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Autumn 1994

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The Economic and Social Research Institute

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The forecasts in this Commentary are based on data available by late November 1994.

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SUMMARY

All available indicators show that the Irish economy has been growing rapidly in 1994. The increase in real GNP is likely to be in the region of 5½ per cent, with domestic demand rather than net exports accounting for most of the growth. This growth pattern should be favourable for job creation. Including some increase in the number on schemes, the annual average level of non-agricultural employment is forecast to rise by 37,000. Average unemployment has fallen by about 12,000. Other features of the economy in 1994 include the continuation of low inflation, with the consumer price index rising by about 2.4 per cent, a substantial improvement in the public finances and the maintenance of a large, albeit reduced, current account balance of payments surplus.

Thus 1994 has continued the recent trend of the Irish economy substantially outperforming the European average. There is no reason to expect this relationship to change in 1995. Thus, with the European economy expected to grow faster next year, as the continental recovery becomes more firmly established, a further rapid expansion of the Irish economy is probable in 1995. Real GNP is projected to increase at about 6 per cent, with price inflation remaining moderate at 2.8 per cent. Disposable income is likely to grow quite sharply and interest rates are expected to remain relatively low. Therefore, domestic demand should again be the dominant element in economic growth, and, in consequence, another substantial increase in net job creation seems probable.

An important consequence of the rapid economic growth achieved in 1994 and likely in 1995 is strong tax buoyancy. At the same time a relatively modest scheduled increase in average public service pay and an expected improvement in the timing of EU transfers are likely to restrain the growth in net government expenditure. Thus wider options than usual can be considered in framing the 1995 Budget. In choosing among these options, we believe that the authorities should be guided by the need to preserve and strengthen Ireland's international competitiveness, so that the trend of exceeding the general European growth rate can continue as long as possible. To this end, commitment to reduce effective rates of personal taxation need to be met, both to preserve the PCW and, more generally, to continue the process of reducing the tax wedge between labour costs and take-home pay. However, to the same end, it is also necessary to avoid the danger of so over-stimulating an already growing economy that severe inflationary pressures could be created. Thus the general fiscal stance in 1995 should be cautious, with the opportunity taken to secure a considerable reduction in the EBR and a substantial improvement in the debt/GNP ratio. If the twin ailments of excessive unemployment and forced emigration are to be seriously addressed, prolonging the period of rapid economic growth offers much greater hope than attempting to intensify its early stages.

FORECAST NATIONAL ACCOUNTS 1994
A: Expenditure on Gross National Product

	1993	1994	Change in 1994				
	Preliminary[1]	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	18065	19501	1436	903	8	2¾	5
Public Net Current Expenditure ...	5167	5625	458	207	8¾	4½	4
Gross Fixed Capital Formation ...	4808	5351	543	395	11¼	2¾	8¼
Exports of Goods and Services (X) ...	21883	24674	2791	2369	12¾	1¾	10¾
Physical Changes in Stocks	−179	−20	159	140			
Final Demand	49744	55131	5387	4014	10¾	2½	8
less:							
Imports of Goods and Services (M) ...	17508	19951	2443	1991	14	2¼	11¼
GDP at Market Prices	32236	35180	2944	2023	9¼	2¾	6¼
less:							
Net Factor Payments (F)	3804	4334	530	456	14	1¾	12
GNP at Market Prices	28432	30846	2414	1567	8½	2¾	5½

B. Gross National Product by Origin

	1993	1994	Change in 1994	
	Preliminary £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	2193	2281	88	4
Non-Agricultural: Wages, etc. ...	15886	16958	1072	6¾
Other: ...	9258	10411	1153	12½
less:				
Adjustments	1338	1369	31	2¼
Net Factor Payments	3804	4334	530	14
National Income	22195	23947	1752	8
Depreciation	3044	3242	198	6½
GNP at Factor Cost	25239	27189	1950	7¾
Taxes less Subsidies	3193	3657	464	14½
GNP at Market Prices	28432	30846	2414	8½

C. Balance of Payments on Current Account

	1993	1994	Change in 1994
	Preliminary £m	Forecast £m	£m
X–M	4376	4723	347
F	−3804	−4334	−530
Net Transfers	1890	1663	−227
Balance on Current Account ...	2462	2052	−410
as % of GNP	8¾	6¾	−2

[1]Adjusted for Balance of Payments Revisions.

FORECAST NATIONAL ACCOUNTS 1995

A: Expenditure on Gross National Product

	1994	1995	Change in 1995				
	Forecast £m	Forecast £m	£m Value	£m Volume	% Value	% Price	% Volume
Private Consumer Expenditure ...	19501	21061	1560	1006	8	2¾	5¼
Public Net Current Expenditure ...	5625	6019	394	163	7	4	3
Gross Fixed Capital Formation ...	5351	6021	670	527	12½	2½	9¾
Exports of Goods and Services (X) ...	24674	27895	3221	2605	13	2¼	10½
Physical Changes in Stocks	−20	120	140	120			
Final Demand	55131	61116	5985	4421	10¾	2¾	8
less:							
Imports of Goods and Services (M) ...	19951	22522	2571	2113	13	2¼	10½
GDP at Market Prices	35180	38594	3414	2308	9¾	3	6½
less:							
Net Factor Payments (F)	4334	4931	597	488	13¾	2¼	11¼
GNP at Market Prices	30846	33663	2817	1820	9¼	3	6

B. Gross National Product by Origin

	1994 Forecast £m	1995 Forecast £m	Change in 1995 £m	Change in 1995 %
Agriculture, Forestry, Fishing ...	2281	2394	113	5
Non-Agricultural: Wages, etc. ...	16958	18060	1102	6½
Other: ...	10411	11924	1513	14½
less:				
Adjustments	1369	1361	−8	−½
Net Factor Payments	4334	4931	597	13¾
National Income	23947	26086	2139	9
Depreciation	3242	3469	227	7
GNP at Factor Cost	27189	29555	2366	8¾
Taxes less Subsidies	3657	4108	451	12¼
GNP at Market Prices	30846	33663	2817	9¼

C. Balance of Payments on Current Account

	1994 Forecast £m	1995 Forecast £m	Change in 1995 £m
X–M	4723	5373	650
F	−4334	−4931	−597
Net Transfers	1663	1929	266
Balance on Current Account ...	2052	2371	319
as % of GNP	6¾	7	¼

The International Economy

General

Estimates of world economic growth in 1994 continue to be revised upwards. It now seems likely that total GDP growth in the OECD countries will approach 3 per cent. With confirmation that the Japanese recovery has commenced, all major industrial regions are growing simultaneously, for the first time this decade, while only countries in severe political transition or military disruption appear to still be in economic decline.

The widely based upswing in economic activity is expected to continue in 1995. The possible slowing of growth in countries at a more advanced stage in the current cycle, such as the USA, is likely to be offset by accelerating growth in regions whose recovery is more recent. Thus GDP growth could again be of the order of 3 per cent, with world trade volumes continuing to expand rapidly.

Although some commodity prices have risen sharply in 1994, there has been no generalised increase in inflation. Despite the worries of some sections of the financial markets, there is little evidence that the rate of world inflation will accelerate in 1995. In Europe, in particular, the level of unemployment and of under-used capacity should prevent the emergence of strong inflationary pressures.

The US Economy

So far in 1994 growth in the US economy has been stronger than had been expected. For the year as a whole an increase of about 3½ per cent in real GNP appears likely. However, while this is above the long-term capacity growth rate of the US economy, it is well below the unsustainable rates of growth seen during the recovery phases of some previous cycles.

This relatively moderate rate of expansion during what is normally the strongest phase of the cycle encourages hopes that economic growth can continue for at least two more years. In 1995 the rate of increase in domestic demand will almost certainly be slower than this year, as the substantial rises in US interest rates which have taken place throughout 1994 take effect. However, the slowdown in domestic demand is likely to be partially offset by a strengthening in the volume of net exports, as economic recovery in the rest of the world gathers pace, and as the lagged impact of this year's depreciation of the dollar becomes apparent. Thus real GNP in 1995 is projected to increase by about 3 per cent.

The strong rise in total employment which has accompanied growth in 1994 is one of the factors which has prompted fears of rising inflation. Nevertheless there have been few signs of a significant rise in the average scale of pay settlements, while price increases, with the exception of a few commodities, have remained relatively subdued. The annual increase in consumer prices, which is likely to be about 2¾ per cent in 1994 seems unlikely to rise above 3 per cent in 1995. However, fears of a return to higher inflation levels are likely to persist, especially if registered unemployment dips significantly under 6 per cent. Thus further increases in US short-term interest rates in 1995 appear almost inevitable, with the probable consequence that the US dollar will appreciate during the year.

The European Economy

With the exception of the Russian Federation and some other former member states of the USSR or the Eastern Bloc, all European countries appear to be experiencing economic growth in 1994. In contrast to the earliest stage of the recovery during 1993, when the apparent upturn was based largely on export statistics which were suspect due to changes in the method of collection, the pattern of growth in most countries in 1994 includes a substantial contribution from domestic demand.

With the exception of Denmark, where the expansion has been strong, private consumption growth in the continental EU countries has been modest, but positive. The recovery in fixed investment has been more dramatic, with heavy 1993 falls in most countries replaced by approximate stability or moderate growth in 1994. The growth in domestic demand and GNP in the continental EU has been mirrored by the non-EU western European countries, and by Poland, Hungary, the Czech Republic and Slovenia.

Virtually all forecasts are for the pace of continental European growth to accelerate in 1995. Exports, both within Europe and to the rest of the world, are expected to remain strong, while in all countries both personal consumption and fixed investment are projected to grow faster than in 1994. However, the predicted rate of growth in domestic demand in 1995 is quite moderate in relation to past cycles, and most continental analysts expect European economic expansion to be sustainable for several more years.

In most continental countries the average rate of unemployment has been higher in 1994 than in 1993. However, in many countries, most notably Germany, the growth in unemployment has been checked during the year. Most forecasts are for a small reduction in the average rate of unemployment in 1995, although throughout Europe the level will remain unacceptably high.

The high rate of unemployment is one of the factors which have prevented the emergence of significant inflationary pressures in 1994, despite the upturn in economic activity. In many countries, including Germany and France, the rate of consumer price inflation has fallen. German price inflation is expected to be reduced further in 1995, to less than 2½ per cent, while in most other countries the rate is expected to remain low. Even in Italy and Spain the process of reducing price inflation towards the European norm, which made considerable progress in 1994, is expected to continue in 1995.

With both price and wage inflation likely to remain subdued in 1995, and with the expansion of economic activity likely to reduce budget deficits, monetary authorities in continental Europe do not face the market pressures to increase short-term interest rates that are currently being applied to their colleagues in North America. Many continental analysts foresee no rise in German interest rates in 1995, but given the probable increase in American rates and the possible appreciation of the dollar, it seems more likely that there will be some modest increase in German interest rates in the course of the year.

The UK Economy

The steady, and increasingly well-balanced, expansion of the UK economy which characterised the first half of 1994 appears to be continuing. Personal consumption, fixed investment and export volumes are all rising at a moderate rate, price increases remain subdued, unemployment continues to decline, and the public finances are improving significantly. For 1994 as a whole, it seems probable that the growth in real GNP will be about 3½ per cent. Consumer price increases of about 2.8 per cent and a reduction in the current account balance of payments deficit, from about 1.7 per cent of GNP in 1993 to about 1.3 per cent in 1994, suggest that inflationary pressures this year have been very mild.

