Feirmeoirí Aontaithe na hÉireann • The Irish Farmers' Association

FARM INCOME REVIEW 2011

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Foreword

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National Farm Income in 2011 is estimated to have increased by 27% on 2010. The main factors affecting farm incomes in 2011 have been an increase in product prices in almost all commodities, with an average price increase of 13%, and increased volume in dairy, pigs and cereals.

While input costs also rose significantly in 2011, by over 10%, this increase was offset somewhat by a reduction in the volume of inputs consumed during the year, particularly fertiliser and feedstuffs. The reduction in consumption occurred both as a reaction to the increased price, and as a result of favourable weather conditions in parts of the country in the autumn and early winter.

It should be noted that the overall income increase of 27% includes €120m of Direct Payments (SFP +DAs) that were due in 2010 but which were only paid in early 2011. They are therefore included in the national figure for 2011 income but would have been counted by individual farmers as forming part of their 2010 income. When these additional payments are excluded, the increase in Farm Income is 21%. This more accurately reflects the increases in income experienced at farm level in 2011.

The following are the most important factors contributing to the overall outturn for the sector this year.

Milk prices continued to be strong in 2011, with an estimated increase of 12%. Despite a pull-back in production in late 2011, due to superlevy concerns, it is expected that volume will be 6% above 2010. For the Cereals sector, volume increased by over 30%, due to a combination of increased acres planted and yield.

Prices were strong in the Cattle sector in 2011, increasing by an average of 18%. After falling dramatically in 2010, on-farm stock stabilised, leading to an estimated overall fall in volume of 4%. For the Sheep sector, there was a further increase on the 2010 price of 10%, with a small rise in volume of 1%, reflecting the stabilisation of the ewe flock.

The Pigmeat sector experienced an increase in volume due in large part to increased productivity. The price and volume increases were counterbalanced by the very high increase in feed prices of over 15%.

On the cost side, prices for feedstuffs, fertiliser and energy were all up for the year, by between 15-22%. It is estimated that fertiliser use fell by 7% in response to the increased price with feedstuff volumes down by 2%. Prices for other inputs, including services, maintenance and repairs, veterinary and crop protection products remained stable, or fell very slightly.

The amount of the decoupled Single Payment that was paid out by end 2011 is estimated at €1.3bn. This included €100m of the 2010 payments, which were paid in early 2011. Additional Direct Payments, including REPS and Disadvantaged Areas, amounted to a further €550m.

Overall National Farm Income improved significantly in 2011, increasing by €532m (27%) to €2,500m.

Farm Income Review 2011 seeks to present the main relevant economic and statistical analysis on farm income this year and over a number of recent years. It draws on published data from the CSO, Teagasc and the Department of Agriculture. It seeks also to look ahead to the main issues in 2012. The information in this Review is to assist the officers and members of IFA in understanding the components of farm income, in preparing future IFA policies, and in presenting IFA policies to Government, public representatives and the media.

1. REVIEW OF AGRICULTURAL OUTPUT AND INCOME 2011

1.1 Overview of Farm Income in 2011

It is estimated that the level of national farm income increased by 27% in 2011. With inflation of 3%, farm income in real terms increased by 24%.

Table 1.1: % Change in Farm Income 2011/10

National Farm Income		
Year	**Money Terms**	**Real Terms**
2011/2010	27%	24%

1.2 Detailed Changes to Farm Income in 2011

Overall, the gross value of output increased by 14%, of which 3% was due to increased volume and 11% to increased product prices, while input costs rose by 10%, with input volume slightly down on 2010.

In the cattle sector, the value of output rose by 13%, or almost €200m, due to a large price increase of 18%. The reduction in stock on farm in 2010 had a knock on effect on volume in 2011, which was back 4%. While stock numbers have begun to stabilise on-farm, it is expected that throughput in 2012 will remain slightly below 2011.

The value of the milk sector rose by 18% through a combination of price and volume increases. The probable super-levy fine may be a significant cost to farmers in 2012, as every 1% produced in excess of quota incurs a fine of around €15m.

