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Autumn 1992

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The Economic and Social Research Institute

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SUMMARY

Before the effective devaluation of sterling in September, the Irish economy was on course to achieve growth of about 3 per cent in 1992, with exports remaining strong and personal consumption recovering from its stagnation in the previous year. Although few statistics from the post-devaluation period are yet available, it seems clear that the loss of competitiveness against the UK and, even more crucially, the subsequent steep rise in interest rates have interrupted the previous favourable trends. Economic growth in 1992 is now forecast at 2½ per cent, with the annual increase in the consumer price index at 3¼ per cent, and the annual average employment level roughly static.

Economic prospects for 1993 depend heavily on the exchange rate and on the course of interest rates. On the assumptions that the current value of the Irish pound within the ERM will be maintained and that interest rates will be brought down rapidly to their pre-crisis levels, we tentatively predict that the growth in real GNP in 1993 will be about 1¾ per cent, with a slight fall in employment levels, but with price inflation declining to about 1½ per cent.

Even this projection of weak growth in 1993 depends critically on interest rates falling sharply in the first quarter of the year. If present interest rates were to persist indefinitely the likely outcome for 1993 would be economic stagnation, while any further rise would almost certainly trigger a full-scale recession.

To avert this danger, and to lay the foundations for a resumption of economic growth, the urgent task facing the incoming government and the nation as a whole is to bring about a rapid reduction in interest rates. This can only come about through a restoration of confidence in the currency.

Restoring credibility in the present ERM parity of the Irish pound requires a re-establishment of confidence in the ERM system as a whole. Clearly this is not within Ireland's control, but Ireland can play an important role in the evolution of international policy. Domestically, confidence in the current exchange-rate can be restored only by a much stronger demonstration of national determination than has been evident since September. A radical programme of adjustment to the loss of Irish competitiveness is essential, including the agreed deferment of pay increases due under the PESP in both the exposed and sheltered sectors, a renewed commitment to adhere to the Maastricht criteria for the public finances, some further transfer of resources to improve competitiveness in the exposed sector, and an intensification of foreign currency borrowing to replace overseas holdings of Irish gilts. It should be noted that the alternative to putting such a programme into place quickly and effectively, namely devaluation, would itself call for an adjustment package almost as strong as that required to maintain the current parity.

FORECAST NATIONAL ACCOUNTS 1992

A: Expenditure on Gross National Product

	1991	1992	Change in 1992				
	Preliminary £m	Forecast £m	£m Value	£m Volume	% Value	% Price	% Volume
Private Consumer Expenditure ...	15065	15969	904	414	6	3¼	2¾
Public Net Current Expenditure ...	4387	4720	333	66	7½	6	1½
Gross Fixed Capital Formation	4603	4702	99	– 6	2¼	2½	– ¼
Exports of Goods and Services (X) ...	16657	18472	1815	1626	11	1	9¾
Physical Changes in Stocks	557	– 195	– 752	– 680			
Final Demand	41269	43668	2399	1420	5¾	2	3½
less:							
Imports of Goods and Services (M) ...	14285	14874	589	635	4	– ¼	4½
GDP at Market Prices	26984	28794	1810	785	6¾	3½	3
less:							
Net Factor Payments (F)	2732	2962	230	200	8½	1	7¼
GNP at Market Prices	24252	25832	1580	585	6½	4	2½

B: Gross National Product by Origin

	1991	1992	Change in 1992	
	Preliminary £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	1791	1955	164	9
Non-Agricultural: Wages, etc. ...	13620	14403	783	5¾
Other: ...	6890	7558	668	9¾
less:				
Adjustments	736	1058	322	44
Net Factor Payments	2732	2962	230	8½
National Income	18833	19896	1063	5¾
Depreciation	2684	2818	134	5
GNP at Factor Cost	21517	22714	1197	5½
Taxes less Subsidies	2735	3118	383	14
GNP at Market Prices	24252	22832	1580	6½

C: Balance of Payments on Current Account

	1991	1992	Change in 1992
	Preliminary £m	Forecast £m	£m
X—M	2372	3598	1226
F	– 2732	– 2962	– 230
Net Transfers	1977	1830	– 147
Balance on Current Account ...	1616	2466	849
as % of GNP	6¾	9½	2¾