Nevertheless, fears that inflationary pressures could intensify are widespread, and have already led to the first steps in the tightening of monetary policy which is expected to continue in 1995. Assuming that interest rates will rise next year, but less rapidly than in the USA, and that fiscal policy remains relatively tight, the UK economy should continue to grow in 1995, although at a slightly slower rate than in 1994.

Real GNP in 1995 is projected to increase by 2¾ per cent, which should permit a small growth in employment and a further reduction in unemployment, With fiscal and monetary policy both tending to restrict the increase in personal consumption, growth should continue to be balanced. Some increase in both price and wage inflation seems likely, and, in contrast to the past few years, UK prices are expected to rise faster than those in Germany. However, the differential is likely to be small, and any downward pressure it places on sterling will probably be offset by UK interest rates rising more rapidly than German. Indeed, for most of 1995 sterling seems more likely to appreciate slightly against the DM than to depreciate.

The short-term prospects for the UK economy in 1995 are thus reasonably favourable. In the longer term doubts about UK economic performance persist. Total fixed investment is currently growing at a moderate pace, but there is little evidence of the substantial rise in industrial investment which will be needed if sustained export growth is to be achieved. Industrial relations structures remain confrontational, and thus inimical to either orderly change in work practices or pay restraint in the later stages of the trade cycle. Above all, there must be considerable uncertainty over whether the present successful macro-economic policies will be maintained as the next election approaches.

In the medium term the dangers of resumed inflation, characterised not only by price increase but also by a deteriorating current account deficit, are very real. Interest rates above the European norm, real growth below the west European average and a persistent tendency for sterling to depreciate are definite possibilities in the years beyond 1995.

The Rest of the World

Despite the strength of the yen, and continuing political uncertainty, the Japanese economy appears to have entered the recovery phase of the economic cycle. For 1994, an increase of about ¾ per cent in real GNP is currently being forecast. As would be expected after a massive currency appreciation, domestic inflation is very low, with consumer prices rising by about 1 per cent. The recovery is forecast to accelerate in 1995, with real GNP rising by 2¾ per cent, relatively modest by Japanese standards but only just below the expected average of OECD countries. A major component of the faster growth in 1995 will be a recovery in domestic demand with public and private consumption and investment all rising. Allied to a degree of trade liberalisation and the impact of the very strong yen, this increase in domestic demand could result in a significant reduction in Japan's large current account surplus.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
UK	3½	2¾	2¾	3¼	3½	4¼	9½	8¾	–1½	–1¾
Germany	2¼	3	3	2½	3	3	9½	9¼	–¼	–
France	2¼	3¼	1¾	2	2¾	3½	12½	12¼	¾	½
Italy	1¾	2½	4	3¾	4¾	5	11	10¾	2	2¼
Total EC	2¼	3	3	3	4¼	4½	11	10½	–	¼
USA	3½	3	2¾	3	3	3½	6¼	6	–2	–2
Japan	¾	2¾	1	1½	1¼	1½	3¼	3¼	3¼	3
Total (OECD)	3	3	3¼	3½	3½	4	8½	8¼	–¼	–¼
Ireland	5½	6	2½	2¾	4	3¾	15¼	14¼	6¾	7

Most other Asian countries have continued to grow rapidly in 1994. Very rapid expansion in recent years, and the steady extension of growth to embrace additional countries, has transformed Asia into a major market for US and European exports as well as formidable supplier of goods. Growth throughout the region is projected to remain very high in 1995.

More moderate, but still substantial, rates of growth are being maintained in most Latin American countries, and these are likely to continue in 1995. Similarly, other industrial countries, such as Canada and Australia, appear to still be in the middle phase of the cyclical upturn.

Despite a recent OPEC agreement to keep volumes of crude oil production unchanged in 1995, it seems more likely that oil output will adjust to rising demand. Thus incomes in countries producing oil and many other commodities are likely to benefit more from increased volume than higher prices in 1995. Higher income from primary production should more than offset the effects of higher average interest rates in 1995 for the majority of developing countries, although those most heavily indebted could face intensified problems.

The Context for Ireland

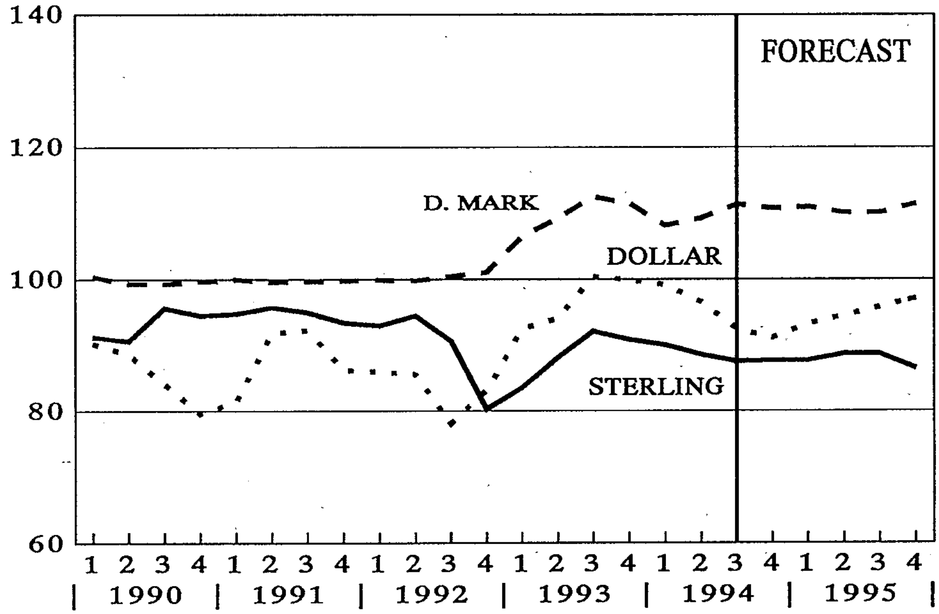
After the difficulties of recent years, the international climate has undoubtedly been favourable for Ireland in 1994. The worldwide improvement in economic activity has provided expanding markets for exporters, reinforced by relative currency stability within Europe. International levels of productive investment have increased, offering the opportunity to expand industrial capacity within Ireland. Although some commodity prices have risen sharply, the general level of international inflation has remained low, and, partly in consequence, European short-term interest rates have been substantially reduced.

Most of these favourable factors are likely to continue in 1995. World output and trade should increase at least as fast as in 1994, perhaps boosted by the probable ratification of the GATT Agreement by all major countries. In particular, growth in continental Europe, Ireland's major export market, is expected to be considerably higher than in 1994. International investment levels, especially by multi-national industrial companies, seem likely to increase further, induced by prospects of growing world demand. In this respect it is relevant that most commentators expect the US economy to grow for at least another two years, while most European analysts anticipate four or five years of steady economic growth in Europe.

Some acceleration in international inflation is possible, as improving markets enable manufacturers to restore margins which have been squeezed between rising commodity prices and constant industrial output prices in 1994. However, such a development is far from certain, and, at least within Europe, the price of most traded goods seems likely to increase only modestly in 1995.

The one international factor which does appear certain to be less favourable in 1995 than 1994 is the trend of interest rates. For some years there has been a substantial disparity between short-term interest rates in Europe and the USA. In 1994 this gap has been almost closed through a reduction in European rates in the first half of the year and a sustained rise in US rates throughout the year. This difference in trends is likely to continue in 1995. American rates are expected to increase further, probably taking them above current German levels. Although previous hopes that German rates would be reduced further have now been virtually abandoned, it is far from clear when German interest rates will again begin to rise. The most likely course is probably for German rates to remain unchanged in the early months of 1995, followed by one or two moderate increases in the second half of the year. The annual average is likely to be slightly above that in 1994. British short-term interest rates seem most likely to follow a path between those of the USA and Germany, with the next increase coming sooner than any rise in German rates. Long term interest rates rose significantly in the first half of 1994, with relatively little difference between countries. After a small decline in

FIGURE 1: Exchange Rates
IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1989=100



recent months, little movement in long-term rates is generally expected in 1995. Thus the differential over short-term rates should gradually narrow as the latter rise in most countries.

Although unquantifiable confidence factors always play a part in exchange rate movements, currencies also tend to respond to changes in interest rate differentials. On this basis it appears reasonable to assume that the US dollar will appreciate significantly against the DM in the course of 1995. Sterling could also appreciate slightly against the DM in the early part of the year, although by the end of 1995 it seems more likely that sterling depreciation will be resumed. How far the Irish pound follows the path of sterling or of the DM is difficult to predict. On the assumption that Ireland follows the German rather than the British pattern of interest rate movements, the Irish currency could follow a compromise path, moving in sympathy with Sterling but with a smaller degree of fluctuation *vis-à-vis* the DM. In this case it would depreciate marginally against sterling in the early part of 1995 but appreciate towards the end of the year.

The Domestic Economy

General

In the Summer *Commentary* we expressed some doubts whether the 1993 growth rates shown in *National Income and Expenditure 1993* were fully reliable, given the discontinuity in methods of collecting trade data between 1992 and 1993. In particular, we expressed reservations over the magnitude of the apparent rise in export values, but concluded that, pending the possible revision of trade statistics, we had no alternative to basing our tables of projections on the 1993 national accounts estimates.

Trade statistics for 1993 have not yet been revised, but revisions to the *Balance of Payments Estimates* for 1993 have been published. These show changes in the estimates of trade in services and in net factor flows. Applied to the 1993 national accounts, these revisions reduce the growth in current price expenditure on GNP from 7 per cent to 6.6 per cent. The corresponding constant price adjustment would be from 3.6 per cent to about 3.3 per cent.

The tables in this issue of the *Commentary* are based on the 1993 national accounts, adjusted for the revised balance of payments estimates. To maintain balance with the adjusted expenditure estimates for 1993, we have reduced "other non-agricultural income" by £54 million in the income section of the main tables.

Exports

Last year's problems concerning the comparability of trade statistics with previous years are no longer of direct relevance to monitoring trade trends. With statistics now being collected on the same basis as in the previous year, there seems no reason why month-by- month annual comparisons cannot be taken at face value. However, two serious difficulties do remain. The high proportion of unclassified exports is likely to remain a permanent feature under the new method, rendering hazardous the comparison of exports and production on a sectoral basis. An even greater problem from the forecaster's point of view is the continuing delay in the production of trade statistics, with only the first quarter of 1994 available at the time of writing in November. With the value of visible exports representing almost 70 per cent of GNP, this obviously detracts seriously from the ability to monitor accurately the strength of recent economic growth.

According to the trade statistics, the value of visible exports in the first quarter of 1994 was 14.6 per cent higher than in the corresponding period of 1993. Virtually all categories of exports showed a significant rise in value, although a particularly large increase in unclassified exports makes sectoral attribution difficult.

Industrial production statistics for the second quarter, and survey data for both the second and third quarters, suggest that a substantial and broadly based increase in exports has continued. For the year as a whole, a rise of 13 per cent in the value of visible exports is forecast, as shown in Table 2. The slight reduction in the annual percentage increase compared with that in the first quarter reflects an allowance for the rapid rise in seasonally-corrected export values in the later months of 1993.