For sheep, the trend of declining production was halted in 2011, with a slight increase in volume. Coupled with a price increase of 10%, the value of the sector rose by over €15m. The pigmeat sector also increased in value, by over €50m, with increases recorded both in price and volume. For the poultry sector, volume was largely unchanged, while prices increased by almost 9%

The cereals sector had an average price increase of 7%[1], with an increase in volume of over 30%. The change in volume was due to an increase in both the area planted and yield.

[1] The cereal price increase differs from the CSO estimate as the IFA estimate takes the change in price at harvest as the overall price change for the calendar year. This is due to the fact that over 75% of output for the year is sold at this price.

It was a very difficult year for the potato sector, with a huge price drop of over 30% and a fall in volume of 14%. For mushrooms and the fruit and vegetable sector, prices and volumes were very similar to 2010.

On the inputs side, costs were higher across the main items through 2011, with energy prices up 15%, feedstuffs 16% and fertilisers 22%. It is estimated that fertiliser use fell by 7% and feedstuffs by 2%. This fall in demand was due to a combination of factors, including a response to the price increases, the pull-back in dairy production in late 2011 and good weather in parts of the country.

The decoupled Single Farm Payment amounted to approximately €1.3b in 2011 (including a €100m carryover from 2010) with other Direct Payments (REPS/DAS) amounting to a further €550m.

When depreciation and wages paid to farm workers are deducted, National Farm Income is estimated at €2,500m, 27% above 2010. Entrepreneurial Income (Farm Income less interest payments and land rental) in 2011 was €2,054m.

Table 1.2 Agricultural Output, Inputs and Income 2011/2010 - Detailed

	2010 (€m)	Price	Volume	2011 (€m)
Gross Value of Agricultural Output (includes stock changes)	**4,498**			**5,109**
(of which)				
Cattle	1,494	118%	96%	1,692
Milk	1,535	112%	106%	1,814
Sheep	164	110%	101%	180
Pigs	329	109%	108%	387
Poultry	132	109%	101%	145
Horses	152	97%	97%	143
Other livestock product	47	115%	101%	54
Cereals	194	107%	133%	276
Potatoes	114	68%	86%	67
Mushrooms	100	100%	99%	99
Other fresh veg	95	101%	102%	98
Fresh fruit	36	101%	102%	37
Turf	35	101%	105%	37
Other crops (incl net forage)	73	105%	105%	80
- Current Inputs and Services	**3,053**			**3,315**
(of which)				
Feedingstuffs	1,038	116%	98%	1,180
Fertilisers	450	122%	93%	511
Seeds	85	103%	105%	92
Energy and lubricants	362	115%	101%	419
Maintenance and repairs	370	98%	101%	366
Crop protection products	61	98%	100%	60
Veterinary expenses	221	101%	98%	219
Other goods and services	385	101%	100%	389
Intermediate bank charges	80	101%	99%	80
= Gross Agricultural Product	**1,445**			**1,794**
+ Direct Payments (less levies)	**1,688**			**1,845**
- Depreciation	743			720
- Wages to Agr. Workers	424			420
= National Farm Income	**1,967**			**2,500**
- Bank Interest and Charges (Net)	285			276
- Land Rental	172			170
(= Entrepreneurial Income)	**1,510**			**2,054**

1.3 Sectoral Incomes in 2010 and 2011

Estimates for the 2010 and 2011 Average Family Farm Income in the following table are based on the farm income figures provided in the 2010 Teagasc National Farm Survey and the IFA estimate for farm incomes in 2011.

The 2011 estimate is 21% above 2010, reflecting the on-farm income increase. It does not include the carryover of Direct Payments from 2010 paid in early 2011, as these were included in the Teagasc income figures for 2010.

Table 1.3 Comparisons of Sectoral Incomes 2010-2011

	2010	2011 (est)
Average Public Sector Earnings	46,961	46,400
Average Industrial Wage	32,090	32,000
Average Farm Income	17,771	21,500

As can be seen from the table above, the estimated Average Farm Income in 2011 is €21,500, or 70% of the Average Industrial Wage.