FORECAST NATIONAL ACCOUNTS 1993
A: Expenditure on Gross National Product

	1992	1993	Change in 1993				
	Forecast £m	Forecast £m	£m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	15969	16736	767	479	4¾	1¾	3
Public Net Current Expenditure ...	4720	5074	354	47	7½	6½	1
Gross Fixed Capital Formation	4702	4904	202	115	4¼	1¾	2½
Exports of Goods and Services (X) ...	18472	19011	539	677	3	– ¾	3¾
Physical Changes in Stocks	– 195	– 200	– 5	– 5			
Final Demand	43668	45525	1857	1313	4¼	1¼	3
less:							
Imports of Goods and Services (M) ...	14874	15544	670	694	4½	– ¼	4¾
GDP at Market Prices	28794	29981	1187	619	4	1¾	2¼
less:							
Net Factor Payments (F)	2962	3070	108	136	3¾	– ¾	4½
GNP at Market Prices	25832	26911	1079	483	4¼	2¼	1¾

B: Gross National Product by Origin

	1992	1993	Change in 1993	
	Forecast £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	1955	1906	– 49	– 2½
Non-Agricultural: Wages, etc. ...	14403	15123	720	5
Other ...	7558	7867	309	4
less:				
Adjustments	1058	1162	104	9¾
Net Factor Payments	2962	3070	108	3¾
National Income	19896	20664	768	3¾
Depreciation	2818	2973	155	5½
GNP at Factor Cost	22714	23637	923	4
Taxes less Subsidies	3118	3274	156	5
GNP at Market Prices	25832	26911	1079	4¼

C: Balance of Payments on Current Account

	1992	1993	Change in 1993
	Forecast £m	Forecast £m	£m
X—M	3598	3467	– 131
F	– 2962	– 3070	– 108
Net Transfers	1830	1850	20
Balance on Current Account ...	2466	2247	– 219
as % of GNP	9½	8¼	– 1¼

COMMENTARY

The International Economy

General

Uncertainty remains the dominant feature of the world economic outlook. With different countries and regions at varying stages of the trade cycle, and many of them facing specific problems not shared by their neighbours, it is not surprising that there is little sign of a co-ordinated approach to economic management by the major world economies.

Growth in the US has continued throughout 1992, albeit at a slow pace, and there are reasonable grounds for expecting a significant acceleration in the US growth rate in 1993. This recovery will probably be shared by the other developed countries most dependent on the US market. Latin America and the newly industrialised countries of Asia have been growing strongly in 1992, and faster US growth should help them to maintain this momentum in 1993.

Conversely, the European economy, dominated by the problems of German unification, has been stagnating in 1992, with severe currency instability adding to the difficulties in the closing months of the year. Prospects for 1993 are far from promising, with a real danger that the incipient German recession could intensify. Japan, at a similar stage of the economic cycle to Germany, might also slip further into recession, under the weight of falling asset values and continuing financial scandals.

Other uncertainties relate to whether or not the current round of GATT negotiations can be brought to a successful conclusion, whether the Maastricht Treaty can be ratified in the course of 1993, and whether the Exchange Rate Mechanism of the European Monetary System can be preserved or strengthened in the face of growing market scepticism. On balance, it remains probable that the positive tendencies in the world economy will outweigh the negative, and that output and trade growth will be faster in 1993 than in 1991 or 1992. However, the balance remains delicate, and it is likely to be well into the year before confidence in an improving world outlook will become widespread.

The US Economy

It now seems that the US economy was growing rather more strongly than had been thought during the middle months of 1992. Although the recovery remains weaker than has normally been seen at the corresponding phase of previous economic cycles, fears that growth would peter out into prolonged stagnation or a renewed decline now appear to have been unduly pessimistic.

