Number of Farmers	15,000	33,000	25,000	73,000
Investment per Farm	£15,000	£12,000	£ 2,000	
Total Investment per Category	£225m	£396m	£50m	£671m
Less Grants	£30m	£131m	£10m	£171m
Total Nett Investment	£195m	£265m	£40m	£500m

The foregoing sets out the projected investment required to provide for new developments under the Farm Modernisation Programme and does not take account of renewals of existing machinery,stock replacements, maintenance and repairs of existing buildings. This might be estimated to cost an additional £20 million per year or £200 million over the ten year period to 1985.

CREDIT AVAILABILITY

It is now proposed to examine the possibility of how and by what means this development can be financed. As with all forms of capital financing in agriculture, funds are provided from past savings, operating profits, capital grants and borrowing from the lending institutions.

Savings owned by the farming community are almost entirely deposited with the Associated Banks, but a small percentage are with the Agricultural Credit Corporation and the Non-associated Banks and a lesser amount in the Post Office and other Government owned institutions. They are, therefore, largely with the organisations which provide the credit for development and operating needs. With the limited knowledge available it would be impossible to estimate the extent to which investment could be financed by the withdrawal of funds from these organisations, and indeed it is not a very rewarding exercise to attempt it since in the overall context of the economy, the total effect of withdrawal and borrowing is almost identical.

What is of very real significance is the available resources of the credit institutions and the capacity of farming during the foreseeable future to generate sufficient profits to justify borrowing and repayment.

Even at the best of times short term forecasting of National production and trade is fraught with serious possibilities of error. Over the past three years annual forecasts have been affected by the unexpectedly sharp increase in production and value of cattle, meat and livestock products. The downturn in demand and prices, starting midway through 1973, was seriously aggravated by the oil crisis which still continues to cloud the future. Because of these factors, error margins in forecasting have been unusually wide. Table 37 is included to demonstrate its magnitude and indicate the futility of attempting to extend the forecast to a decade.

TABLE 37

Item	1972		1973		1974	
	Estimate £m	Actual £m	Estimate £m	Actual £m	Estimate £m	Actual £m
Agricultural Income	249	313	322	406	462	354
Gross Domestic Fixed Capital Formation	430	486	548	620	762	750
Balance on Trade	-70	-56	-49	-86	-143	-305
Gross National Product	2,013	2,232	2,492	2,674	3,109	2,912

More powerful and disruptive forces are now operating, internationally and nationally, than at any period in peacetime history. The final effects which these will produce in national economies are impossible to predict. Despite the imponderables, both foreign and domestic, some forecasts for the Irish economy in 1975 have been made. One such is reproduced hereunder with some following discussion.

TABLE 38

Item	1974 £m	1975 £m
Agricultural Contribution to Gross National Product	373	465
Gross National Product	2,915	3,604
Gross Domestic Fixed Capital Formation	717	862
Balance on Current International Account	-300	-180

It will be noted that a significant rise in net agricultural output is projected for 1975 which is expected to come from a slight volume increase in production but mainly from better commodity prices.

An increase of 30% in the net income of farmers seems over-hopeful taking into account the high cost of material inputs. In making these forecasts the authors appear to have placed a heavy burden on the cattle and beef industry because little or no increase in net output can now be expected in 1975 from the crop and pig enterprises nor indeed from the milk enterprise if significant progress is to be made in the eradication of Brucellosis. Admittedly an improvement in cattle prices will also benefit the dairy farmer but it cannot do so more than marginally.

On the other hand market recovery to the early 1973 price levels in the cattle and beef industry would go a long way towards meeting the target, because of the large numbers of mature cattle available for export and slaughter through 1975.

An improvement in the International Trading Account is also expected and the comment indicates that commodity price levels, in the Community, will gradually adjust to the increased cost of energy, thereby eventually eliminating the disruptive force of the recent catastrophic increases in oil prices. Such an assumption would, perhaps, be valid if the competitive position of industrialised countries self-sufficient in energy, such as Russia, were equally affected but they are not. Furthermore, there is no certainty that the oil importing countries will not have to bear additional increases in the future. Some time must still elapse before the full effects of the energy crisis will have worked themselves out, particularly in regard to deflation and recycling of surplus oil funds to deficit areas.

The extent to which the success of the oil exporting monopolies' trade strategy will affect supplies of other production materials has yet to be measured and this adds further to the series of unknown factors which bear on future trading, national economy and credit supply.

INFLATION

Overshadowing all these considerations is the spectre of inflation. Estimated to exceed 17% in Ireland in 1974, it is clear that unless this rate is decelerated the prospect of increasing industrial exports will be seriously jeopardised. In fact it reached 24.5%.

Of the two well springs of inflation (i.e. domestic and foreign) the former only is controllable by national action but no positive signs of effective remedial measures on a national scale are in sight. On the contrary the continued excess growth of public spending over that of GNP giving rise to an increasing burden of external debt, which has to be serviced and ultimately repaid, would seem to be supporting the domestic contribution to the inflation rate. Government external debt has risen from £55m in 1969 to a projected £300m by March 1975, while the external debt forecast for State bodies by the same date is £200m.

It must, however, be recognised that inflation control is not a simple matter like turning on or off a tap and that it is far easier to increase the rate than to reduce it. Moreover, the measures, which in particular circumstances are considered necessary to give effective control, must be acceptable nationwide.

Experience has shown that income restraints and measures to achieve higher productivity - two powerful forces in domestic inflation - are the most difficult to find acceptance in Ireland.

On the other hand, new export capacity is being developed in Ireland largely by foreign interests and some of this will come on stream in 1975. It will make a significant contribution to the trading account because initially it will not be subject to productivity constraints to the same degree as established industries.

It is of interest to record that despite the downturn in the economy, resources (i.e. money and other liquid assets) of the Associated and non-associated Banks increased by £125.7m in 1974. Given the same growth rate through 1975 and accepting that the target increase in net agricultural income for 1975 is 20% overstated (i.e. £445m against £465m). There should be ample borrowing power and funds to support the Farm Modernisation Programme.

Prevailing high interest rates which are likely to keep step with inflation are not seen as a serious deterrent to borrowing although they will continue to have a depressing effect on repayment capacity.

FUTURE FARM STRUCTURES

The application of the Voluntary Retirement Scheme for Farmers under Directive 160/1972EEC as outlined in Appendix 2, will accelerate the movement of small uneconomic farmers out of agricultural production. In the past decade the outward flow has been at the rate of about 2,000 per year with a tendency to increase. Transfers of land under this Scheme are expected to be primarily through leasing or purchase by the Irish Land Commission in which case only development capital will be needed by the development farmers who will ultimately use it. The cost of financing this whole process has been taken into account in the estimates of investment capital already quoted in Table 36.