1.4 Low Income Farm Families – Farm Assist

Following IFA's campaign on behalf of low-income farm families, the Government introduced the Farm Assist Scheme in April 1999. The scheme, operated by the Department of Social Protection, is means-tested. Following recent changes announced in Budget 2012, there has been a reduction to 15% of the income assessed that is disregarded, while there has also been a reduction in the disregard for dependent children. The following summarises the uptake and value of Farm Assist in recent years.

Table 1.4 Farm Assist Expenditure (€m) 2006-2011

Year	Expenditure (€m)	Number Benefiting	Average Payment (€/week)
2006	71	7,650	179
2007	79	7,400	205
2008	85	7,710	213
2009	96	8,845	209
2010	111	10,700	199
2011	112	11,300	190

Between 2005 and 2008, the numbers in receipt of Farm Assist remained very steady. However, since 2008, due to a combination of falling product prices putting pressures on farm incomes, and the loss of off-farm employment, the uptake of Farm Assist has increased significantly. By the end of 2011, there were 11,300 families in receipt of Farm Assist. Overall this represents almost a 50% increase in participants from the 7,700 in 2008.

2. AGRICULTURAL PRODUCT PRICE AND COST TRENDS

2.1 Product Price Trends

Table 2.1 sets out the price trends for the main agricultural products and the weighted average price change for total agricultural output in index form, with 2005 (base year) prices = 100.

Reflecting the positive price environment of the last two years, prices in 2011 are 26% above the 2005 level. It should be noted that pig prices in 2011 are less than 10% above 2005 levels.

Table 2.1 Product Price Trends 2005-2011

Product	2005	2007	2008	2009	2010	2011
Cattle	100	105.6	122.2	109	111.6	131.7
Sheep	100	104.6	108.7	111.4	130	142.4
Pigs	100	100.6	109.5	99.1	99.3	108.2
Poultry	100	103.1	114.6	114.2	114.6	124.9
Milk	100	119.1	120.1	83.6	107.5	119.3
Cereals	100	147.7	169.7	120.6	122.4	139.5
Total Output	**100**	**112.5**	**121.4**	**101.2**	**111.6**	**126.1**

(CSO, with estimates for 2011)

2.2 Input Price Trends

The increase in input costs over the same time period remains above the product price increases, with energy and feed costs 36% higher than in 2005. This has a disproportionately negative impact on more intensive productions systems. The following table gives thte trend in the prices of the main farm inputs, as well as general inflation.

Reversing a trend of recent years, the agricultural terms of trade improved in 2010 and 2011[2].

Table 2.2 Input Price Trends 2005-2011

Input	2005	2007	2008	2009	2010	2011
Seeds	100	102.2	112.3	112.6	104.7	107.3
Energy	100	109.7	124	105	121.6	139.8
Fertilisers	100	110.8	182.9	150.9	132.7	161.9
Veterinary expenses	100	106	109.8	112.1	112	112.0
Feeding stuffs	100	117.5	133.9	119.2	116.9	135.6
Maintenance of buildings	100	108.7	112.6	113.5	113.1	112.0
Total Inputs	**100**	**110.7**	**129.7**	**118.6**	**116.6**	**128.9**
Inflation : CPI	100	109	113	108	107	110

(CSO, with estimates for 2011)

[2] Agricultural Terms of Trade = prices of agricultural outputs relative to the prices of agricultural inputs

3. DIRECT PAYMENTS/SINGLE FARM PAYMENT

3.1 Value of Direct Payments

Table 3.1 sets out the estimated value of direct payments included in National Farm Income. It is estimated that €1,845m of Direct Payments have been made in 2011. The figure for total payments is adjusted for taxes and levies on production or products (e.g. animal disease levies, Bord Bia levies) paid by farmers.

As outlined earlier in the report, this is a significant increase on the 2010 figure, due to the carryover of some 2010 payments into early 2011 and a larger volume of 2011 payment disbursed by end 2011. There remain some significant delays in payments, particularly for REPS/AEOS and the Sheep Grassland Scheme. It is expected that the balance of these payments will be made in early 2012.