TABLE 2: Exports of Goods and Services

	1993 £m	% Change Volume	% Change Value	1994 £m	% Change Volume	% Change Value	1995 £m
Agricultural	2850	3	5	2993	2	4	3113
Manufactured	13271	13¼	15	15262	12½	15	17551
Other Industrial	2550	10½	12	2856	11	13½	3242
Other	1000	9½	12	1120	10	12½	1260
Total Visible	19671	11¼	13	22231	10¾	13¼	25166
Adjustments	–221			–230			–240
Merchandise	19450	11¼	13	22001	10¾	13¼	24926
Tourism	1367	10	13	1545	10	13	1746
Other Services	1066	3	5¾	1128	5½	8½	1223
Exports of Goods and Services	21883	10¾	12¾	24674	10½	13	27895

After the relatively rapid increase in average export prices which appears to have taken place in 1993, largely as a consequence of the devaluation of the Irish pound, only a small rise in export prices is expected in 1994. An average increase of about 1½ per cent would be compatible with both the first quarter trade statistics and more recent trends in industrial output prices. Such a price rise would imply an increase of about 11¼ per cent in the volume of visible exports.

Although official estimates of tourism earnings for the vital third quarter are not yet available, trends in the first half of the year and in numbers of visitors suggest a substantial rise in tourist receipts. Increases of 13 per cent in value and 10 per cent in volume are forecast for 1994 as a whole. Other service exports appear to have been relatively sluggish in the first quarter of 1994, but for the year as a whole a modest increase is forecast in line with the growth of the world economy. Thus exports of goods and services in 1994 are forecast to increase by 10½ per cent in volume and 12¾ per cent in value. These represent a significant upward revision on our previous export forecasts in response to additional information on both output and trade trends.

With the world economy continuing to grow, and the European recovery in particular gathering pace, conditions should remain favourable for rapid export growth in 1995. The pace of growth is projected as being broadly similar to that in 1994, with most industrial sectors contributing to the expansion. Average prices could rise a little faster than in 1994, although a major increase in international trade prices seems unlikely.

The increase in tourist earnings is projected at the same rate as in 1994, although if progress is maintained in the peace process this could prove unduly cautious. Assuming a moderate rise in other service exports, total exports of goods and services in 1995 are forecast to rise by 10½ per cent in volume and 13 per cent in value, much the same as seems likely in 1994.

Stocks

A small reduction in farm stocks is forecast for both 1994 and 1995, as farmers continue to adjust to the changed CAP regime. A more substantial reduction in intervention stocks is likely in 1994 as little beef has been bought into intervention. A further, but less marked decline in intervention stocks is projected for 1995, as disposals continue to outpace a very low level of purchases.

TABLE 3: Stock Changes

	1993 £m	Change in Rate £m	1994 £m	Change in Rate £m	1995 £m
Farm Stocks	–10	–20	–30	–	–30
Irish Intervention Stocks[1]	–62	–28	–90	60	–30
Other Non-agricultural Stocks	–107	207	100	80	180
Total	–179	159	–20	140	120

[1]Including subsidised private storage.

No indicators of trends in non-agricultural stocks are available, and even the imprecise guidance which could be gained by comparing import and output trends during the year is no longer available. Relying on general principles, some re-building of industrial and distribution stocks can be expected in 1994, after their unexpectedly large fall last year. A further increase in non-agricultural stock building is projected for 1995, in line with the general growth of the economy. Thus, as shown in Table 3, there could be a marginal fall in total stock changes in 1994 and a modest rise in 1995, but in neither year is stock building forecast to have a major effect on the overall growth rate.

Investment

Only minor revisions have been made to our previous forecasts of gross fixed capital formation. It remains apparent that there has been a substantial upturn in investment in building and construction in 1994, with housebuilding showing particularly strong growth. With general economic expansion continuing, and with interest rates likely to remain relatively low by historical standards, investment in building and construction can be expected to increase strongly again in 1995. The composition of such construction growth is likely to become broader, with a major rise in commercial building reinforcing a continued increase in industrial construction and housebuilding.

In the absence of up-to-date import statistics, it is difficult to track trends in investment in machinery and equipment. However, it would be very surprising if the general increase in economic activity were not accompanied by a substantial rise in such investment. Some confirmation of the expected trend is available in the figures for registrations of goods vehicles, which show an increase of over 30 per cent in the first 8 months of 1994. A slightly higher rate of increase in investment in machinery and equipment is projected for 1995, with industrial investment particularly vigorous.

TABLE 4: Gross Fixed Capital Formation

	1993 £m	% Change Volume	% Change Value	1994 £m	% Change Volume	% Change Value	1995 £m
Building and Construction	2788	8	11½	3109	9	12	3482
Machinery and Equipment	2020	8½	11	2242	11	13¼	2539
Total	4808	8¼	11¼	5351	9¾	12½	6021

Thus, as shown in Table 4, total gross fixed capital formation is forecast to increase by 8¼ per cent in volume and 11¼ per cent in value in 1994, and is projected to rise by almost 10 per cent in volume and 12½ per cent in value in 1995. Experience in previous periods of rapid economic growth suggests that these projections, although seemingly large, are more likely to prove over cautious than too optimistic.

Consumption

Both indirect tax receipts and the retail sales index show that there has been a substantial increase in personal consumption in 1994. For the nine months to September, the value of retail sales was almost 9 per cent higher than in the same period of 1993, while the volume index for January to August shows a 6½ per cent increase. These figures are somewhat distorted by the bunching of car sales in the early months of the year. Nevertheless, the volume of retail sales, excluding garages and filling stations, increased by 3¾ per cent in the first eight months of the year, and exhibited a gently rising trend throughout the period.

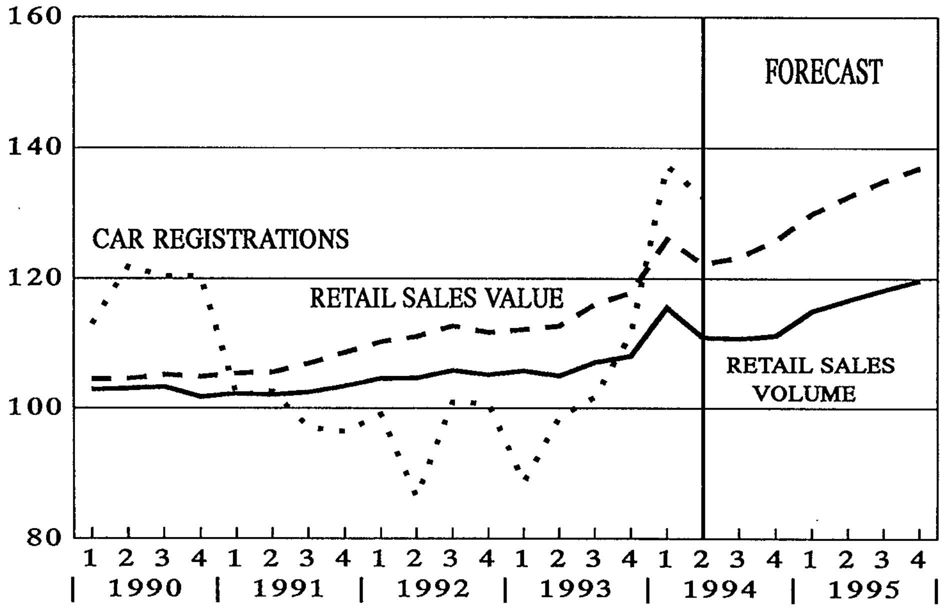
TABLE 5: Consumption Indicators

	Annual Percentage Change 1990	1991	1992	1993	1994 To Date	1994 Forecast	1995 Forecast
Consumption Value							
NIE 1993, Personal Consumption	2.7	5.1	5.8	2.8		8.0	8.0
Retail Sales Index, Value	4.8	1.8	4.3	3.0	8.9	8.0	7.8
Divergence	–2.1	3.3	1.5	–0.2		–	0.2
Consumption Volume							
NIE 1993, Personal Consumption	1.3	2.6	2.9	1.2		5.0	5.2
Retail Sales Index, Volume	2.7	–0.1	2.3	1.4	6.5	5.0	5.0
Divergence	–1.4	2.7	0.6	–0.2		—	0.2
Consumer Prices							
NIE 1993, Personal Consumption Deflator	1.4	2.4	2.8	1.6		2.8	2.7
Retail Sales Index Deflator	2.0	1.9	2.0	1.6	2.7	2.8	2.7
Consumer Price Index	3.4	3.2	3.0	1.5	2.3	2.4	2.8

For 1994 as a whole, it seems likely that total retail sales will increase by about 8 per cent in value and 5 per cent in volume, as shown in Table 5. When allowance is made for large increases in spending both by overseas tourists in Ireland and Irish tourists abroad, it seems possible that total personal consumption in 1994 will rise by much the same proportion as retail sales.

Conditions should remain favourable for increased consumption in 1995, with employment and job security improving and interest rates relatively low. However it seems unlikely that car sales will increase quite as rapidly as they have, from a very low base, in 1994, although other forms of expenditure might rise a little faster than this year. In total, a roughly unchanged rate of increase in personal consumption is projected for 1995. Although the consumer price index is likely to increase faster in 1995 than 1994, the consumption deflator is projected to remain virtually unchanged at about 2¾ per cent, as the change in the CPI is due almost entirely to the ending of the downward trend in mortgage interest costs, which are not included in personal consumption.

FIGURE 2: Consumption
Quarterly Averages Seasonally Adjusted, 1989=100



There is some difficulty in estimating the rise in public consumption in national accounts terms in 1994, as it is not clear how the various elements of amnesty-related expenditure will be treated. On the assumption that the non-recurring write-off of Health Board debts will be excluded from net expenditure on current goods and services, but that other items will be included, it seems likely that the increase in public consumption in 1994 will be of the order of 4 per cent in volume and 8¾ per cent in value. The technical assumption is made that the rise in public consumption in 1995 will be 3 per cent in volume and 7 per cent in value. If this assumption is valid, it is worth noting that the value increase in public consumption will be significantly below the value rise in GNP, for the first time since 1989.

Final Demand

Our forecasts of the increase in final demand in 1994 have been revised upwards by about 1 per cent compared with the Summer *Commentary*. They now stand at 8 per cent for volume growth and 10¾ per cent for value. However, the principal feature of the forecast remains unchanged, in that the growth is better balanced than for several years, with the volume of domestic demand rising by over 5 per cent.

The projected growth of final demand in 1995 is virtually identical with that in 1994 in both volume and value terms. The projected contribution of domestic demand is marginally stronger. In both years the composition of final demand is relatively import intensive, with consumption of durable goods and investment in machinery and equipment both rising strongly. The forecast reversal in the trend of non-agricultural stocks in 1994 implies that the import intensity of final demand could be slightly greater this year than next.

Imports

There was a very large increase of almost 16 per cent in the value of visible imports in the first quarter of 1994. Given the significant level of unclassified imports it is impossible to disaggregate the rise in imports precisely, either by commodity or origins. However it appears that the increase is broadly based, with materials and components featuring strongly, as would be expected given the growth of industrial output during the period and the possibility that stocks were being replenished. Imports from the EU, including the UK, rose slightly faster than those from the rest of the world.