Over and above these factors affecting future farming, is the impact of the new tax scheme on larger farmers. Its application will render it almost impossible for large farms over 400 acres to survive in their present structure and ownership.

Many of these large farms already have liquidity problems which can only be solved by break-up or by attracting equity or some other form of long term capital from a source outside the farm. The imposition of the Wealth Tax in the manner proposed will create a special need for long term capital.

Apart from the impact of Estate duty, which the proposed Wealth Tax is intended to replace, no serious inheritance financing difficulties arise in generation transfers of property. It has not been customary, as in other countries, to affect these transfers by sale from the older to the younger generation. Reasonable burdens of commitment to other members of the family are frequently imposed, but on occasions there are none at all or at least none which would make it necessary to seek long term capital.

The removal of Transitional barriers as Ireland advances to full membership of the EEC will bring further increases in commodity prices but it will also bring some increases in production costs and these will probably continue to move in step with inflation after 1978. Apart from production costs of crops and stock, all of which have escalated rapidly within the past year, farm development estimates and credit advances for development projects are being quickly exceeded. Farmyard buildings, land drainage, fencing, machinery and equipment costs are being revised upwards frequently

In summarising this section, therefore, the future demand for development and operating capital will increase progressively.

In the immediate future (i.e. over the Transitional period) much of the capital needs in the traditional dairying sector will be of a short or medium term nature. On farms and in areas heavily infected with Brucellosis the costs of eradication, both direct and indirect, will require medium to long term credit.

Experience over 1973 and 1974 is bound to influence the structure of the cattle rearing industry, giving rise to the elimination of the long storing period and the transfers associated with it. This change cannot be expected to come about quickly, but it must be seen as inevitable. The capital requirement will be considerable, but because of the low profit potential in the beef cattle enterprise, it must be obtained on a long term basis.

Capital investment in the pig enterprise will be confined largely to the development of breeding units as fattening accomodation is sufficient to cope with very much increased pig numbers. Credit requirements will, therefore, be long term and medium term.

Increasing operating costs - including high interest rates - tending to move more rapidly than commodity prices, as well as a continuous upward movement in family living costs will exert increasing pressure on profits and repayment capacity. This twin squeeze on profits can only be countered by a corresponding reduction in unit output costs. The better farmers alone will succeed in doing so. There will, therefore, be a greater need on the part of planners at both bank and farm level to relate carefully the debt loads to projected surpluses for repayment so as to prevent undue burdens being undertaken in all new borrowings being sought for development. Inevitably this will mean a lengthening of repayment periods and the application of moratoria to permit development to proceed without hardship. Furthermore, loan durations should be subject to review at three or four yearly intervals, so as to adjust repayments and durations to the changing conditions.

LOW INCOME FARMING

While one can predict with confidence that ample credit will be available for primary producers in the Commercial and Development categories of the Farm Modernisation Programme the same cannot be said for all producers in the Transitional category. Many of the farmers in this category are engaged in low profit enterprises which they operate on traditional lines others are on low profit margins for various reasons. These constitute the great social problem in agriculture.

Within the category of Transitional farmers, however, are many who possess energy, enterprise and skill to farm successfully. Although they may not reach Development status within the six years specified period and many of them cannot, because of the low profit base from which development starts, they are still worthy of support on a continuing basis.

Because of the size of their individual operations and the low profits which they yield, credit extended to such farmers is at high risk and costly to supervise and control. Since no special charges are made to cover the additional costs and risks, they are being unfairly carried by the more enterprising and industrious farmers. Indeed, higher interest charges to such high risk borrowers is not an equitable solution since these would add to the burden of repayment and further increase the risks. Rather must the solution be found in the introduction of special long term credit aids supported by a special planning and supervisory service. This might be provided by the ACC with special supports from the State.

Because of its importance to the Balance of Payments, agriculture has a priority claim to available credit (for both development and commodity production) - a claim which is admitted by the Government and the banks. Nevertheless, in the national interest there will be a continuous need to conserve lending resources as the demand for credit from all sectors of the economy is likely to exceed supply.

A similar priority will apply to the food industry, principally milk and meat. Much of the necessary modernisation and adaptation in the dairy industry has been either completed or is underway. Both the red meat and bacon factories are only in the beginning of this process and with the growth in market demand for convenience foods, borrowed capital can be seen as a continuous need. Over the next ten years additional fixed capital input to the extent of £80m is estimated to be required for the entire food industry. In addition, the volume of working capital will grow in line with prices of farm commodities, wage levels, increasing sophistication and stocking. So much of these products are destined for export that the capital required to support the food industry must, of necessity, be made available. There is little doubt that it will.

THE BANKS IN FUTURE FARM FINANCING

The existing structure of the banking system, with its corporate and retail divisions, its widespread branch representation, its agricultural and economic services, its foreign departments and its specialist investment companies is so organised as to provide conveniently for the present medium and short term needs of the whole agricultural industry. Moreover, its long experience in serving the farming community, in financing export of farm commodities and the products of the processing industries and in advising, assisting and encouraging foreign industrialists to establish in Ireland, enables it to provide a complete, adequate and efficient service to the processing sector of the agricultural industry.

The rapid changes, both technical and economic, in farming and processing make it incumbent on lending institutions to maintain an educational programme for their line management so that an efficient service to the industry can be ensured. Any shortcomings in the banking services to agriculture are due not to lending policy but to personnel. The percentage, however, to which this criticism applies is not large and is associated with the growth of the system within recent years. These shortcomings are in the process of being eliminated.

As the Farm Modernisation Programme gets under way the banks will require additional trained staff to assist in the analysis of credit applications and to advise in the formulation of loans. Banks will need to ensure that decisions on loan applications are made promptly and existing specialised staff may not be sufficient to meet this need particularly should the demand for credit increase very considerably beyond present expectations.

In the event of such a necessity arising, an improvement in the machinery for providing technical staff is called for, such as the removal of impediments on recruitment making it possible for banks quickly to eliminate staff deficiencies.

FUTURE STRUCTURE AND FUNCTIONS OF THE AGRICULTURAL CREDIT CORPORATION

The 1961 Agricultural Credit Act made provision for the Agricultural Credit Corporation to attract equity capital from Agricultural Cooperatives with the ultimate aim of establishing the Corporation as a cooperative bank.