Table 3.1 Estimate of Direct Payments included in Farm Income (€m)

Payment Type	2010	2011
CAP Reform Direct Payments		
Single Farm Payment	1,145	1,300
Grassland/ Upland Sheep Scheme	2	18
CAP RD Measures		
REPS	310	250
AEOS		15
Disadvantaged Areas	205	235
Installation Aid	1	1
Other Items		
Disease eradication compensation	14	13
Suckler Cow Welfare Scheme	27	29
Total Direct Payments	**1,704**	**1,860**
(less Taxes and levies)	16	15
Net Direct Payments	**1,688**	**1,845**

4. FARM INCOME TRENDS AND INFLATION: 1995 - 2011

When comparing data over a long time period, it is necessary to adjust for inflation, i.e. to give the trend in farm income in real terms.

4.1 Impact of Inflation

Farm income is particularly vulnerable to inflation as there is no indexation for inflation built into EU direct payments. Table 4.1 outlines the changes in the level of National Farm Income since 1995 when inflation is taken into account. While National Farm Income in 2011 is 105% of the 1995 figure, when this is adjusted for inflation it is 29% below its 1995 level.

Table 4.1 Trends in National Farm Income in Money and Real Terms

Year	Farm Income €m	Farm Income 1995 =100	Inflation 1995 =100	Farm Income in Real Terms
1995	2,375	100	100	100
2006	2,287	96	140	69
2007	2,578	109	147	74
2008	2,277	96	153	63
2009	1,571	66	146	45
2010	2,010	83	145	57
2011	2,500	105	148	71

5. FARM INCOME AND NON-FARM INCOME – NATIONAL FARM SURVEY DATA (2010)

5.1 Level and Distribution of Family Farm Income

The *2010 Teagasc National Farm Survey* (NFS), based on a sample of 1,050 farms, (representing about 99,500 farms nationally), was published in July 2011. It calculated the average Family Farm Income per farm at €17,771 (income from farming only). This was an increase of 46% on 2009. The survey does not include the main intensive sectors including pigs, poultry and intensive horticulture.

There is a wide spread of farm incomes concentrated in the lower income brackets. Even with the recovery of incomes in 2010, over 40% of farms have a Family Farm Income of less than €6,500, while 13% have an income of greater than €40,000 (6% in 2009, reflecting the recovery in income in 2010). It is expected that there will be a further improvement in this income distribution in 2011.

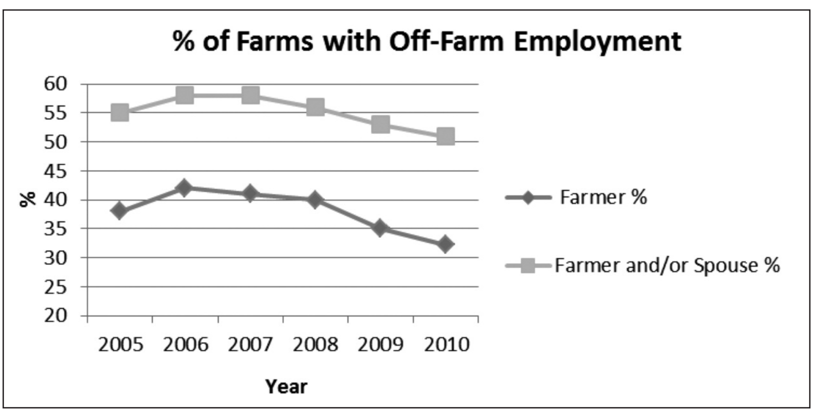
Table 5.1 Distribution of Family Farm Income

€	**< 6,500**	**6,500 - 13,000**	**13,000 - 20,000**	**20,000 - 25,000**	**25,000 - 40,000**	**> 40,000**
%	41	21	11	6	9	13
Number	40,395	20,695	11,044	5,572	8,457	13,332

5.2 Incidence of Off-Farm Employment

The National Farm Survey shows that, in 2010, only 32% of farmers had an off-farm job. The proportion of farmers with an off-farm job fell from 41% in 2007 to 32% in 2010, reflecting the general trend in employment across the country and the reduction in off-farm employment opportunities.