There is still some doubt as to how rapidly the recovery will accelerate in 1993. The private sector debt overhang remains an inhibiting factor, although its effects have already been eroded to some extent by the prolonged period of low interest rates. The sluggish European economy is likely to restrain the upturn in US exports, although many other markets important to the US, such as Latin America, are relatively buoyant. The most important factor governing the growth rate in 1993 will be the degree of consumer and business confidence in the domestic economy. Once the economic, and especially the fiscal, policies of the incoming administration have become clarified in office, it is reasonable to expect a gradual build-up in confidence. Allied to continuing low interest rates, this should result in a substantial rise in personal consumption and business investment, especially in the service industries.

Accordingly, it seems likely that US real GNP in 1993 will increase by at least 3 per cent, which should be sufficient to reverse the decline in US employment. As the domestic economy recovers, the deterioration in the fiscal deficit is likely to be checked, interest rates, while remaining low, will tend to increase, and the US dollar, which has already risen substantially in the past few months, will tend to appreciate further.

The European Economy

Economic activity in western Europe has proved much weaker than expected in 1992. Aggregate demand and production have been virtually static since the first quarter, while employment has fallen and unemployment increased. The moderate pace of the US recovery, coupled with the weakness of the US dollar for most of the year, has prevented the strong external stimulus that was hoped for, while high interest rates and a general lack of confidence have restrained domestic demand.

Germany, which maintained strong growth in 1990 and 1991 when most economies were declining, has now entered its own recession. So far, this is relatively mild, but there are fears that it could intensify in 1993, especially if German interest rates are maintained at their current levels. On the other hand, inflation is falling, pay settlements are becoming much more moderate, and the money supply figures, which are the principal factor restraining a cut in interest rates, are clearly distorted by both the developments in Eastern Europe and the consequences of currency speculation within the ERM. Thus there remain firm grounds for expecting a significant reduction in interest rates in the near future. Combined with the effects of a stronger US recovery, this should prevent the German recession from deepening and lead to modest growth resuming in the second half of 1993. For the year as a whole, however, most forecasts point to a growth in total German GNP of no more than 1 per cent, with most of this coming in the former East Germany.

Most other continental European economies are faced with the effects of German stagnation, high German interest rates, and, additionally, with the problems of currency instability. The slow but positive growth in domestic demand which most of them had sustained throughout the recession is thus under some threat. However, improved competitiveness, achieved in France, the Low Countries and Denmark through prolonged pay moderation, and in Iberia and Italy through devaluation, should permit growth to continue, albeit more slowly than had been hoped. The main continental economies are not encumbered by excessive private sector debt, which will continue to be a depressing influence in most Scandinavian countries, but the problem of the public finances in Italy, and, to a lesser extent, Spain will require restrictive fiscal policies. Overall, an average growth rate of about 2 per cent, slightly lower than in 1992, is likely to be typical of continental countries in 1993, provided that currency stability within the ERM can be restored in the near future.

The UK Economy

Throughout 1991 and most of 1992, the UK economy was suffering from the twin afflictions of a massive private sector debt overhang and a seriously overvalued currency. The former problem continues, although its effects have been slightly eased by the reduction in UK interest rates since sterling was suspended from the ERM. The latter problem has been removed, at least temporarily, by the effective devaluation of sterling.

Much current analysis of British economic prospects appears to overemphasise the importance of the debt overhang, and its associated phenomenon of low property values, and to underemphasise the probable impact of improved post-devaluation competitiveness. Gloomy interpretations have been reinforced by a series of poor economic indicators, most of which, however, refer to the pre-devaluation period. For the first time in several years, we believe that official Treasury projections are unduly negative, and that the growth rate in 1993 will be well above the 1 per cent Treasury forecast.

Past experience suggests that, despite the erosion of the industrial base in recent years, net export volumes will respond quite strongly to the gain in competitiveness. Allowing for substantial lags, it seems likely that net export volumes will begin to grow significantly from about the second quarter of 1993 and that this will stimulate some expansion in domestic demand. Real GNP is thus likely to increase by about 2 per cent in the year as a whole, implying quite a rapid rate of increase in the second half of the year. Balance of payments constraints seem unlikely to restrict growth during 1993, although they will almost certainly become relevant in future years.