Over recent months its General Manager has been promoting the advisability of such a development and publicly inviting agricultural cooperatives to seek participation in the Corporation. Were this invitation accepted and the Corporation established as a cooperative bank presumably the Government guarantee for deposits would be withdrawn as would also the State owned capital. An examination of the last Balance Sheet of the Corporation, given in Appendix 3 of this report, reveals the fact that the asset base, both liquid and non-liquid, is quite insufficient, even without the withdrawal of Government investments and loans, to enable it to stand alone.

Its profit record in recent years is not within the limits recommended by the Central Bank as being sufficient to protect the savings of the community and make an effective contribution to the development of the economy. The view of the Central Bank has been set out thus: "In recent years and for the years immediately ahead the Central Bank has considered it appropriate that, in aggregate, the ratio of the gross profits to capital employed should, allowing for annual fluctuations, range between 19% and 22% or on a net basis, that is after tax, between about 9% and 11%." (1)

At present, because of the Government guarantee, the Corporation is enabled to collect deposits and negotiate loans both foreign and domestic. Withdrawal of this backing would create the need

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(1) Central Bank Quarterly Bulletin, Spring 1973

for a banking licence involving the imposition of controls relating to assets and their nature, liquidity, profit levels and reserves. An immediate need would arise, not alone to replace Government investment of about £22m but to create a much greater reserve to protect deposits.

Furthermore, should a cheque service be provided, which would be necessary so as to service its customers, an appropriate liquidity level would have to be installed. In this event security precautions would dictate capital investment in buildings. Undoubtedly, some advantage would be gained by the operation of a current account service in that a portion of the balances on these accounts could be lent.

Up to 1974 all loans made by the Corporation carried a fixed interest rate. Increasing costs have compelled it to apply a moving rate related to the cost of money. At present the rate charged on short term loans is higher than the rate charged by the Associated Banks on loans for corresponding periods as the following table shows.

COMPARATIVE INTEREST RATES - ASSOCIATED BANKS AND AGRICULTURAL CREDIT CORPORATION

	Overdraft	1-3 years	3-5 years	5-7 years	10 years
Associated Banks	11.50%	12%	12.5%	13%	13.50%
Agricultural Credit Corporation	Up to 1 yr.			6-9 years	15 years
	12%	13¾%		14½%	15%

From the information available there is some doubt that a change in the structure of the Corporation to a cooperative bank with the financial requirements and obligations it would entail, could in any way strengthen its prospects of maintaining a competitive service to the farming community in short and medium term financing.

Reference has already been made to the Corporation's limited functions and particularly to the absence of an adequate service in participation and export financing. On the other hand, the Industrial Credit Company has considerable experience in these areas and has developed a comprehensive and efficient financing service. In the absence of a definite dividing line of responsibility both these semi-state organisations provide credit to the food industry. In view of this, consideration might be given to the suggestion that the financing functions of the Agricultural Credit Corporation be confined to primary producers leaving applications for corporate financing to be handled by the Industrial Credit Company. Two possible methods by which a more efficient service could be provided are suggested:

1. A clear definition of functions for each body should be set out so that there is no duplication of effort or personnel.
2. Amalgamation of the two bodies into one with two divisions -
    (a) Corporate Division serving industry represented by the present Industrial Credit Company and

(b) Division serving the farming community in the production and marketing of farm commodities represented by the present Agricultural Credit Corporation.

Alternatively, since the Agricultural Credit Corporation is unable to give medium and short term capital at interest rates competitive with the Associated Banks and as the demand for long term credit will undoubtedly increase through the immediate future, should not the Corporation's funds be conserved to ensure that this demand is met in full? In effect this would mean that the lending activities of the Corporation might be confined to making loans for periods of 10 years and upwards leaving the demand for shorter period credit to be met by the banks which can provide it at lesser rates.

CREDIT PLANNING

The agricultural industry is of such importance to the economy that its full potential must be developed. It is essential that adequate credit be at all times available to ensure that development is not frustrated. Adequate credit implies not alone ample lending resources but also all types of credit, seasonal, short term, medium term and long term. The establishment of a planning service which would predict on an annual or longer basis the credit requirements of the agricultural industry both involume and type, would be a great help both to the industry and to the lending institutions. In this regard there is room for a much greater measure of cooperation between the lending institutions themselves and between them on the one hand and the farm organisations on the other. A National Agricultural Credit Council comprising representation from the lending institutions, the farmers' organisations, Department of Agriculture, Agricultural Institute and the Central Bank - which might provide the Chairman - is suggested as the most appropriate body to plan credit requirements and the manner in which they should be provided to the agricultural industry.

SUMMARY

1. It is apparent from Chapter 1 that there is insufficient statistical information on credit analysis recorded by the lending institutions. The twenty-two categories of lending as established by the Central Bank are not sufficiently precise to identify the true volume of credit being provided to the agricultural industry. There is, therefore, a need on the part of multi-purpose banks to maintain more detailed records of loan purposes and loan durations. The recording of such information will add somewhat to the responsibilities of lender and borrower alike.

2. In order to get more precise information on credit the following suggestions are offered:

   (i) Category 5, of the Central Bank Analysis of Credit, be broken down into divisions showing Food and Drink separately from Tobacco. In addition the Food and Drink division might be divided into 4 sub-divisions in accordance with the percentage of domestically produced raw materials used, i.e. - under 25%; 25-50%; 50-75%; 75-100%

(ii) Category 7 might be sub-divided on the same basis.

(iii) Categories 15 and 16 could be broken down to provide identification of the quantity of credit used for agricultural material and commodity financing.

3. Much of the information collected by the Central Bank from the lending institutions in respect of credit to the primary producers is not made available either in composite or separate form. There is no sustainable reason why such information should be withheld.

4 Information as to the origin of resources is already recorded and should similarly be made public. A more precise definition of category of depositor is required, however, so as to enhance the value of the statistics.

5. Detailed records of resource and credit analyses from the individual credit institutions should be published.

6. The growth of credit to the farming community has been closely related to the confidence in future

markets by both the primary producers and the lending institutions.

7. Development credits to agriculture are provided by the Associated Banks, the non-associated banks, the Agricultural Credit Corporation, Hire Purchase and Instalment Credit Companies and the Industrial Credit Company. Both the Agricultural Credit Corporation and the Industrial Credit Company are semi-state bodies operating under state guarantees.

8. Agricultural credit utilisation in Ireland rated on the basis of debt to asset ratio has been low. It must be appreciated, however, that all primary producers own their farms.

9. Of the credits provided by the Associated Banks at least 40% is of a seasonal nature, about 45% for periods from 1-7 years and the remainder for longer periods.

10. Interest rates charged by the Associated Banks are fixed on an agreed basis between the Banks' Standing Committee and the Central Bank. Deposit rates are similarly agreed. Both rates are

determined in relation to the rates operating in London. There is parity of exchange with sterling and identical currency.