Figure 5.1 Trends in Employment - % of Household with Off-Farm Job



5.3 Incidence of Off-Farm Incomes by Enterprise type

There is a significant variation in the incidence of off-farm employment depending on the farm enterprise. The more labour intensive enterprises, such as dairying and mixed livestock (Dairy+ Other), record the lowest level of off-farm employment. In the cattle and tillage enterprises, almost 40% of farmers have an off-farm job.

When the spouse is included, the picture changes somewhat, with Mixed Livestock and Sheep enterprises recording the lowest level of farmer and/or spouse off-farm employment

Table 5.2 % of Farms by Farm Enterprise where farmer/spouse has off-farm job

System	Dairying	Mixed Livestock	Cattle Rearing	Cattle Other	Mainly Sheep	Tillage	All
Farmer Only (%)	12	7	38	39	33	39	32
Farmer or Spouse (%)	50	38	55	52	46	56	51

5.4 Value of Single Farm Payment and Direct Payments by System

The following table gives the average Family Farm Income (FFI) and the average Single Farm Payment (which is included in FFI) by system for 2010; the average farm size is also shown to put this into perspective.

The increase in producer prices in 2010 is reflected in the % of Family Farm Income comprising the Single Farm Payment (SFP). In 2010 the SFP, on average, represented 66% of Family Farm Income. In 2009, this figure was just over 100%. The SFP continued to account for more than 100% of farm income in cattle enterprises in 2010.

When all Direct Payments are included (e.g. SFP/REPS/DAS/Suckler Cow), these comprised 98% of Family Farm Income in 2010, and over 100% of Family Farm Income on Cattle and Sheep enterprises.

Table 5.3 Average SFP by System

System	Dairying	Mixed Livestock	Cattle Rearing	Cattle Other	Mainly Sheep	Tillage	All
Size (hectares)	48	55	32	32	36	61	38
Average FFI (€)	44,432	31,533	7,023	9,676	12,669	36,759	17,771
o/w SFP (€)	14,942	17,531	8,178	11,202	9,138	22,308	11,752
o/w all Direct Payments	20,751	23,522	14,152	15,573	16,677	26,783	17,354
SFP as % of FFI	34%	56%	116%	116%	72%	61%	66%
Direct Payments as a % of FFI	47%	75%	202%	161%	132%	73%	98%

6. INVESTMENT TRENDS AND FARM BORROWING

6.1 On-farm investment

The following table gives the estimated gross investment levels by the agricultural sector, sourced from the Teagasc National Farm Survey. After peaking in 2008, with the completion of the Farm Waste Management scheme, investment has fallen back to and average level of €6,000 per farm in 2009 and 2010.

Table 6.1 Capital Investment in Irish Agriculture (€m)

Year	2006	2007	2008	2009	2010
Gross investment (€m)	788	1,371	2,041	654	575
Investment per farm	6,965	12,250	19,479	6,397	5,782

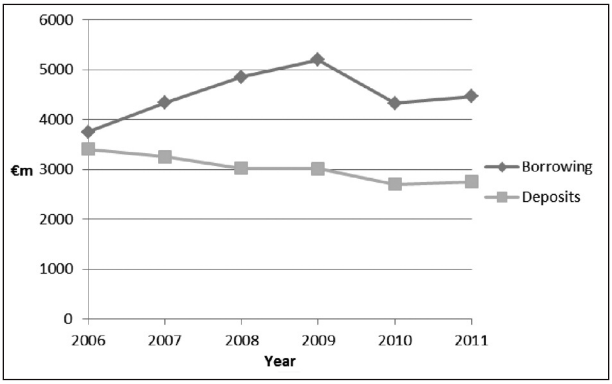
Although Gross Investment per farm fell by 10% between 2009 and 2010, Net Investment (i.e. investment less grants and subsidies) increased significantly (>200%) from €1,414 per farm in 2009 to €4,618 in 2010. This reflects both a reduction in grant aid available for investment programmes and an increase in farmer's own investment capacity in 2010.