If the monthly unit price indices are to be believed, average import prices were roughly 5 per cent higher than in the corresponding period of 1993, and the volume of imports rose by roughly 10½ per cent. However, seasonally corrected figures suggest that there could have been a slight downward trend in both prices and volumes during the three months.

Some indications for the second quarter are provided by the British trade statistics, which show a moderate further increase in UK exports to Ireland. However, it should be noted that the trends shown in UK and Irish trade statistics do not always correspond. Beyond that there is neither survey data or any other reliable indicator of short term trends in total imports. Forecasts of imports for 1994 as a whole must therefore rely primarily on probable relationships with projected final demand.

TABLE 6: Imports of Goods and Services

	1993 £m	% Change Volume	% Change Value	1994 £m	% Change Volume	% Change Value	1995 £m
Capital Goods	1820	10½	13	2057	12	14	2345
Consumer Goods	4020	10	12½	4523	8½	10¾	5009
Intermediate Goods:							
Agriculture	490	5	8	530	4	6	562
Other	7966	13¾	16¼	9258	12½	14¾	10624
Other Goods	500	12	14½	573	11	13¼	649
Total Visible	14796	12	14½	16941	11	13¼	19189
Adjustments	–175			–179			–184
Merchandise Imports	14621	12¼	14¾	16762	11¼	13½	19005
Tourism	836	11	14	953	8	11	1058
Other Services	2051	6	9	2236	7	10	2459
Imports of Goods and Services	17508	11¼	14	19951	10½	13	22522

On this basis it seems likely that the volume of visible imports will increase by about 12 per cent, with the largest rise coming in imports of intermediate goods for industry. Although some raw material prices have increased rapidly in the course of the year, many other import prices, including those of most manufactured goods, appear to have risen little since the first quarter, and some, influenced by the depreciation of the US dollar, have tended to decline. For the year as a whole, an increase of about 2¼ per cent in average import prices is forecast, with the value of visible imports thus increasing by 14½ per cent, as shown in Table 6.

Tourist spending overseas appears to have risen strongly in 1994, with the general buoyancy of consumer expenditure somewhat boosted by World Cup travel. Although other service imports were surprisingly weak in the first quarter according to preliminary Balance of Payments Estimates, a significant rise for the year as a whole would be in keeping with the forecast level of general economic activity. Thus total imports of goods and services in 1994 are forecast to increase by 11¼ per cent in volume and 14 per cent in value.

Assuming that the increase in non-agricultural stock-building in 1995 will be smaller than the turn-around from de-stocking to re-stocking between 1993 and 1994, import growth could be slightly slower in 1995. Nevertheless it is likely to be substantial, with a volume growth of 10¾ per cent projected for visible imports. Average price increases are projected to remain at about 2¼ per cent, which is in line with many European countries' forecasts of their export prices.

Tourism imports are likely to increase again in 1995, although the rate of growth could be rather slower than this year. Allowing for a continued rise in other service imports, total imports of goods and services in 1995 are projected to increase by 10½ per cent in volume and 13 per cent in value.

Balance of Payments

As in all recent *Commentaries*, it is necessary to emphasise the unavoidably tentative nature of both export and import forecasts, due to the absence of data on recent trends. With this proviso, it seems possible that the visible trade surplus could increase from the provisional estimate of £4,875 million in 1993 to almost £5,300 million in 1994 and nearly £6,000 million in 1995. With the service trade deficit likely to deteriorate in both years, the surplus on trade in goods and services is likely to grow less rapidly, although an increase of roughly £1,000 million over the two years seems possible, as shown in Table 7.

Revisions to the official *Balance of Payments Estimates* for 1993 have raised profit outflows upwards by £76 million, to £3,426 million. The preliminary estimate for the first quarter of 1994 shows a relatively modest increase of 10½ per cent over the first quarter of 1993. The annual rate of increase in 1994 is almost certain to be higher than this in view of the rapid growth in multinational exports in 1993, even if the trade statistics prove to have exaggerated the scale of the increase, and in 1994. An annual increase of 17½ per cent seems a reasonable projection, close to that now estimated for 1993, which itself was swollen by the impact of devaluation at the beginning of the year.

First quarter estimates for national debt interest abroad and other debit items were surprising, showing a significant increase in the former and reduction in the latter. Although these may reflect a change in the timing of some transactions and could well be partially reversed later in the year, they cannot be ignored. On an annual basis a small increase in national debt interest and a small reduction in

TABLE 7: Balance of Payments

	1993 £m	Change %	1994 £m	Change %	1995 £m
Visible Trade Balance	4875	8½	5290	13	5977
Adjustments	–46		–51		–56
Merchandise Trade Balance	4829	8½	5239	13	5921
Service Trade Balance	–453	14	–516	6¼	–548
Trade Balance in Goods and Services	4376	8	4723	13¾	5373
Factor Flows:					
Profits etc.	–3426	17½	–4026	17	–4710
National Debt Interest	–1021	2	–1041	–2	–1020
Other Debit Flows	–983	–2½	–958	2	–977
Total Debit Flows	–5430	11	–6025	11¼	–6707
Credit Flows	1626	4	1691	5	1776
Net Factor Flows	–3804	14	–4334	13¾	–4931
Net Transfers	1890	–12	1663	16	1929
Balance on Current Account	2462	–16¾	2052	15½	2371

other debit items are accordingly forecast. Credit flows showed an increase in the first quarter, and this is projected to continue, albeit at a slower rate. Thus net factor outflows are forecast to rise by 14 per cent from the revised 1993 base of £3,804 million.

Given the expected buoyancy of exports, profit outflows are projected to rise rapidly again in 1995. Changes in other debit items and in credit flows are projected to be mildly favourable, so that the increase in net factor outflows could be marginally slower than in 1994, at 13¾ per cent.

The timing of transfer payments, especially around the end of each year, is difficult to predict. There are indications that some of the EC transfers originally expected in 1994 are likely to be delayed into 1995. Whether similar delays will occur in 1995 cannot yet be predicted. On the assumption that delays from 1994 will largely be made good next year, it is predicted that net transfers will decline by about 12 per cent in 1994 but will recover in 1995 to slightly above their 1993 levels.

On this basis the current account balance of payments surplus is forecast to fall by £410 million to £2,052 million, or 6¾ per cent of GNP in 1994, and to rise modestly to £2,371 million, or 7 per cent of GNP in 1995. It needs to be repeated, that these projections are tentative, as the 1993 base may be revised significantly and because many of the individual items have frequently proved both volatile and unpredictable in the past. Despite these caveats, however, it does seem certain that a substantial current account surplus will be retained in both 1994 and 1995.

Gross National Product

The balance of payments revisions have slightly reduced the estimated value of GNP in 1993, which form the basis for our projections for 1994 and 1995. Our forecasts for GNP growth in 1994 have been revised upwards by ½ per cent in both value and volume terms. This reflects increased forecasts for both domestic demand and exports, partly offset by upward revisions in our forecasts of imports and net factor outflows.

Most of the previous increases we have made to our 1994 forecasts since the publication of the *Medium-Term Review 1994-2000* in April have been accompanied by a corresponding reduction in the projected growth rate for 1995, reflecting a changed view of the timing of the current economic upswing rather than any re-assessment of its strength. On this occasion we have not made any downward revision to the 1995 projections of a 6 per cent growth rate. Thus this *Commentary* represents a slight upward revision in our view of the strength of the expansion, with the aggregate growth projected over 1994 and 1995 together now marginally above that contained in the *Medium Term Review.*

Agriculture

It still seems probable that there will be a small reduction in the volume of gross agricultural output in 1994, due largely to poor weather conditions for much of the year. Input values could increase slightly, so that a fall of over 3 per cent in the volume of gross agricultural product is possible. Net output in the broad agriculture sector is forecast to decline by over 2 per cent.

Assuming a return to more normal weather conditions in 1995, there could be a modest recovery in gross agricultural output in 1995 without the requirement for an increase in the volume of inputs. With some further increase in the net output of forestry and fishing likely, the volume of net output in the broad agriculture sector is projected to rise by about 2 per cent in 1995.

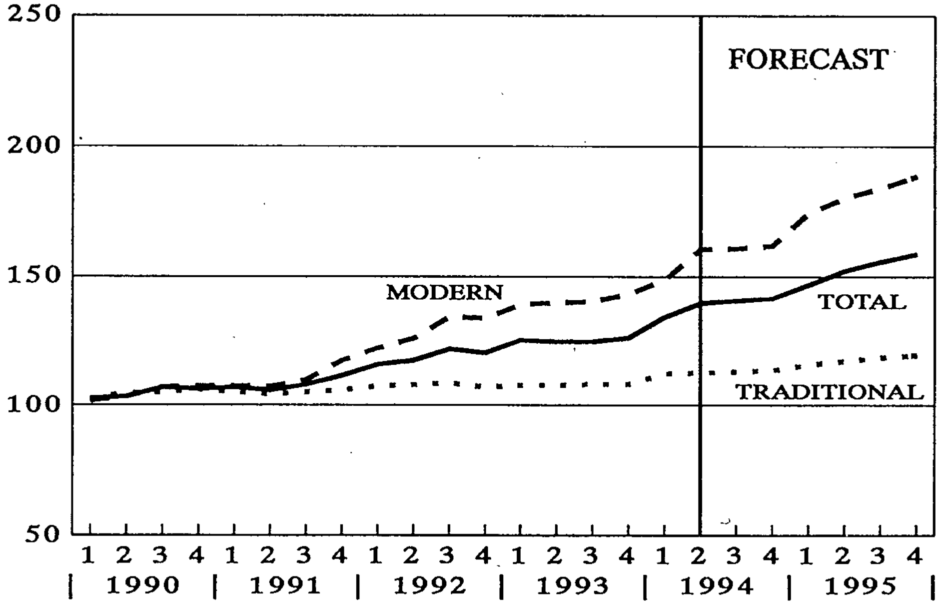
Industry

Industrial production has been growing very strongly in 1994.The industrial production index shows that the volume of production in manufacturing was 10 per cent higher in the first seven months of 1994 than in the corresponding period of 1993. Moreover, the seasonally-corrected index shows a fairly consistent upward trend during the period, with new monthly record levels being set in five of the seven months, including July.

The increase in output has been broad-based, with all industry groups except clothing and footwear (specifically clothing) showing significant increases over 1993 levels of production. As expected, the fastest growth has come in the high-technology sectors, especially pharmaceuticals and electrical engineering. The IBEC/ESRI Business Survey suggests that strong, broad-based industrial growth has continued in the months since the latest industrial production index. The recent balance of replies concerning output, exports and home sales has been strongly positive. Expectations for each of these remain buoyant, backed by the most positive assessment of orders since 1989. It seems reasonable to forecast that the volume of production in manufacturing industry will increase by about 11 per cent in 1994 as a whole.

Allowing for a slower, but still substantial, rise in output in the extractive industries and utilities, and an increase of 8 per cent in building output, the 1994 increase in the volume of net output of the broad industry sector could be almost 10 per cent.