For seasonal short and medium term credits the Associated Banks' interest charges are from 0.5% to 1.75% less than those of the Agricultural Credit Corporation.

11. Credit for agricultural development constitutes a priority function of the Associated Banks. The four Associated Banks are the principal lenders to the agricultural industry providing about 54% of total farm credit. They have about 1,000 branches throughout the country and maintain staffs of agricultural graduates. These, however, have no lending function, their role being confined to advising and recommending.

12. There has been an ample supply of credit available to meet the needs of the farming community for all worthwhile development projects. No special concessions, however, are made to agricultural borrowers who must conform to the same standards of assessment as other borrowers.

13. Special loan schemes with limited application have been introduced from time to time. These usually include an element of interest subsidy or guarantee provided by the state. They are intended as relief measures in particularly difficult circumstances.

14. The liquid assets of the farming community on deposit with various financial institutions are estimated at not less than £250m.

15. The Agricultural Credit Corporation, set up in 1927, has increased significantly its lending to the agricultural industry in the past ten years. It now provides about 20% of the total credit used in Irish Agriculture. The Agricultural Credit Corporation also extends credit to the material supply section of the industry, to cooperative societies and to the commodity marketing and processing sections.

16. The Agricultural Credit Corporation has its head office in Dublin and has a growing number of offices throughout the country - at present 22.

17. Details are included showing origin of the funds of the credit institutions.

18. National economic development is discussed and the basis of credit policies is outlined specifying the constraints on the different lending institutions. The impact of inflation and high interest rates is discussed.

19. Investment requirements, under Directive 159/EEC 1972, are predicted to 1985. A total of £500m additional capital input is foreseen. It is concluded that capital will not be a limiting factor in the development of either primary production or processing.

20. In order more effectively to serve the credit needs of the industry, changes and improvements in the credit institutions are suggested. These are:

(i) Enlargement of the functions of the Agricultural Credit Corporation to include a cheque service and export financing.

(ii) Restricting the farm lending activities of the Agricultural Credit Corporation to periods over 10 years.

(iii) Possible amalgamation of the Agricultural Credit Corporation and the Industrial

Credit Company, the latter as a separate division to undertake corporate lending and the former to continue lending to farmers.

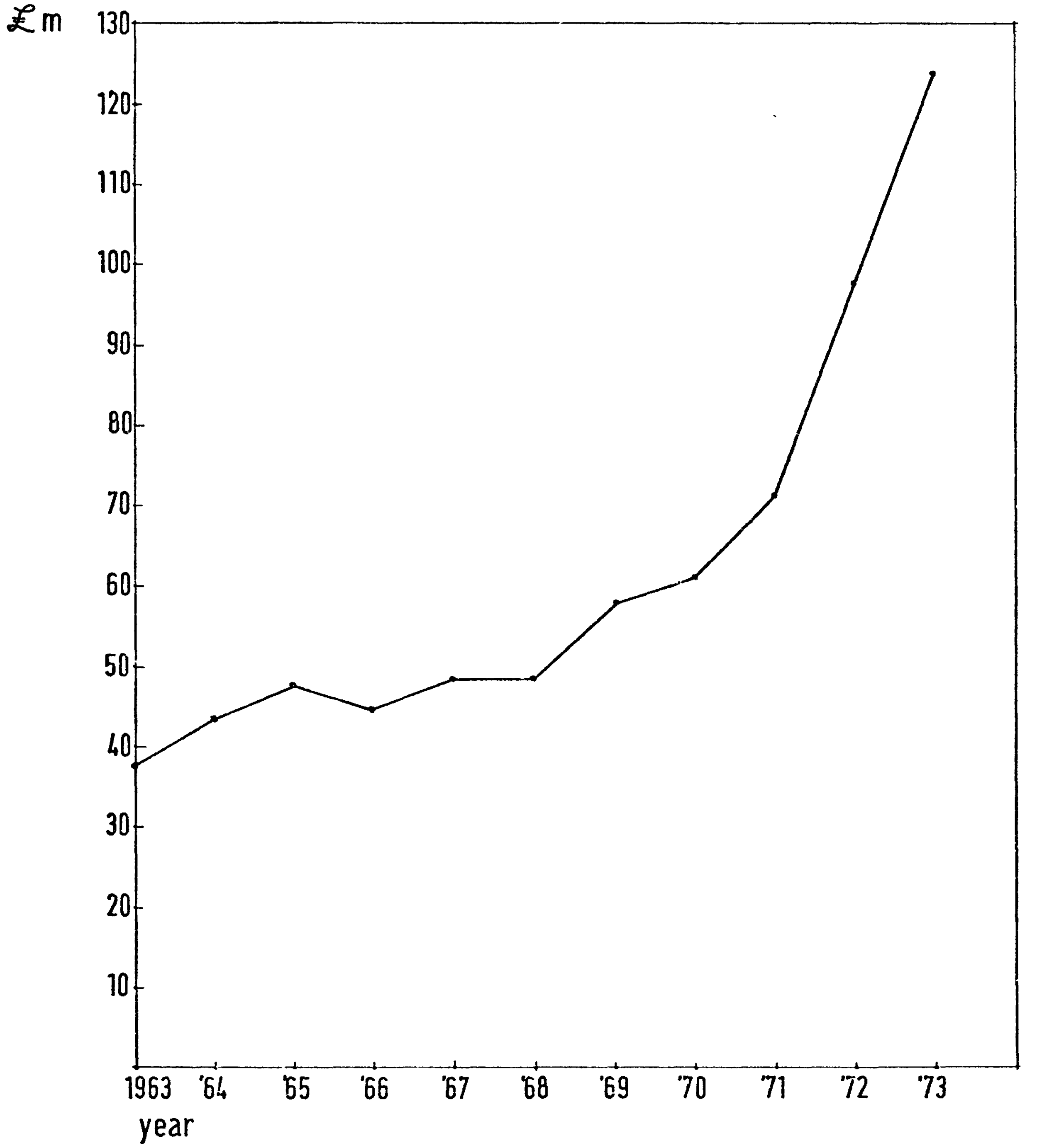
21. The implications of the Agricultural Credit Corporation being established as a cooperative bank are discussed.