6.2 Level of Farm Borrowings and Savings

As a capital-intensive industry, there is a requirement for constant reinvestment in the agriculture sector. Central Bank data indicates that farm borrowing, after falling over €1b from its peak in 2009, began to increase slightly in 2011, with borrowings of almost €4.5b in March 2011.

The decline in deposits[3] that occurred steadily from 2006 appears to have been arrested in 2011. This may be a result of the improved farm income situation, the general trend in increased savings in the Irish economy and an adjustment by farmers to the increased volatility in prices and incomes.

Figure 6.1 Levels of Agriculture Borrowing and Deposits 2006-2011 (€ million)



[3] Due to a reporting change in the Central Bank Quarterly Bulletin in 2011, the deposits figure is the figure for Primary Industries. This includes agriculture, forestry, fishing and mining. Agriculture (excluding fishing and mining) represents approximately 85% of this figure.

7. AGRICULTURAL STATISTICS

The following are the main agricultural statistics from the CSO on the national breeding herd and tillage area, based on the annual (June) crop and livestock surveys.

7.1 Livestock

Table 7.1 Trends in the National Breeding Herd (000 head, June)					
	2007	**2008**	**2009**	**2010**	**2011**
Dairy Cows (000s)	1,087	1,114	1,097	1,093	1,139
Beef Cows (000s)	1,181	1,180	1,204	1,137	1,102
Total Cows (000s)	2,268	2,294	2,300	2,229	2,240
Ewes (000s)	2,854	2,614	2450	2,409	2,435
Pig Breeding Herd (000s)	165.4	157	158	162	157

The decline in the sheep flock was reversed in 2011, with a slight increase in ewe numbers recorded, while there was also an increase in dairy cow numbers. Beef cow numbers and the pig breeding herd fell slightly; however, increased productivity in the pig sector led to an overall increase in volume in 2011.

7.2 Crops

Table 7.2 Area under Crops, (000 hectare, June)					
Product	**2007**	**2008**	**2009**	**2010**	**2011**
Wheat	84.3	104.9	84.5	77.8	93.8
Barley	167.5	181.2	193.6	174.8	180.5
Oats	21.3	23.3	20.4	19.7	21.3
Total Cereals	278.9	313.8	299.8	273.9	296.8
Potatoes	11.7	12	12.2	12.2	10.4

The number of cereal hectares planted in 2011 increased back to 2009 levels. However, the number of hectares planted for potatoes in 2011 was far below any point over the previous 5 years.

7.3 Demographics and Structure of the Agriculture Sector

The Teagasc National Farm Survey 2010 provides data on the structure and demographic profile of the farming sector. The average farm size recorded is 38ha, with 1.09 labour units, the average age of the farmer is 55 and there is an off-farm job (farmer and/or spouse) in 51% of the farms.

In general, the age of the farmer declines as farm size grows while the labour requirements increase with farm size, as expected. However, there is no definite link between the size of farm and the presence of an off-farm job. There is an off-farm job on only 43% of the smallest farms. This percentage rises steadily with the farm size, beginning to fall back again as the farm size goes above 50 ha.

The main demographic and structural features of farming in 2010 are outlined in Table 7.3.

Table 7.3: Structure of Farming 2010

Farm Size Range (ha)	2<10	10<20	20<30	30<50	50<100	>100	All
Average Farm Size (UAA)	8.4	15.4	25	39.1	69.2	149.9	38.1
Age of Farmer	61.8	56.3	54.6	54.5	51.7	50.1	55.1
Off-farm job (% household)	43.4	51.7	52.9	53.1	48.7	43.9	50.9
Labour Units	0.7	0.82	0.99	1.17	1.51	2.02	1.09

The results of the CSO Agricultural Census 2010, which will be published over the coming year, will give a detailed and up-to-date picture of farm enterprises, activities, structure and age profile.

8. OUTLOOK FOR 2012

8.1 Product Prices

2011 saw a continuing recovery in farm incomes, with price and volume increases in almost all commodities, partially offset by rising input costs.