FIGURE 3: Manufacturing Output
Quarterly Averages Seasonally Adjusted, 1989=100



With additional capacity enabling continued increases in export and domestic demand to be met, the volume of production in manufacturing industry is projected to rise by over 10 per cent once more in 1995. Building output is expected to increase slightly faster than in 1994, so the rise in the net output of the broad industry sector in 1995 should again be in the region of 10 per cent.

Services

There are no up-to-date indicators of service output, so forecasts must generally be based on the relation between services and general economic activity. Given the strength of domestic demand, an increase of about 5 per cent in the volume of service output in 1994 would appear a reasonable forecast. In conjunction with the forecasts for the agriculture and industry sectors, it would be compatible with the forecast increase of 6½ per cent in Gross Domestic Product. With projected GDP growth in 1995 similar to that in 1994, another 5 per cent rise in the volume of service output is projected. In both years private services are likely to grow faster than public, with the rise in the latter unlikely to exceed 3 per cent.

Employment

The *Labour Force Estimates* for April 1994 showed a substantially larger increase in employment over the preceding year than we had estimated in our Summer *Commentary*. Most of the difference was due to the impact of employment schemes, which we had seriously underestimated, and the underlying employment growth was only a little faster than our estimate of 13,000.

The strong increase in industrial production which has been taking place in 1994, and which is projected to continue in 1995 can be expected to result in a significant increase in manufacturing employment, although quarterly data to March 1994 hint only at the beginning of this process. Monthly series do confirm that the expected increase in building employment has been taking place. The increase in services activity is likely to have resulted in a rise in service employment, and, as with building employment, this increase can be expected to continue in 1995.

Assuming no further rise in the average number in employment schemes above the unexpectedly high level in April 1994, and allowing for a continued decline in agricultural employment, the total at work is projected to increase by 32,000 in the year to April 1995 and by a similar number in the year to April 1996. On an annual average basis, as shown in Table 8, the total at work is forecast to rise by 33,000 in 1994 and 35,000 in 1995. Because of the expected contribution of industry and building, a higher proportion of the projected employment growth is likely to be represented by full-time jobs than has been the case in recent years.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1992	1993	1994	1995	1996
Agriculture	153	144	140	137	135
Industry	318	312	328	342	354
Services	668	690	708	729	751
Total at Work	1139	1146	1176	1208	1240
Unemployed	221	230	221	210	198
Labour Force	1360	1375	1397	1418	1438
Unemployed Rate %[1]	15.3	15.8	15.2	14.4	14.0
Live Register	281	295	285	274	262

B: Annual Averages '000

	1992	1993	1994	1995
Agriculture	149	142	138	136
Industry	316	318	335	350
Services	680	698	718	740
Total at Work	1145	1158	1191	1226
Unemployed	225	227	217	204
Labour Force	1370	1385	1408	1430
Unemployed Rate %[1]	15.5	15.8	15.2	14.3
Live Register	283	294	282	269

[1] Official Standardised Unemployment Rate, based on ILO definitions. This cannot be derived directly from the Figures in Table 8.

Trends in unemployment in Ireland cannot usually be interpreted as the inverse of employment trends. Both changes in the participation rate, which can be quite volatile, and, of course, in net migration flows, as well as the steady increase in working age population, can have a major impact on unemployment levels, and on the size of the total labour force. Thus in the year to April 1994, the preliminary Labour Force and Migration Estimates suggest that increased participation, entirely among women, increased the total labour force by about 9,000, almost exactly offsetting net emigration of 10,000. The migration patterns themselves are surprising, with net emigration to the UK in the year to April 1994 remaining very low at 2,400, and the largest element of net emigration, at 6,400, being to the USA. It appears as if the significant fall in the UK unemployment level during the period did not have its expected result of stimulating higher emigration from Ireland.

It is possible that the continued reduction in UK unemployment since April has induced a higher level of net emigration to the UK, but it is more probable that, with job prospects in Ireland improving, net emigration to the UK has remained low. The impact of improved access to US work visas might be beginning to weaken, so that it seems probable that total net emigration in both 1994 and 1995 will remain modest, at less than 10,000 per year. At this level it is likely to be more or less offset by increased female participation, so that the labour force can be expected to grow by close to its natural increase of about 23,000.

In these circumstances, a protracted fall in the numbers on the Live Register of unemployment can probably be interpreted as indicating employment creation well in excess of the natural increase in the labour force. There has indeed been a sustained fall in the Live Register, with the first 10 months of 1994 showing an average some 11,000 lower than the corresponding months of 1993. The seasonally corrected series appears to have been affected by the change in student eligibility in recent years. The seasonal correction factors do not seem to allow sufficiently for this factor, with the result that in both 1993 and 1994 the seasonally adjusted totals for the summer months show an excessive decline, and September and October show an apparent increase. In practice, the decline in the total during 1994 has probably continued fairly steadily, but not quite as rapidly as was believed three months ago.

For the year as a whole, the average level of the Live Register is likely to be 282,000, a decrease of 12,000 on the 1993 level. This seems compatible with the rapid rise in employment which is forecast. A broadly similar rate of decline in unemployment is projected for 1995, with the average level just below 270,000, or some 14.3 per cent of the labour force.

Incomes

Despite the probable fall in the volume of gross agricultural product in 1994, a moderate rise in agricultural incomes seems likely. Agricultural output prices have tended to decline in the course of the year, but on average they are likely to be higher than in 1993, while input prices show little change. Allowing for some increase in net subsidies and for a rise in income from forestry and fishing, incomes in the broad agricultural sector are forecast to increase by 4 per cent. A slightly higher increase is projected for 1995, with a modest recovery in the volume of net output accompanied by less favourable movements in relative prices.

Average non-agricultural wages, salaries and pensions are forecast to increase by about 4 per cent in 1994, with public service pay rising slightly faster than that in the private sector. The increase in full-time equivalent jobs could be about 2½ per cent, so that the rise in aggregate non-agricultural earnings is forecast at 6¾ per cent, much the same as in 1993. With less carryover from the previous year, the rise in average earnings in 1995 is expected to be slightly slower than in 1994, even allowing for the likelihood of greater earnings drift as the labour market improves. If average earnings rise by 3¾ per cent, with effective employment once more rising by about 2½ per cent, the increase in aggregate earnings would be 6½ per cent.

TABLE 9: Personal Disposable Income

	1993	Change		1994	Change		1995
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2193	4	88	2281	5	113	2394
Non-Agricultural Wages, etc.	15886	6¾	1072	16958	6½	1102	18060
Other Non-Agricultural Income	3480	6	213	3693	6¾	249	3942
Total Income Received	21559	6¼	1373	22932	6½	1464	24396
Current Transfers	5167	6¼	317	5484	5	271	5755
Gross Personal Income	26726	6¼	1690	28416	6	1735	30151
Direct Personal Taxes	5869	7¼	426	6295	–¼	–23	6272
Personal Disposable Income	20857	6	1264	22121	8	1758	23879
Consumption	18065	8	1436	19501	8	1560	21061
Personal Savings	2792	–6¼	–172	2620	7½	198	2818
Savings Ratio	13.4			11.8			11.8

Other non-agricultural income, comprising income from self employment and from interest, dividends and rent, is forecast to increase by 6 per cent in 1994 and 6¾ per cent in 1995, reflecting the generally buoyant state of the domestic economy. On this basis, total income received is forecast to increase by about 6¼ per cent in each year, as shown in Table 9.

With a relatively high carryover from 1993, current transfers are forecast to increase by 6¼ per cent in 1994. Assuming that most benefits are increased by a little more than the rate of inflation and that unemployment continues to fall, current transfers are projected to rise by 5 per cent in 1995.

Due to the tax amnesties, direct personal taxation in 1994 is forecast to increase faster than gross personal income. In the absence of the amnesty receipts, and assuming moderate reductions in effective personal tax rates, direct personal taxation is likely to show a small absolute decrease in 1995. Thus, although gross personal income is projected to gross at a broadly similar rate in the two years, the increase in personal disposable income is forecast to accelerate from 6 per cent in 1994 to 8 per cent in 1995.

Current indicators suggest that the value of personal consumption is likely to increase by about 8 per cent in 1994. This implies a substantial fall in the personal savings ratio, from an estimated 13.4 per cent in 1993 to 11.8 per cent in 1994. However, the extent of the underlying reduction in the savings ratio is exaggerated by the impact of the tax amnesties. Although amnesty receipts are, by convention, shown as being paid out of gross personal income, thus reducing personal disposable income and personal savings, they are more likely in practice to be paid out of accumulated savings or out of the working capital of companies which had delayed handing on tax already deducted from their employees. With the amnesty effect working in the opposite direction in 1995, an upward pressure on the savings ratio could be expected. However, on the assumption that this will be offset by a continued reduction in the underlying savings ratio, as confidence remains high and interest rates relatively low, an unchanged savings ratio of 11.8 per cent is projected for 1995. This would allow another increase of about 8 per cent in the value of personal consumption.

Consumer Prices

In the first three quarters of 1994, the consumer prices index rose by 2.3 per cent compared with the same period of 1993. As Table 10 shows, the housing element of the index exerted a powerful downward influence on the index in the first half of 1994, to some extent masking increases of well over 3 per cent in the other components of the index. By August, this effect had virtually ceased. The 1993 reductions in mortgage interest rates had almost worked themselves out of the annual comparisons, while the post-devaluation increases in other items had also abated.

TABLE 10: Consumer Price Index – Recent Trend and Forecast

	Quarterly Trend							Annual		
	1993				1994			1993	1994	1995
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.			
Index Nov. 1989 = 100										
Housing	133.3	115.8	109.7	111.0	110.6	111.4	111.8	117.4	111.5	116.0
Other	107.4	108.6	110.2	110.5	111.2	111.2	113.1	109.2	112.5	115.5
Total CPI	109.3	109.1	110.2	110.5	111.2	112.1	113.0	109.8	112.4	115.5
Annual % Change										
Housing	12.8	–3.7	–8.2	–15.9	–17.0	–3.8	1.9	–4.2	–5.0	4.0
Other	0.8	1.3	2.1	3.2	3.5	3.3	2.6	1.9	3.0	2.7
Total CPI	1.9	0.9	1.4	1.5	1.7	2.7	2.5	1.5	2.4	2.8
Quarterly % Change										
Housing	1.0	–13.1	–5.3	1.2	–0.4	0.7	0.4			
Other	0.3	1.1	1.5	0.3	0.6	0.8	0.8			
Total CPI	0.4	–0.2	1.0	0.3	0.6	0.8	0.8			

For the coming year, housing costs seem unlikely to have much influence on the overall consumer price index. Although they may rise somewhat faster than other prices, their relatively low weighting in the index will limit their impact. Thus while for 1994 as a whole the forecast rise of 2.4 per cent in the total index will conceal an increase of about 3.0 per cent in non-housing prices, the projected 1995 rise of 2.8 per cent in the total index should accompany a broadly similar increase in non-housing prices. This implies the continuation of an average quarterly increase of roughly 0.7 per cent in the seasonally-corrected index of non-housing prices.

Public Finances

It now seems probable that tax revenue in 1994 will increase by at least 11 per cent. If amnesty receipts are disregarded, the likely increase is about 8½ per cent, roughly in line with the forecast increase in nominal GNP. If non-tax revenue is slightly below its budgeted level, total revenue in 1994 will probably increase by approximately 10 per cent.