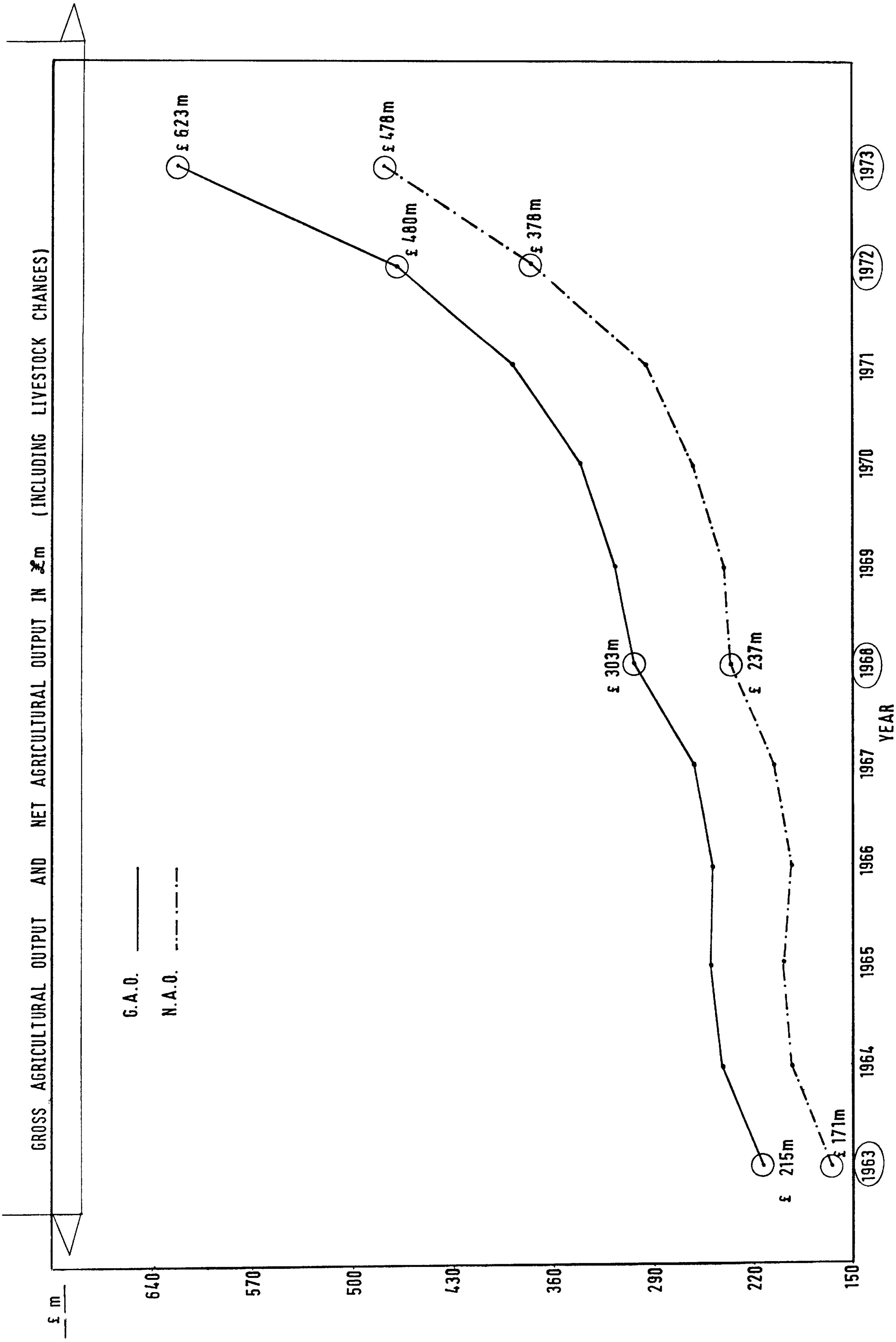
22. Finally, a recommendation is made to set-up a National Agricultural Credit Council under the chairmanship of the Central Bank to include representatives of the Associated Banks, Agricultural Credit Corporation, Farmers' Organisations, Agricultural Institute and Department of Agriculture.

Its functions would be to plan and forecast credit needs long, medium and short; recommend adjustments of credit supply to changing requirements and bring into closer harmony the credit needs of the industry and the lending methods and policies of the credit institutions.

GROWTH OF CREDIT ASSOCIATED BANKS 1963 - 1973

(to farmers only)




GROSS AGRICULTURAL OUTPUT AND NET AGRICULTURAL OUTPUT IN £m (INCLUDING LIVESTOCK CHANGES)
G.A.O.
N.A.O.
£ 623 m
£ 478m
£ 480m
£ 378m
£ 303m
£ 237m
£ 215m
£ 171m
£ m
640
570
500
430
360
290
220
150
1963
1964
1965
1966
1967
1968
1969
1970
1971
1972
1973
YEAR

A P P E N D I C E S

A P P E N D I C E S

APPENDIX 1

EEC DIRECTIVE 159/1972

FARM MODERNISATION SCHEME

The Farm Modernisation Scheme which implements EEC Directive 159/72 on Modernisation of Farms is effective as and from February 1, 1974. The Scheme will apply to agricultural and horticultural production and fish farming. It is aimed mainly at providing investment aid to farms capable of being developed on the basis of planned farm investment programmes, but it provides also for grant aids for other farms. The main features of the Scheme are set out below.

Eligibility for aids: Aids available will depend on the present level of development of the farm and its future potential. The main yardstick for determining farm classification is the relationship between the income per labour unit on the farm and the national average income of all non-agricultural workers. This average income figure is known as the comparable income.

There are three categories of farms:

(i) Development: where the income per labour unit from farming is at present below the comparable income figure but is capable, with planning, of being brought up to the projected level of comparable income within six years.

(ii) Commercial: where the income per labour unit from farming is already above the level of comparable income and is not at risk.

(iii) Farms which at their present stage of development do not come into either category (i) or category (ii).

Determination of Farm Categories: The main requirements for deciding into what category a farm comes are as follows:-

DEVELOPMENT FARMS

1. The farmer obtains at least half of his income from farming and spends more than half of his time in farming.
2. The farmer has sufficient skill or experience in farming.
3. The farmer undertakes to keep farm accounts.
4. The income per labour unit is below the comparable income applying at the start of the plan (£1,800 for 1974) but the farm business is shown to be capable, on the basis of an approved farm plan of yielding the projected comparable income per labour unit at the time of completion of the plan. A differential Comparable Income has been worked out for 1975. It is at three levels on a geographical basis and each level is related to the productive capacity of the farms and the prevailing incomes of the non-farm workers in each of the three regions. The comparable income for 1975 is as follows:-

	£
Co. Dublin	2,540
Small Farm and Poor Land Areas	1,785
Remainder of Country	2,080

New comparable income figures will be fixed for entry to the Scheme each year (after 1975).