Internationally, prices in many commodities have begun to ease back from their peak in 2011. This is expected to continue into early 2012; however, any price decline is projected to be moderate, with a potential return to price increases during 2012. For some commodities, such as beef, the deficit in supply into the EU market remains, with a resulting moderate increase in EU prices projected in 2012.

However, any price projections are framed in the context of the major uncertainty created by the Eurozone crisis and the downturn in the international economy. This is resulting in competing influences on price, some of which are outside of the supply-demand fundamentals which should be the main determinants of prices in the market. The main issues are:

- The depreciation of the euro, which, while providing a competitive export effect for agri-food products also points clearly to depressed demand, very low economic growth, with potential downward price pressures;
- Higher imported input costs, due to the weakening of the euro; however, this may be counterbalanced by lower international demand for inputs and lower prices;
- Revised downward growth figures for the UK, which remains the main export market for agri-food products;
- A depressed domestic economy, with lower consumer demand; and
- Turmoil in the financial markets which is having an erratic impact on commodity markets, with no clear price pattern linked to supply-demand balances. This makes projections on prices much more difficult.

8.1.2 Risk Management

Market instruments providing guarantees on prices, including contracts, and forward selling have increased in use and visibility in 2011 in a number of the commodities, particularly cereals and dairy. These products should be made available in other major commodities, as there are very clear benefits to be gained for both farmer and processor of providing some price and supply certainty.

Internationally, there have been some actions taken towards the end of the year to increase the transparency of international food stocks, with the development of a database of foodstocks, the Agricultural Market Information System (AMIS), coordinated by the FAO-OECD. The buy-in to this system and its effectiveness as a mechanism to identify potential shortages and over-supply remains unclear.

8.2 CAP Post 2013

Negotiations on the CAP Post 2013 will continue in 2012. External to the CAP discussions are the negotiations on the size of the overall EU Budget 2014-2020. Negotiations on this will be ongoing during 2012, with a downside risk the ongoing uncertainty in the Eurozone. The EU budget will have an impact on the size of the CAP Budget and Ireland's allocation. The key issues of concern for Irish farming through 2012, resulting from the Commission proposals on the CAP in October are:

- Flexibility for Member States on the payment model for the Single Farm Payment to target support to active farmers;
- Adjustments to the proposed Greening Measures to fit into farmers' normal business practices;
- The criteria that will be used to determine Ireland's Rural Development Allocation; and
- Strengthening of the trigger mechanism for Market Support Measures and provision of a dedicated funding stream within the CAP.

8.3 Public Finances and Economic Growth

The €3.8b adjustment in the public finances in Budget 2012 is part of an overall planned adjustment of €12.4b by 2015. At a sectoral level, the scale of these adjustments continues to put pressure on funding for farm schemes. At a broader level, the reduction in public expenditure and increases in taxation revenues impact on disposable income and the costs and levels of public services.

The outlook for the economy over the coming years is moderately positive, subject to the containment of the Eurozone crisis, with growth forecasts revised downwards during the year. The projected low growth rates resulting from the slowdown in the world economy will impact negatively on exports while the continued decline in real disposable incomes will impact negatively on domestic consumption. Overall, this may cause downward pressure on product prices and farm income.

8.4 Access to and Cost of Credit

With the full extent of the banking crisis becoming apparent across Europe in 2011, inter-bank lending contracted hugely, banks experienced severe liquidity problems, and major recapitalisation is required in many European banks. The result for almost all borrowers in 2011 was an increase in the costs of funding.

The reductions in the ECB headline interest rate and its recent announcement that it will provide almost unlimited funding for the European banking sector for three years should ease these pressures, with the result that the costs of borrowing should stabilise during 2012.

8.5 International Trade Talks – Mercosur

The recent WTO Ministerial meeting in Geneva did not succeed in achieving progress towards a multilateral WTO trade deal, and it appears very unlikely that there will be any outcome on this during 2012. The major threat for Irish agriculture in 2012 remains the ongoing bilateral discussions between the EU and Mercosur countries. A conclusion of the deal would have negative implications for European agriculture and for the Irish beef sector in particular. The reduction in beef prices would have a knock-on negative effect on prices in the cereal, pigmeat and poultry sectors.

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