Net current expenditure is more difficult to predict, as the timing of EU receipts and of interest payments around the turn of the year can have a major impact on the annual total. The best guess at this time is that net current expenditure, including once-off amnesty-related spending, will increase by about 6½ per cent in 1994. This would leave the current budget deficit in the region of £50 million, compared with the budget estimate of £269 million.

Borrowing for capital purposes is expected to be significantly above the budget estimate, largely due to delays in EU capital transfers. Thus the Exchequer Borrowing Requirement for 1994 could be in the region of £700 million, little changed from the 1993 EBR and representing about 2¼ per cent of forecast GNP.

The public finances in 1995 will be determined by a combination of underlying trends, budget decisions on expenditure and taxation and the timing of EU transfers. If the basic economic forecast of this *Commentary* is correct, there should be continuing buoyancy in tax receipts. Indirect taxes can be expected to increase by about 8½ per cent, a somewhat smaller rise than in 1994 as new car sales are likely to grow more slowly. Among direct taxes, a further substantial increase seems likely in corporate taxation, although the rise could be slower than in 1996. On unchanged effective tax rates, the underlying rise in direct personal taxation would probably be as fast as in 1994. Although the carryover effects of wider tax bands and the abolition of the income levy will be substantial, they are likely to be offset by a continued reduction in aggregate mortgage interest relief, due more to lower mortgage interest than to restrictions on the rate of relief. However, when allowance is also made for the absence of amnesty receipts in 1995, the potential increase in direct personal taxation at unchanged real rates would be quite modest.

Given the commitment under the PCW to ensure at least a modest reduction in real effective average income tax rates and the possibility that some adjustment will be made to the schedule of employers' PRSI contributions, it seems likely that, in practice, there will be a marginal fall in receipts from personal direct taxation.

Total tax revenue, on a budget basis, is thus assumed to rise by about 4¾ per cent in 1995. Assuming a further small decline in non-tax revenue, total revenue is projected to increase by almost 4½ per cent.

The increase in net current expenditure seems likely to be much slower than in 1994. In the first place, the non-recurrent elements of amnesty-related expenditure, such as the paying off of Health Board debts, will be absent, giving a saving of at least £100 million. In the second place it seems probable, although not certain, that some of the current EU transfers delayed from 1994 will be received in 1995, along with payments due in that year. Under the terms of the PCW, the increase in average public service pay should be relatively modest, while falling unemployment should restrict the increase in the outlay on social welfare. Despite the absolute rise in the National Debt in 1994 and the upturn in long-term world interest rates, a continuing replacement of expensive old debt with cheaper new instruments should prevent a significant increase in underlying national debt interest payments, although timing changes could add to the annual bill in 1995.

Thus, provided firm control is maintained on the level of discretionary spending, it is reasonable to anticipate a rise of less than 4 per cent in the value of net current expenditure. In conjunction with the tax projections, this could result in a small current budget surplus, perhaps of the order of £50 million, in 1995.

The scale of borrowing for capital purposes is difficult to predict. On the assumptions that the underlying level remains close to that budgeted for 1994, and that the delays in EU capital transfers will be neither recouped nor extended, capital borrowing in 1995 could be between £500 million and £550 million. This would result in a 1995 EBR of just under £500 million, or about 1.4 per cent of projected GNP. Such an out-turn would appear to be appropriate in a period of rapid economic growth. It would enable a substantial reduction to be made in the debt/GNP ratio, and would move the public finances firmly along the road they must take if the curtailment expected in EU funding at the end of the decade is to be accommodated without undue strain.

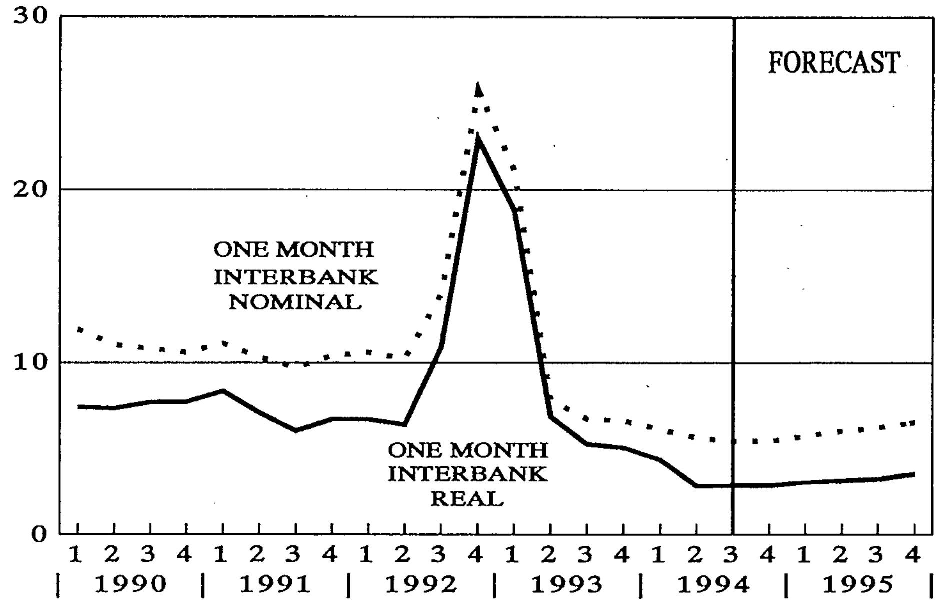
Interest Rates

In our Summer *Commentary* we predicted that there would be no significant change in Irish short-term interest rates and their associated retail rates in the remainder of 1994. So far this prediction has proved justified, and there seems no reason to amend it for the few remaining weeks of the year. Thus the annual average of the one-month interbank rate will be about 5.6 per cent, much the lowest in the past two decades. Even in real terms, deflated by the consumer price index, the annual average is the lowest since the period of negative real interest rates in the '70s.

As already discussed in the international section of this *Commentary*, there is likely to be a significant divergence in international movements in short-term interest rates in 1995. Rates in the USA, and to a lesser extent the UK, seem set to continue the rise commenced in 1994. Continental European rates, led by Germany, might rise in the course of 1995, but any increase is likely to be quite modest. To some extent it is a matter of policy choice whether Ireland follows the continental or the UK trend. It is assumed here that, in keeping with previous practice, movements in Irish short term interest rates will remain most influenced by German trends. Thus, the annual average of the one-month interbank rate and associated retail rates in 1995 is projected to be less than ½ per cent higher than in 1994. This implies that by the end of 1995 such rates could be about 1 per cent above their present levels.

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



Long-term interest rates show less international divergence than short-term, and thus rose significantly during the first half of 1994 even in those countries, such as Ireland, where short-term rates were still falling. After a decline of about ½ per cent in recent months, there are strong grounds for believing that long-term interest rates, which already discount an improbably large acceleration in world inflation rates, are unlikely to rise in 1995. However, even if they remain at present levels, this implies that the annual average in 1995 will be about ½ per cent above the 1994 average.

General Assessment

Since 1989 the Irish economy has consistently and substantially outperformed the European average. In national accounts terms, the growth in real GNP in Ireland has exceeded that in the EU as a whole by an average of over 2½ per cent per year. Thus, in the final stages of the international boom in 1989 and 1990, Ireland achieved very rapid rates of growth, whilst through the subsequent international recession Ireland maintained a moderate positive growth rate. Even if allowance is made for the unresolved problems concerning the rate of increase in net exports in 1993, it remains clear that the Irish economy grew significantly in that year despite a fall of 0.4 per cent in real GNP in the EU as a whole.

There have been some recent suggestion that the GNP estimates have overstated Irish growth over the period. Despite our reservations over 1993, we believe that for the longer period the GNP estimates provide a broadly accurate measurement. The picture they present is fully confirmed by more concrete indicators, such as government revenue, industrial production and employment levels, on all of which the relative Irish performance has been consistently strong. Perhaps the most telling comparison of all is in industrial employment, where Ireland achieved a modest increase over the period while virtually every other European country suffered a massive fall.

It is already clear that Ireland's relative economic performance has continued to be favourable in 1994. With the EU total growth in real GNP likely to be about 2¼ per cent, Irish real GNP is forecast to grow by about 5½ per cent.

As important as the rapid overall growth rate is its composition. Available indicators show that domestic demand has been increasing rapidly, with substantial volume growth in both personal consumption and fixed capital investment. In contrast to the three preceding years, the increase in real GNP will reflect mainly the contribution of domestic demand rather than that of net exports. This should have a positive influence on employment trends, as analysis has shown that domestic demand tends to be considerably more labour intensive than exports. At the same time, the upturn in fixed investment should provide the capacity to enable rapid growth to continue in future years.

Unless all international commentators are mistaken, European economic growth should accelerate in 1995, as the recovery becomes more firmly established. As the structural, competitive and policy factors which underlie Ireland's comparative strength are still in place, faster European expansion can be expected to result in another year of very rapid Irish growth, probably in the region of 6 per cent.

With employment increasing, real disposable incomes rising and interest rates staying low, personal consumption is likely to remain buoyant. The prospect of growing domestic and export markets, combined with relatively low interest rates and a substantial rise in profits, should stimulate a further large increase in fixed capital investment. Thus, as in 1994, the pattern of growth will contain a major domestic element, with the same employment and capacity benefits.

The usual danger of a rapid expansion in domestic demand, namely that balance of payments constraints will make it unsustainable, does not arise in the Irish case in 1995, or probably for several years to come. In the first place the current account surplus is extremely large, even if the estimated level is reduced somewhat to take account of doubts concerning 1993 net exports. In the second place, the temporary decline in net EU transfers which is expected to take place in 1994 is likely to be reversed in 1995. Thirdly, given the largely dual nature of the Irish economy, a domestic boom is unlikely to divert potential exports onto the home market. So long as international markets are expanding, and Ireland retains its competitive position with regard to both current exports and the attraction of new multinational investment, export growth should remain vigorous, regardless of the state of domestic demand. In theory, exports could be affected in the longer term through a loss of competitiveness, if strong domestic demand pushes up Irish relative wage rates. However, in the context of heavy unemployment, falling rates of effective personal taxation and a medium-term national pay agreement, such a danger does not appear imminent.

Nevertheless the need to retain or improve competitiveness cannot be ignored. It must be a central element of any strategy which offers realistic hope of the substantial, sustained net job creation which the country requires. As the incoming government formulates or modifies its economic and social policies, and as its initial Budget is designed, the encouragement of sustained employment growth will pose some delicate choices.

Rapid economic growth in 1994 has had the predictable effect of boosting tax revenue, so that the current budget deficit will be far below either the Budget estimate or its 1993 level. Largely due to vagaries in the timing of EU capital transfers, the reduction in the Exchequer Borrowing Requirement is likely to be less marked, but it should still be comfortably less than in the Budget forecast, and possibly of the same absolute order of magnitude as in 1993.

Further rapid economic growth is expected to result in continued tax buoyancy in 1995, although of course there will not be the amnesty receipts which added to revenue in 1994. Current expenditure will be limited by the absence of some amnesty-related spending which took place in 1994, by a relatively modest increase in average public service pay under the terms of the Programme for Competitiveness and Work, and, probably, by a further significant decline in the average level of unemployment. At the same time, the phasing of EU funds should be more favourable, with some of the backlog from this year becoming available in 1995.