5. On the completion of a farm plan not more than 20% of the projected earned income of the farm business may come from non-agricultural activities and the farm must yield the full comparable income for at least one labour unit.

COMMERCIAL FARMS

1. The farmer obtains at least 50% of his income from farming and spends more than 50% of his time in farming.
2. Farm modernisation investment proposals must be approved.
3. The income per labour unit is in excess of the comparable income at the time of application.

OTHER FARMS

1. The farmer must engage in farming as a principal occupation and be able to obtain a significant portion of his income from farming, i.e. farming must be an important activity in terms of both time and income.
2. The farmer must obtain a Certificate of Approval for necessary works such as land improvement, farm buildings, etc.

3. The income per labour unit is below the comparable income and is not for the time being, at any rate, capable of being increased to reach the projected comparable income within 6 years. (Many of these farms may, of course, after a period of expansion, be in a position to qualify for the development category).

Some examples to show how income per labour unit is worked out:-

	Example 1	Example 2	Example 3
Farm Size (acres)	83	150	40
System of farming	Dairying, followers to 2 yrs., some barley.	Dairying, followers to 2 yrs., some beet and barley.	Dairying, followers to 2 yrs.
	£	£	£
Family Farm Income	3,400	7,000	1,600
Add: Wages of Hired Labour		1,300	-
	3,400	8,300	1,600
Less: Interest on Value of land @ 2%	680	1,200	320
Interest on Other Capital @ 5%	490	920	210
	1,170	2,120	530
Labour Income ...... (a)	2,230	6,180	1,070
Number of man days needed to run farm	300	600	250
Equivalent number of Labour Units ..(b)	1.2	2.4	1
Income per Labour Unit [(a) ÷ (b)]	£1,858	£2,575	£1,070
Comparable Income for 1975	£2,080	£2,540	£1,785

POSSIBLE STATUS OF THESE FARMS UNDER THE SCHEME

Farm no. 1 Labour income at the beginning is under £2,080 and it is possible to develop this farm so that the labour income at the end of development is at least equal to the projected comparable income. This is likely to be a Development Farm.

Farm no. 2 The income per labour unit at the start is over the comparable income of £2,540 so this farm would probably be classified as a Commercial Farm.

Farm no. 3 While labour income at present is under £1,785 it is unlikely that the farm could be developed at this particular stage to produce, inside 6 years, a labour income up to the projected comparable income level. Therefore, this farm would, for the present, be likely to fall into the 'other' category. However, by building up his farm resources in the meantime, the farmer may well be capable of becoming a development farmer later on.

AIDS

Investment aids may take the form of an interest subsidy or the equivalent grant. The aids available to the various farm categories are given on the following tables:-

FINANCIAL AIDS UNDER FARM MODERNISATION

	TRANSITIONAL FARM		DEVELOPMENT FARM		COMMERCIAL FARM	
	Capital Grant OR	Interest Subsidy	Capital Grant OR	Interest Subsidy	Capital Grant OR	Interest Subsidy
Investment in Land Improvement	50%		50%	9%	40%	7%
Investment in Fixed Assets	30%		30%	5%	20%	3%
Investment in Mobile Equipment	Nil	Nil	10%	5%	Nil	Nil
Investment in Breeding Stock	Nil	Nil	10%	5%	Nil	Nil
Guidance Premium	None		Year 1 £10.00/acre Maximum £2,472 Year 2 £6.70/acre Maximum £1,648 Year 3 £3.35/acre Maximum £824		None	
Payments for keeping farm accounts	Year 1 £60 Year 2 60 Year 3 60 Year 4 65		Same		Same	

FINANCIAL AIDS UNDER FARM MODERNISATION

		ALL FARMS
Investment in pig production	Minimum	£5,490
	Maximum	21,975
Launching aid for groups (Mutual or managerial aid).	Minimum	£1,370
	Maximum	£4,120
Maximum investment per labour unit		£21,975

APPENDIX 2

EEC DIRECTIVE 160/1972

VOLUNTARY RETIREMENT SCHEME FOR FARMERS

In response to EEC Directive 160, the Department of Lands has recently introduced a retirement scheme for farmers. The EEC Directive lays down certain basic requirements to which this scheme must conform.

WHO IS ELIGIBLE?

Persons whose main occupation is farming are eligible to participate in this scheme.

Farming is considered the main occupation if the applicant owns, or works, agricultural land and can satisfy the Land Commission that:

> He has owned (or occupied) and worked the holding continuously for, at least, five years prior to the date of application and has earned, at least, half his income from, and devoted at least half of his working time to, work in agriculture on the farm during this period.

SIZE OF HOLDING

There is an upper limit of 45 adjusted acres - i.e. 45 acres of good all purpose agricultural land - or its equivalent in land of mixed quality.

But there are exceptions under which larger holdings may qualify:-

1. Where land is required to meet the needs of development farmers in the locality and there is no other suitable land under 45 adjusted acres available.
2. When an applicant can satisfy the Land Commission that his earned income from the holding is significantly lower than the average income earned from a 45 acre farm of good agricultural land.
3. There is no limit where the widow becomes the owner of a holding, following the death of her husband and for whom farming is the main occupation, provided she has (or she and her late husband between them have) worked in agriculture on the holding for, at least, five years prior to her application.
4. There is no limit where a holding is owned by a disabled farmer whose main occupation is farming. Under the scheme a farmer is considered to be disabled if, in the opinion of the Land Commission, he is unable - because of physical illness, injury or infirmity - to carry out the normal duties of a working farmer and is unlikely to be able to do so in the foreseeable future. Where necessary this will be required to be confirmed by medical evidence.

SUITABILITY

Lands offered for sale or leasing under the scheme must be suitable for structural reform, afforestation, recreational activities, public health or other public purpose. The Land Commission will decide on suitability in each case.

Farmers with development plans approved under the Department of Agriculture and Fisheries Farm Modernisation Scheme will have priority on lands made available by the retirement scheme, where their plans confirm that extra land is needed.

BENEFITS

In addition to the sale price, or lease rent, of his land the eligible farmer will get the following benefits:

(a) Under 55 years of age will receive - a premium of 10% of the purchase price (subject to a maximum of £1,500) or twice the annual lease rent (subject to a maximum of £3,000).

(b) 55 years of age or over will receive - the same premium as for under 55 plus a life annuity of £600 for a married applicant of £400 for a single person. If a husband dies the widow will be entitled to a life annuity of £400.

The annuity may be varied if there are subsequent changes in the marital status.

OWNERS/OCCUPIERS

In the case of a holding which qualifies, but is not farmed by the owner both the owner and occupier can benefit from the scheme. Here the owner will receive benefit (a) as described above.