If growth does follow this suggested path, the rise in UK unemployment should be significantly smaller than in 1992. As recovery becomes apparent, sterling could tend to strengthen temporarily, although to nothing like its previous value. Conversely, inflation seems likely to be higher than the current official projections, probably rising to over 5 per cent by the end of 1993, and interest rates might well rise in the second half of the year as this relatively high inflation rate puts renewed pressure on sterling.

The Rest of the World

The timing of the Japanese economic cycle appears to be similar to the German, although it is not obvious why this should be so. As inflation remains low and the current account in massive surplus, the Japanese authorities have been free to follow expansionary monetary and fiscal policies. So far these have failed to stimulate domestic demand out of its stagnation, perhaps because of the continuing negative effects of financial scandals and the impact of falling asset values on the Japanese banking system. Some resumption of growth seems probable in 1993 as the expansionary policies begin to take effect. If a stronger US recovery does become apparent, and especially if agreement is reached in the GATT negotiations, the upturn in the Japanese economy could become quite vigorous in the course of 1993.

TABLE 1: Short-term International Outlook

Country	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
	1992	1993	1992	1993	1992	1993	1992	1993	1992	1993
UK	− ¾	2	4¼	4¾	6¼	5¾	10¼	10¾	− 2	− 2½
Germany	1½	1	3¾	3	6	4½	5	5½	− ½	–
France	2	2	3	2½	4¼	3½	10	10¼	¼	¼
Italy	1½	1½	5½	5½	5¾	5	11	11½	− 1¾	− 2
Total EC	1	1½	4	3½	6	4½	9½	10	− ¾	− 1
USA	1¾	3¼	2½	2¾	3¼	3¾	7½	7	− ¾	− 1
Japan	2	2	2	2¼	4¾	4½	2½	2¾	2¼	2¾
Total (OECD)	1½	2½	3¼	2¾	5½	4¾	7¾	8	− ¼	− ¼
Ireland	2½	1¾	3¼	1½	5	3¾	17	18½	9½	8¼

Economic growth has remained strong in most other Asian countries in 1992, partly as a response to the lowering of regional trade barriers. Rapid growth seems likely to continue in 1993. Latin America has also demonstrated quite rapid growth over the past eighteen months, as several major economies have made significant progress in overcoming their fiscal and debt problems. This progress is expected to continue in 1993, particularly if the US recovery gathers pace.

Oil prices have remained relatively steady despite the weakness in world demand, suggesting that OPEC production agreements are operating effectively. The modest upturn in world demand expected in 1993 seems unlikely to trigger any major change in oil prices, although higher volumes and a stronger dollar could raise incomes in many oil-producing countries.

The Context for Ireland

It is obvious from the foregoing discussion that considerable uncertainty persists about the course of the world economy in 1993. Even if our basic prediction of an early recovery in the USA, followed by a later and slower upturn in Europe, is broadly correct, the implications for Ireland are not entirely clear.

Most major markets for Irish exports should grow at least as fast as in 1992, although much of the increase seems likely to be in the second half of the year. On the other hand, at current exchange rates, Irish producers will be significantly less competitive in relation to the UK and several other European countries. On balance, it would appear probable that the overall environment for Irish exporters will be considerably less favourable than in 1992.

While a sustained world recovery, especially if it coincided with a resolution of the GATT discussions, could be expected to lead to an increase in international industrial investment, it seems likely that such a development would mainly occur in later years, with only a minor impact in the second half of 1993. Irish success in attracting a share of such investment will depend largely on perceptions of Irish economic stability and long-term cost competitiveness.

Both immediate export prospects and longer-term investment potential are thus bound up with the restoration of European currency stability and with the concomitant evolution of European interest rates. Ireland's specific role and options in this regard are discussed in the *General Assessment* at the end of this *Commentary.* On a wider scale, it is impossible at present to predict European and UK monetary and currency developments with any degree of certainty.

The earlier assumption of a relatively smooth transition towards a broad European Monetary Union, laid down in the Maastricht Treaty, no longer appears tenable. Attitudes against such a development have hardened in several countries. More important, it has become increasingly evident that the degree of economic convergence achieved within the EC as a whole has been insufficient to permit full union within the Maastricht time scale.