Thus there is likely to be more room to manoeuvre than usual in framing the 1995 Budget. However, the choice of the most appropriate balance among the options which have become available will not be easy. A convincing case could be made for devoting extra resources to various aspects of social policy, especially in the areas of child care, family income support and tackling some of the specific problems of long-term unemployment. Reductions in personal taxation are not merely politically popular, but represent a commitment under the PCW and are a major element in maintaining pay moderation. Finally, the national debt remains much too high, both in relation to the Maastricht criteria and because it exposes Ireland unduly to possible adverse changes in the international environment. Years of rapid economic growth, such as 1995, represent the best opportunity to reduce the debt ratio sharply towards a safer level, in advance of the inevitable reduction in EU transfers at the end of the decade.

While some progress could be made in each of these directions in 1995, substantial advances cannot be made in each simultaneously. In addressing the choices which therefore have to be made, a high priority should be attached to long-term, sustainable, job creation, as this is the only antidote to the twin problems of unemployment and enforced emigration which underlie many of the social ills which currently afflict both urban and rural communities in Ireland. The maintenance of the requisite degree of competitiveness demands two main accomplishments from the 1995 Budget.

In the first place, there must be sufficient reductions in effective personal tax rates to honour the commitments given in the PCW. A raising of allowances and a broadening of tax bands, considerably beyond the extent which would represent mere indexation for inflation, is required. This would aim, not only to preserve the PCW itself, but, more broadly, to reduce the tax-wedge which appears to be a major underlying factor in pay bargaining.

However, while some cuts in real effective tax rates are necessary to protect competitiveness, it is equally essential to recognise the potential dangers of excessive action. Given the underlying buoyancy probable in 1995, too great an increase in disposable incomes could itself damage competitiveness through overstimulating the economy and forcing up the domestic rate of inflation. A careful balance needs to be maintained, which implies that the tax reductions should not be significantly greater than the minimum required to meet PCW commitments, and that there should be a substantial reduction in the EBR. Within this constraint of reducing the EBR and avoiding too great an increase in disposable incomes, it might be possible to further improve both short and long term competitiveness through narrowing the tax-wedge by reducing and rationalising employment taxes such as employers' PRSI.

The employment-related requirements of cuts in effective direct tax rates and general fiscal restraint would appear to preclude significant increases in the volume of current government expenditure, even where these could help to address major structural concerns. However, there could well be scope for some re-allocation of resources within government spending, given the continuing sharp fall in the number of young children in the state, the probable reduction in total unemployment, and, it is to be hoped, some decline in spending on security if the peace process continues successfully.

Just as choices in the area of fiscal policy are opening up in 1995, it is quite likely that choices will also have to be made in monetary policy. If the prediction that British short-term interest rates will rise sooner and further than German is correct, then decisions will need to be taken on the appropriate movements in Irish rates, and possibly on the consequent value of the currency. Market reactions will be a factor in any such choice, but these in turn can be influenced by official policy. Provided that the fiscal stance is sufficiently tight, measured by the probable out-turn for the year rather than the normally cautious Budget projections, then there would be a strong case for attempting to remain as close as possible to German short-term interest rates. Not only would this retain the conditions necessary for a continued rise in productive investment, but it would also signal to the markets that they may have gone too far in assuming close financial linkages between London and Dublin. If such a policy resulted in a minor depreciation of the Irish pound against Sterling, this would help short-term competitiveness in some labour intensive industries without having a major effect on Irish inflation levels. Of course, a substantial depreciation against sterling, especially if accompanied by any depreciation against other European currencies, could have a deleterious effect on inflation, and would carry serious long-term dangers. Once more therefore, policy could require a delicate balance between options, rather than a predetermined commitment to a single line.

Because of the over-riding imperative to correct the public finances, Ireland was unable to participate fully in the previous international boom until its closing stages. Thus rapid growth was only achieved in 1989 and 1990, too short a period to transform expectations about potential employment prospects. Now, having weathered the international recession with considerable resilience, Ireland is well placed to benefit from the current international recovery. Most analysts expect the upswing in the present European cycle to last for at least another four years. If Ireland can maintain its recent record of outperforming the European average, annual GNP growth in excess of 5 per cent until 1998 or beyond seems feasible. This would enable a sustained and substantial rise in total employment and, almost certainly, a significant reduction in unemployment. The essential conditions for this to come about are the maintenance of competitiveness, and the prevention of a rise in Ireland's relative inflation rate. To this end, fiscal and monetary policy need to be balanced and reasonably cautious. The principal aim should be to prolong the boom, not to intensify it.

STATISTICAL APPENDIX

	Output Indicators					Employment		
	1	2	3	4	5	6	7	8
	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Electricity Output	Houses Completed	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing
	1985 = 100	1985 = 100	1985 = 100	G.W.H.	Total Number	'000s	'000s	'000s
1986	102.9	107.1	99.9	12466	22680	184.2	40.2	143.8
1987	113.6	132.7	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	161.9	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	188.9	112.3	13640	18068	187.0	45.4	141.7
1990	149.2	197.9	117.6	14325	19539	191.8	48.4	143.4
1991	153.9	208.6	118.0	14990	19652	192.7	50.4	142.3
1992	169.6	243.6	121.0	15682	22464	192.1	51.9	140.2
1993	178.8	265.7	121.3	16161	21391	191.9	54.5	137.4

Quarterly Averages or Totals

1991 I	154.2	215.3	110.5	4018	4785	190.3	49.1	141.3
II	156.1	209.3	118.4	3484	4164	191.9	49.5	142.4
III	141.9	186.0	109.8	3455	5228	193.8	50.7	143.2
IV	163.8	218.7	121.2	4033	5475	194.8	52.3	142.3
1992 I	167.6	245.9	113.2	4187	4372	190.3	51.2	139.1
II	173.4	245.6	122.5	3644	5920	191.4	50.9	140.5
III	161.0	227.5	113.9	3602	6284	193.7	51.9	141.7
IV	176.8	248.9	122.2	4249	5888	193.0	53.5	139.6
1993 I	182.0	280.2	113.7	4239	4004	189.8	53.4	136.3
II	184.1	272.6	122.2	3810	5051	191.5	53.6	138.0
III	164.4	237.6	113.5	3726	5764	193.3	55.0	138.3
IV	185.2	266.1	123.5	4386	6572	192.8	55.8	136.9
1994 I	195.2	299.8	118.8	4484	4692			
II	206.1	312.2	128.6	4016	5889			
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1991 I	152.5	201.8	114.9	3720	No Seasonal Pattern	192.5	49.8	142.8
II	150.8	201.3	114.2	3704		192.7	50.2	142.6
III	153.9	206.5	115.0	3778		191.9	50.2	141.9
IV	159.1	220.7	115.9	3783		193.6	51.4	141.9
1992 I	165.3	229.7	117.6	3883		192.5	51.9	140.6
II	167.7	236.7	118.3	3871		192.1	51.6	140.6
III	173.9	252.5	119.1	3939		191.9	51.5	140.4
IV	171.8	251.4	117.1	3983		191.8	52.5	139.3
1993 I	178.9	261.3	117.9	3935		192.0	54.1	137.8
II	178.2	263.0	117.9	4046		192.2	54.3	138.1
III	178.1	263.6	118.6	4074		191.6	54.6	137.1
IV	180.2	269.0	118.5	4112		191.3	54.8	136.6
1994 I	191.7	279.4	123.1	4164				
II	199.4	301.3	124.1	4264				
III								
IV								

Output per Head			Money Earnings	Real Earnings	Unemployment			
9	10	11	12	13	14	15	16	
Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Manufacturing	Manufacturing	Live Register Male	Live Register Female	Live Register Total	
1985 = 100	1985 = 100	1985 = 100	1989 = 100 Av. Weekly	1989 = 100 Av. Weekly	'000s Av. Monthly	'000s Av. Monthly	'000s Av. Monthly	
104.4	104.8	102.5	87.3	95.7	172.0	64.4	236.4	1986
116.4	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.6	111.7	96.1	100.0	169.7	71.7	241.4	1988
142.5	164.0	116.9	100.0	100.0	160.0	71.6	231.6	1989
145.4	161.0	121.1	103.9	100.5	152.1	72.6	224.7	1990
149.3	163.0	122.4	108.4	101.7	170.5	83.5	253.9	1991
165.0	184.9	127.3	112.8	102.6	187.2	96.0	283.1	1992
174.2	192.1	130.2			193.8	100.5	294.3	1993

Quarterly Averages

151.5	172.6	115.4	105.5	100.3	165.8	77.9	243.7	1991 I
152.1	166.5	122.6	108.7	102.6	167.2	81.1	248.3	II
136.9	144.4	113.2	108.6	101.1	173.1	88.7	261.8	III
157.2	164.7	125.7	110.9	102.6	175.7	86.3	262.0	IV
164.6	189.1	120.0	109.6	100.6	186.7	91.4	278.1	1992 I
169.3	190.0	128.7	112.5	102.5	183.9	93.1	277.0	II
155.4	172.6	118.6	113.2	102.5	188.5	101.8	290.2	III
171.2	183.2	129.1	115.7	104.6	189.5	97.6	287.2	IV
179.2	206.6	123.0	115.5	104.0	197.9	101.7	299.6	1993 I
179.7	200.2	130.6	117.1	105.7	193.7	98.9	292.6	II
159.0	170.1	121.0	119.7	106.7	192.9	102.1	294.9	III
179.6	187.8	133.1	123.0	109.6	190.5	99.5	290.0	IV
					194.1	99.6	293.7	1994 I
					183.7	96.3	280.0	II
					181.6	99.5	281.1	III
								IV

Quarterly Averages (Seasonally Corrected)

147.5	160.1	118.8	106.6	101.4	160.8	77.6	238.5	1991 I
146.6	158.3	118.2	108.6	102.5	168.8	82.2	251.1	II
149.6	161.9	119.6	108.5	101.1	174.4	86.1	260.5	III
154.0	168.6	120.3	109.9	101.7	177.8	88.0	265.7	IV
159.9	174.8	123.5	110.8	101.7	182.0	91.2	273.1	1992 I
163.7	181.2	124.2	112.4	102.3	185.4	94.3	279.7	II
169.8	193.3	125.0	113.2	102.6	189.6	99.0	288.6	III
167.7	187.7	123.9	114.6	103.6	191.7	99.4	291.1	IV
173.9	190.8	126.4	116.7	105.1	193.3	101.5	294.8	1993 I
174.0	191.2	126.1	117.0	105.5	195.0	100.1	295.2	II
173.6	190.3	127.5	119.7	107.0	193.9	99.2	293.2	III
175.9	192.5	127.8	121.8	108.5	192.8	101.2	294.0	IV
					189.5	99.4	288.9	1994 I
					185.0	97.6	282.6	II
					182.6	96.6	279.2	III
								IV