The occupier, if he is 55 years of age or over, will receive - a life annuity of £600 (married) or £400 (single).

In all cases the annuity may be increased to take account of the increase in the cost of living.

ADDITIONAL FEATURES OF THE SCHEME

A farm owner seeking benefits under the scheme can, if he so wishes, retain the dwelling house and up to 2 acres.

All lands bought under this scheme by the Land Commission will be paid for in cash.

If the farmer is over 55 years he can convert the sale price and premium into an actuarial annuity (in addition to the annuity of £600 or $400 already mentioned).

A grant of up to £100 is available at the discretion of the Land Commission towards the cost of settling title difficulties.

If the holding is sold to the Land Commission, the Commission will pay vendor's cost of sale.

The farmer may continue to work and earn at any occupation other than that of commercial farmer.

HOW TO BENEFIT UNDER THE SCHEME

First the farmer must dispose of his holding. There are three ways in which he can do this:-

1. He can sell it to a farmer whose approved development plan (under the Farm Modernisation Scheme of the Department of Agriculture and Fisheries) provides for the acquisition of additional land.
2. He can lease it for, at least, 12 years to the same type of development farmer.
3. He can sell it directly to the Land Commission.

He must undertake to:-

(a) Not work as a commercial farmer.

(b) Not lease, hold or acquire in any other way, an agricultural holding.

(c) Not employ anyone else in agricultural activities.

If the farmer is married, the spouse must give a similar undertaking.

If the holding has been reduced by more than 15% of its area in the three years immediately before applying for the scheme the farmer will be eligible for the annuity only if the part, or parts, which were disposed of were acquired in the public interest by the State, Local Authority or a Statutory Body.

If the holding is owned or occupied by more than one person, one annuity only will payable.

If the farmer is implementing an approved development plan under the Department of Agriculture and Fisheries Farm Modernisation Scheme he will not, save in exceptional circumstances, be eligible for the benefits of the scheme.

DEFINITIONS

Holding: Holding for the purpose of this scheme means all the land owned or occupied by an applicant and his, or her, spouse either jointly or severally.

Agriculture: Agriculture means dairying or livestock production (including pigs and poultry) the cultivation of grass and tillage crops and the growing of horticultural crops.

APPENDIX 3

FINANCIAL STATEMENTS OF THE AGRICULTURAL CREDIT CORPORATION

The Company's fiscal year ends on April 30. The Company is required to submit to the Minister for Finance audited annual accounts and a report on its operations during the previous fiscal year. The Company's most recent consolidated financial statements, and certain comparative figures for the last five fiscal years, are set forth below :

CONSOLIDATED BALANCE SHEETS
(Note 1)

	Fiscal Year Ended April 30,				
	1970	1971	1972	1973	1974
			(in thousands of £)		
ASSETS					
Cash on Hand and on Deposit	1	501	501	3	1,002
Investments (Note 4)	378	377	2,139	4,632	4,629
Loans and Installment Credit Contracts (Note 5)	24,880	28,373	37,311	54,294	83,155
Other Debtors (Note 6)	76	74	192	586	989
Equipment in hands of Lessees (Note 7)	—	—	—	33	273
Fixed Assets (Note 8)	156	220	837	1,325	1,892
	25,491	29,545	40,980	60,873	91,940
CAPITAL AND LIABILITIES					
Share Capital (Note 9)	6,748	6,748	6,748	6,748	6,748
Reserves (Note 10)	558	562	635	796	800
Shareholders' Funds	7,306	7,310	7,383	7,544	7,548
Loan Capital (Note 11)	8,466	8,466	8,466	8,466	30,132
Deferred Liability (Note 12)	452	425	418	409	398
Deferred Taxation (Note 13)	102	76	127	136	115
Deposits and Farm Credit Bonds (Note 14)	8,460	12,487	23,360	41,119	50,628
Bank Overdraft (Note 15)	267	350	579	2,156	743
Creditors	256	259	460	827	2,208
Current Taxation	95	107	78	128	124
Proposed Final Dividend	87	65	109	88	44
	25,491	29,545	40,980	60,873	91,940

CONSOLIDATED PROFIT & LOSS ACCOUNTS

	Fiscal Year Ended April 30,				
	1970	1971	1972	1973	1974
			(in thousands of £)		
Interest on Loans and Installment Credit Income	1,588	1,781	2,406	3,430	6,222
Investment Income	35	62	151	406	441
Other Income	9	11	69	213	409
	1,632	1,854	2,626	4,049	7,072
Less : Interest on Exchequer Advances and Loans	529	530	531	530	1,399
Interest on Deposits	490	732	1,233	2,415	4,505
Operating and Administrative Expenses	322	382	503	709	1,114
	1,341	1,644	2,267	3,654	7,018
Profit before Taxation	291	210	359	395	54
Taxation (Note 2)	105	84	131	139	6
Profit after Taxation	186	126	228	256	48
Appropriations :					
Dividends	169	132	154	154	44
Profit Retained	17	(6)	74	102	4
	186	126	228	256	48

The Agricultural Credit Corporation Limited

Group Balance Sheet as at 30th April 1975

Assets	Note	1975 £	1974 £
Cash on Hand and on Deposit		2,655	1,002,325
Investments	6	4,859,787	4,628,821
Loans and Hire Purchase Contracts	7	115,513,213	83,154,956
Debtors	8	833,683	988,518
Equipment in hands of Lessees	9	234,463	272,752
Fixed Assets	10	3,083,798	1,892,422
		£124,527,599	£91,939,794
Capital, Reserves and Liabilities:			
Share Capital	11	6,748,000	6,748,000
Accumulated Loss /1974 Reserves	12	(1,888,504)	800,276
		4,859,496	7,548,276
Loans	13	40,996,543	30,530,127
Deferred Taxation		—	115,140
Deposit Accounts & Farm Credit Bonds	14	73,062,391	50,627,498
Bank Overdraft		1,588,412	743,300
Creditors	15	4,020,757	2,207,466
Current Taxation		—	124,125
Dividend Proposed (net)		—	43,862
		£124,527,599	£91,939,794

APPENDIX 4

Purpose: General Development of the Economy for each of the National Loans Issued