On the other hand, the extent of convergence among the countries currently within the narrow-band of the ERM has been impressive. All of these are conscious of the role that the ERM itself has played in this achievement. All of them can thus be expected to defend, and if possible strengthen, the ERM system. In this they are likely to be supported by the Iberian countries and Italy, and also by potential new EC members, for whom adherence to ERM disciplines offers the best hope for resolving domestic problems and for moving towards convergence.

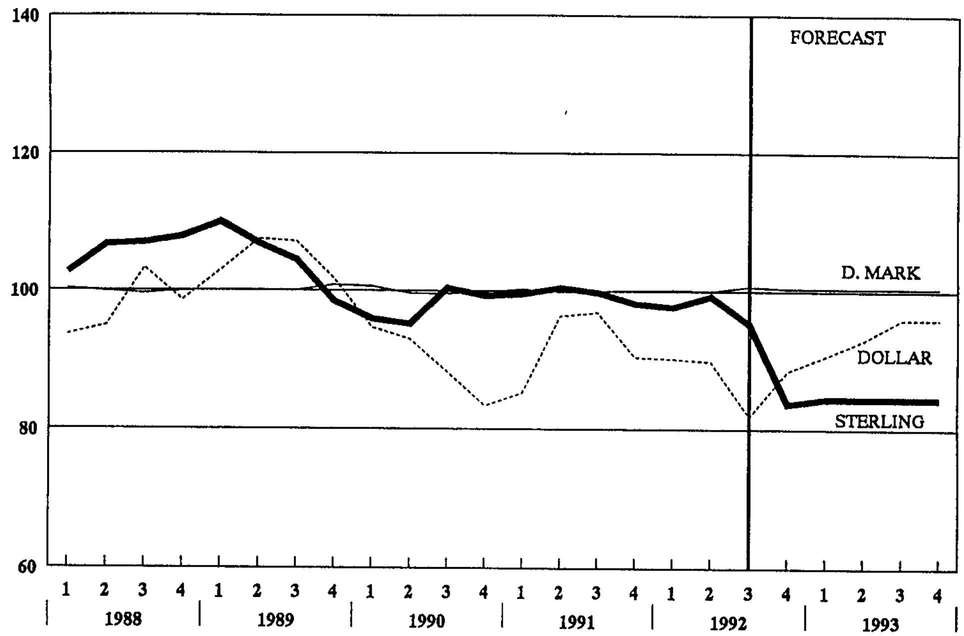
Precisely what form the evolution of the ERM will follow is difficult to predict. The most likely development is that current narrow-band countries will move towards tighter co-operation, amounting in effect to a *de facto* monetary union, which other countries could join when they reach strict convergence criteria. Whether such a union will be operated essentially by the Bundesbank in its present form, whether that institution can be persuaded to take cognizance of its broader European responsibilities or whether it can be to some extent internationalised in a modified form of the Maastricht proposals are questions which need to be addressed with some urgency. Ireland's interests would seem to be best served by membership of any emerging *de facto* union, by its speediest possible implementation and by whatever broadening of the Bundesbank's present remit as may prove feasible.

One final uncertainty is whether moves towards a closer bonding of the narrow-band currencies will be preceded by one final re-alignment of their central parities. Such a re-alignment cannot be ruled out, but on balance it seems more probable that present parities will be maintained, and this is the assumption adopted for the forecasts in this *Commentary.*

While an early re-entry of the lira seems possible if Italy can resolve its domestic fiscal problems, it seems improbable that sterling will rejoin the ERM in the course of 1993. While a floating sterling will represent a constant threat of potential instability, it seems likely in practice that an informal link will be maintained to prevent any further substantial depreciation. As the UK economy shows signs of recovery, sterling should tend to rise, although a subsequent decline is possible in the later months of 1993 as UK inflation increases above the European norm. For forecasting purposes, it is assumed that sterling will fluctuate around an average of DM2.50, implying an average Irish pound exchange rate of about £1.065 in 1993. In line with the recovery of the US economy the US dollar is assumed to continue its recent appreciation, reaching about $1.55 to the Irish pound by the end of 1993.