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural Output Price Index	Import Unit Value	Export Unit Value	Terms of Trade	Price of Stocks + Shares (ISEQ)
	Nov. 1989 = 100	1985 = 100	1985 = 100	1985 = 100	1990 = 100	1990 = 100	1990 = 100	Jan. 1988 = 1000
1986	89.8	98.8	97.8	99.5	92.8	96.7	104.1	907.7
1987	92.6	100.4	98.4	103.5	92.8	96.7	104.2	1326.2
1988	94.6	104.5	102.4	114.4	98.9	103.6	105.0	1294.6
1989	98.5	109.5	108.1	120.1	105.3	110.5	105.1	1633.6
1990	101.7	107.8	105.1	106.5	100.0	100.0	100.2	1562.2
1991	105.0	108.7	106.4	103.1	102.3	99.3	97.2	1382.4
1992	108.2	110.5	107.3	106.2	100.2	96.6	96.6	1311.1
1993	109.8	115.6		113.3	105.4	103.9	98.6	1576.0
	Quarterly Averages							
1991 I	103.5	107.3	105.1	104.9	101.1	96.9	95.9	1241.3
II	104.3	108.8	106.4	106.1	101.6	97.8	96.3	1466.9
III	105.7	109.2	106.9	101.6	102.9	99.7	96.9	1413.3
IV	106.4	109.5	107.3	103.6	103.0	100.3	97.3	1408.3
1992 I	107.3	110.2	107.8	107.4	102.1	99.3	97.2	1426.9
II	108.1	111.3	108.3	109.7	101.4	102.2	100.7	1398.8
III	108.7	110.6	107.2	106.7	99.1	97.5	98.4	1263.1
IV	108.9	109.8	106.0	104.5	96.6	93.8	97.1	1164.5
1993 I	109.3	112.9		109.2	103.1	97.9	95.0	1313.5
II	109.1	115.2		115.4	104.4	100.7	96.5	1532.2
III	110.2	117.2		114.6	106.2	101.6	95.6	1685.6
IV	110.5	116.9		113.7	106.6	102.0	95.7	1772.6
1994 I	111.2	117.0		118.4	108.3	103.7	95.8	1966.3
II	112.1	117.1		121.2				1806.3
III	113.0							1817.7
IV								
	Quarterly Averages (Seasonally Corrected)							
1991 I	103.5	107.6	105.3	103.9	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	104.4	108.4	106.3	103.9				
III	105.5	108.8	106.6	102.7				
IV	106.4	110.0	107.5	105.7				
1992 I	107.3	110.5	108.1	106.5				
II	108.2	110.8	108.2	107.3				
III	108.5	110.3	106.9	107.9				
IV	108.9	110.3	106.2	106.6				
1993 I	109.4	113.2		108.3				
II	109.2	114.7		112.9				
III	110.0	116.9		115.9				
IV	110.5	117.5		116.1				
1994 I	111.3	117.3		117.4				
II	112.2	116.5		118.5				
III	112.8	116.3						
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New + S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter bank Rate	Long term Gilt Rate	
Total	1990 = 100	1990 = 100	£m	£m	£m	Per cent per annum	Per cent per annum	
62112	NA	NA	6709	8104	1395	12.4	11.1	1986
59231	NA	NA	7152	8332	1180	10.8	11.3	1987
68126	NA	NA	7690	8006	317	7.8	9.5	1988
88452	NA	NA	7756	8019	263	9.6	8.9	1989
105849	100.0	100.0	8269	8421	152	11.1	10.1	1990
89589	101.8	99.9	8776	9076	300	10.4	9.3	1991
85492	106.2	102.2	9360	9806	446	15.2	9.1	1992
87352	109.4	103.6	10140	10519	379	10.6	7.8	1993
Quarterly Averages or Totals								
29267	94.7	93.6	1886	2313	427	11.1	9.3	1991 I
28583	99.8	98.3	2074	2390	316	10.3	9.1	II
20211	101.8	99.6	2295	2071	−224	9.7	9.6	III
11528	109.6	106.6	2521	2302	−219	10.4	9.0	IV
28411	99.0	95.8	2055	2538	483	10.6	8.7	1992 I
23950	104.7	100.7	2299	2374	75	10.2	8.8	II
21112	107.5	103.1	2473	2307	−166	14.0	9.3	III
12019	112.5	108.3	2533	2587	54	25.8	9.6	IV
25583	100.7	96.9	2170	2763	593	21.1	9.0	1993 I
27135	106.0	100.8	2363	2408	45	7.8	8.1	II
21329	110.7	104.3	2842	2622	−220	6.7	7.4	III
13305	118.7	111.3	2764	2725	−39	6.6	6.6	IV
37941	113.1	105.8	2709	2962	253	6.1	6.9	1994 I
36317	115.0	106.5	3041	2651	−390	5.6	8.4	II
			2642	2372	−270	5.4	8.7	III
								IV
Quarterly Averages or Totals (Seasonally Corrected)								
22764	100.2	99.2	2083	2167	84	No Seasonal Pattern	No Seasonal Pattern	1991 I
22914	100.4	99.0	2140	2403	263			II
21653	101.6	99.4	2249	2224	−25			III
21522	103.2	100.3	2290	2289	−1			IV
22102	104.8	101.5	2267	2370	103			1992 I
19278	105.6	101.6	2363	2388	25			II
22543	107.1	102.7	2410	2489	78			III
22476	106.2	102.1	2322	2571	249			IV
19794	106.6	102.7	2394	2571	178			1993 I
22005	107.1	101.9	2413	2426	13			II
22705	110.3	103.9	2774	2836	62			III
24893	111.9	104.9	2540	2704	164			IV
30668	119.8	112.1	2990	2753	−237			1994 I
29586	116.1	107.6	3097	2674	−424			II
			2579	2566	−13			III
								IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
	Money Supply M3	Licensed Banks Domestic Credit Gov.	Licensed Banks Domestic Credit Non-Gov.	External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971 = 100	Per IR£	Per IR£	PerIR£
1986	8836.9	2725.7	9065.5	2205.3	66.65	0.9147	1.3424	2.9080
1987	9799.5	2754.9	9494.5	2821.4	66.15	0.9089	1.4879	2.6717
1988	10421.0	2636.4	10853.4	3161.0	65.08	0.8568	1.5249	2.6743
1989	10945.0	2417.7	12538.3	2521.0	64.39	0.8665	1.4175	2.6650
1990	12540.7	2506.0	13855.9	2891.7	68.31	0.9302	1.6585	2.6729
1991	13024.6	2502.2	13553.2	3256.0	67.33	0.9131	1.6144	2.6710
1992	14203.3	2946.7	14410.7	2112.8	69.48	0.9692	1.7073	2.6562
1993	17510.9	2829.5	14910.5	4277.9	66.01	0.9771	1.4680	2.4240
	End-Period Totals				Quarterly Averages			
1991 I	12187.3	2382.0	13776.7	3200.9	68.28	0.9126	1.7429	2.6646
II	12306.1	2288.9	13928.7	3422.0	66.55	0.9038	1.5430	2.6753
III	12650.2	2380.5	13973.3	3471.2	66.68	0.9108	1.5355	2.6740
IV	13024.6	2505.2	13553.2	3256.0	67.87	0.9257	1.6433	2.6693
1992 I	12555.4	2399.4	13614.2	3495.8	67.97	0.9303	1.6479	2.6663
II	12960.9	2449.1	13685.4	3223.6	67.63	0.9156	1.6555	2.6691
III	12998.8	2792.2	14010.9	2130.2	69.81	0.9538	1.8160	2.6528
IV	14203.3	2946.7	14410.7	2112.8	72.50	1.0784	1.7048	2.6363
1993 I	15741.2	2463.4	14509.0	3571.0	68.91	1.0361	1.5320	2.5018
II	16177.9	2601.0	14643.3	4255.9	66.41	0.9818	1.5073	2.4386
III	17095.2	2683.0	14574.9	4315.6	63.99	0.9390	1.4129	2.3674
IV	17510.9	2829.5	14910.5	4277.9	64.73	0.9516	1.4197	2.3881
1994 I	17312.8	2723.7	15249.3	4422.2	65.51	0.9606	1.4299	2.4636
II	17553.2	2901.6	15759.5	4477.1	65.93	0.9762	1.4685	2.4382
III		3230.6	16067.8		66.39	0.9879	1.5325	2.3916
IV								
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1991 I II III IV	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
1992 I II III IV								
1993 I II III IV								
1994 I II III IV								

Visible Trade Indicators					Balance of Payments			
41	42	43	44	45	46	47		
Imports (Value)	Exports (Value)	Trade Surplus (Value)	Imports (Volume)	Exports (Volume)	Net Factor Flows	Current Account		
£m	£m	£m	1990 = 100	1990 = 100	£m	£m		
8629.7	9388.2	758.5	74.5	67.8	–2017	–612	1986	
9158.4	10727.0	1568.5	79.1	77.4	–2113	–60	1987	
10213.1	12300.7	2087.6	82.8	82.9	–2663	62	1988	
12287.8	14596.9	2309.1	93.6	92.2	–3233	–348	1989	
12475.5	14342.5	1866.9	100.0	100.0	–3131	37	1990	
12850.8	15018.9	2168.1	100.8	105.6	–2864	924	1991	
13194.8	16628.8	3434.1	105.6	120.1	–3294	1432	1992	
14795.8	19671.2	4875.1	112.3	132.3	–3804	2461	1993	
Av. Monthly Totals			Quarterly Averages or Totals					
1073.4	1173.5	100.1	102.2	101.3	–655	–16	1991	I
1072.2	1258.6	186.4	101.6	107.6	–845	–90		II
1034.6	1228.0	193.4	96.8	103.1	–550	751		III
1103.4	1346.3	242.9	103.1	112.3	–814	279		IV
1107.8	1346.6	238.8	104.5	113.6	–847	297	1992	I
1108.3	1453.4	345.1	105.1	119.0	–808	374		II
1060.2	1338.6	278.4	103.0	114.9	–840	458		III
1122.0	1404.4	282.4	111.8	125.3	–799	303		IV
1212.9	1529.2	316.3	112.7	130.9	–839	589	1993	I
1185.5	1636.2	450.7	109.0	136.4	–997	684		II
1225.3	1583.6	358.2	110.7	130.7	–865	582		III
1308.3	1808.1	499.8	117.8	148.7	–1103	606		IV
1406.3	1753.3	347.1	124.7	141.6	–943	338	1994	I
								II
								III
								IV
Av. Monthly Totals (S.C.)			Quarterly Averages or Totals (S.C.)					
1066.0	1192.8	126.8	101.3	102.7	No Seasonal Pattern	No Seasonal Pattern	1991	I
1066.4	1216.0	149.6	100.8	104.3				II
1075.0	1275.8	200.8	101.3	108.1				III
1076.8	1325.0	248.3	100.0	109.6				IV
1080.6	1355.4	274.8	102.0	114.0			1992	I
1101.3	1404.6	303.3	104.3	115.3				II
1101.1	1381.4	280.3	107.4	119.5				III
1107.0	1387.6	280.6	109.8	123.0				IV
1195.2	1544.4	349.2	111.4	131.9			1993	I
1177.3	1583.0	405.7	108.3	132.4				II
1271.0	1645.1	374.1	115.1	137.1				III
1293.9	1789.7	495.8	115.9	145.9				IV
1388.2	1773.5	385.7	123.0	143.1			1994	I
								II
								III
								IV

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