Domestic Borrowing by the Government

Interest Rate	Stock	Redemption Date	Date of Issue	Amount £million
$4\frac{1}{2}$%	Exchequer Stock 1968	31st March 1968	28th March 1963	15,000,000
$5\frac{3}{4}$%	Exchequer Stock 1984-89	1st November 1989	23rd October 1963	25,000,000
6 %	Exchequer Loan 1985-90	15th November 1990	18th November 1964	22,500,000
6 %	Funding Loan 1969	30th September 1969	22nd September 1965	25,000,000
$6\frac{3}{4}$%	National Loan 1986-91	1st October 1991	3rd November 1965	27,500,000
	National Bonds 1966-77 *	1st June 1977	3rd May 1966	17,000,000
$7\frac{1}{2}$%	National Loan 1981-86	1st July 1986	16th November 1966	29,348,593
$6\frac{1}{2}$%	Exchequer Stock 2000-05	27th June 2005	21st June 1967	10,000,000
7 %	National Loan 1987-92	15th June 1992	25th October 1967	27,500,000
$7\frac{1}{2}$%	Exchequer Stock 1973	15th December 1973	27th November 1967	14,614,107
7 %	National Loan 1987-92	15th June 1992	27th November 1967	1,718,468
$6\frac{1}{2}$%	Exchequer Stock 1971	30th September 1971	14th March 1968	11,802,800
$6\frac{1}{2}$%	Exchequer Stock 1971	30th September 1971	24th September 1968	13,075,734
7 %	Exchequer Stock 1975	30th September 1975	24th September 1968	40,020,185
$7\frac{1}{2}$%	Development Stock 1988-93	1st July 1993	5th November 1968	35,137,286
$8\frac{1}{4}$%	Conversion Stock 1970	31st March 1970	15th September 1969	18,193,874
$8\frac{1}{2}$%	Conversion Stock 1971	31st March 1971	15th September 1969	23,082,310

* These Bonds do not bear interest but £150 is payable for each £100 nominal of stock at redemption

Interest Rate	Stock	Redemption Date	Date of Issue	Amount £million
8½%	Conversion Stock 1972	31st March 1972	15th September 1969	28,164,669
9¼%	National Loan 1989-94	1st July 1994	25th November 1969	37,512,571
8½%	Conversion Stock 1973	31st March 1973	12th March 1970	41,884,605
8 %	Exchequer Stock 1972	15th September 1972	12th January 1971	40,470,174
8¾%	Conversion Stock 1976	1st August 1976	12th January 1971	18,700,566
9¾%	National Loan 1984-89	1st August 1989	12th January 1971	22,192,204
8 %	Exchequer Stock 1972	15th September 1972	15th March 1971	40,470,174
7¾%	Funding Loan 1973	15th September 1973	15th March 1971	1,765,239
7½%	Funding Loan 1974	25th June 1974	15th March 1971	1,647,577
9¼%	Exchequer Loan 1991-96	1st November 1996	29th October 1971	32,264,619
5½%	Conversion Stock 1975	1st February 1975	15th March 1972	12,722,936
5¾%	Conversion Stock 1977	1st February 1977	15th March 1972	10,788,172
8½%	Conversion Stock 1986-88	1st February 1988	15th March 1972	8,241,130
5½%	Conversion Stock 1975	1st February 1975	31st August 1972	45,869,389
9 %	Conversion Stock 1980-82	15th September 1982	31st August 1972	13,034,535
9¾%	National Development Loan 1992-97	15th October 1997	15th November 1972	40,192,140
9½%	Finance Stock 1977	15th September 1977	30th August 1973	10,476,385
11 %	National Loan 1993-98	15th October 1998	7th November 1973	23,155,600
11 %	Funding Loan 1978	15th February 1978	29th November 1973	17,944,545
11 %	Finance Stock 1979	27th June 1979	11th June 1974	35,539,507
11 %	Exchequer Stock 1977	15th April 1977	30th September 1974	29,435,924
12 %	Convertible Stock 1979	15th September 1979	30th October 1974	28,034,870

Foreign Borrowing by the Irish Government from January 1, 1963 to December 31, 1973

Date of Issue	Rate and Title	Origin	Amount	Repayment Dates	Purpose
15. 6.1966	7% Bank of Nova Scotia Loan	United Kingdom	£5m	10 instalments from June 1967 to June 1976	Gen. development of the economy
1. 8.1966	7½% Ireland Stock 1981-83	United Kingdom	£5m	July 1983	do
1. 3.1966	7% Sterling/Deutsche Mark Bonds 1981	Various	£7m	12 instalments from March 1970 to March 1981	do
28. 3.1969	8¾% Bank of Nova Scotia Loan	United Kingdom	£5m	10 instalments from March 1970 to March 1979	do
15. 9.1969	7¼% Deutsche Mark Bearer Bonds 1969-84	Federal Republic of Germany	DM 100m	10 instalments from September 1975 to September 1984	do
26. 2.1970	9% Ireland Dollar Bonds 1985	Various	$15m	14 instalments from March 1971 to March 1975	do
21. 8.1970	8½% Deutsche Mark Bearer Bonds 1970-85	Federal Republic of Germany	DM 100m	10 instalments from September 1976 to September 1985	do
9. 2.1971	8¼% Ireland Dollar Bonds 1989	Various	$25m	17 instalments from February 1973 to February 1989	do
4. 8.1971	9¼% Ireland Stock 1991-96	United Kingdom	£20m	September 1996	do
7. 4.1972	7⅛% Deutsche Mark Notes 1979-88 (Private Placement)	Various	DM 75m	10 instalments from April 1973 to April 1982	do

Date of Issue	Rate and Title	Origin	Amount	Repayment Dates	Purpose
18. 1.1973	7% Sterling/Deutsche Mark Bonds 1979-88	Various	£12½m	10 instalments from January 1979 to January 1988	Gen. development of the economy
8. 8.1973	6½% Swiss Franc Private Placement	Switzerland	S.Fr. 150m	August 1981	do
26.11.1973	8½% European Investment Bank Loan for telephone development	Various	£3m., $8.6m & Lux.Fr.72m	32 instalments from May 1978 to November 1993	Telephone Development

NOTE:

There were miscellaneous other borrowings from various sources in the above period amounting to some £10 million (in various currencies)

APPENDIX 5

OWNERSHIP AND OPERATION OF FARMS

It has not been the practice in Ireland for many years to lease farms. Portions of farms, however, are let in conacre or for eleven months each year usually as annual lettings.

When a farm is let to one person it is invariably for eleven months after which the lessee surrenders occupation. In subsequent lettings the previous occupant may or may not get priority. Usually, however, only parts of farms are thus let the owner retaining the dwelling, farmyard and some land on which he carries on a limited farming enterprise.

Not all the land recorded as let belongs to farmers, a substantial portion is accounted for by the bank of property acquired by the Irish Land Commission for sub-division.

The last recorded census of lettings is for 1970 when the position was as follows:

Let for Tillage	127,085 acres
Let for Grazing	710,037 acres
Total Area Let:	837,122 acres