FIGURE 1: Exchange Rates

IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1987=100



If stability can be restored to the ERM in the near future, it seems probable that the extremely high interest rate differentials over Germany that several European countries, including Ireland, are currently suffering can be eroded during the first quarter of 1993. Given the parallel requirements of the German domestic economy and the European Monetary System, it is reasonable to assume that German interest rates will be significantly reduced, starting either at the end of 1992 or very early in 1993. It is assumed that by the end of 1993 German interest rates will be about 1½ per cent lower than at present.

With regard to the GATT negotiations, it is assumed that there will be no early breakdown, but that the several unresolved issues, especially between the US and Japan, will mean that agreement, if reached, will come too late to have any dramatic impact in 1993.

The Domestic Economy

General

Our previous *Commentary* was based on the assumption of an orderly devaluation of sterling within the ERM at about the end of 1992. In the event, of course, the devaluation has come earlier than we assumed, has been significantly larger, and, above all, has involved the withdrawal of sterling from the ERM. The resultant pressure on the Irish pound and consequent crisis levels of Irish interest rates have seriously undermined the general assumptions on which our previous forecasts were based.

At the same time, the double shock of exchange rate and interest rate crises in September means that the generally favourable trends in most economic indicators in the preceding months are now of limited relevance in projecting future trends. Greater reliance than usual must be placed on basic economic theory in assessing the likely responses of individuals and companies to rapidly changing economic circumstances. Similarly, the accuracy of the underlying policy assumptions has become of greater importance than usual in constructing a forecast for the coming year.

The external assumptions have already been discussed in some detail. In summary, they are that the US will lead a modest recovery in 1993, which will be slow to spread to Europe, that European short-term interest rates will be reduced significantly but not drastically, that there will be no major ERM realignment and, crucially, that sterling will fluctuate quite widely around a mid-point of about 2.50DM.

Formulating tenable assumptions concerning domestic policy poses a dilemma. The standard assumption of "unchanged policies" makes little sense when detailed policies to deal with the changed external environment have not yet been publicly announced, quite apart from the fact that the nature of the next government is not known at the time of writing. At the other extreme, the adoption of a full set of normative assumptions would be arrogant, implying that the incoming government would share our assessment of an optimum policy mix. The course adopted in this *Commentary* is to attempt to base our major assumptions on policy options which appear likely in the light of past economic strategy and of the objective situation of the economy. Minor differences in the detail of policies would probably not make much difference in the course of 1993. Major differences, and their possible implications, are discussed in the *General Assessment* at the end of this *Commentary.*

The specific policy assumptions on which the forecast is based include the following. There will be no realignment of the Irish pound within the ERM, provided that the value of sterling remains reasonably in line with the external assumptions we have made. Interest rates will start to be reduced before the end of 1992, with the entire "crisis differential" removed by the end of the first quarter of 1993. The current budget deficit and the Exchequer Borrowing Requirement will be allowed to rise in 1993, but the EBR will not be permitted to exceed £800 million, thus remaining under 3 per cent of GNP. There will be an explicit commitment to reduce the EBR from 1994 onwards to about 2 per cent of GNP. There will be no suspension or renegotiation of the pay terms of the PESP, although in the exposed trading sector many of the increases due under the PESP will be deferred by local agreement. The emergency subsidy scheme for companies damaged by sterling devaluation will be gradually phased out in the course of 1993.

Whether all of these assumptions are mutually compatible will be discussed in the *General Assessment.*

Exports

Export statistics are so far available only for the period to end-September 1992, thus mainly preceding the currency crisis. With a value increase of 13¼ per cent, visible exports were well in line with our previous forecast for an annual increase of 12 per cent. Agricultural exports remained stronger than we had predicted, but manufactured exports were slightly weaker, presumably due to the European economy being even more stagnant than we expected.

Sterling devaluation should have only a minor effect on the volume of agricultural exports. Prices of agricultural products exported to the UK will be significantly lower in the closing months of 1992 and in 1993, thus limiting the growth in the value of total agricultural exports. However, the main factor determining the level of agricultural exports in 1992 and 1993 is the extent of the run-down in intervention and related stocks. Although the closing months of the year can have a substantial effect on the annual balance between stockbuilding and exports, it is already clear that 1992 has seen a massive reversal from heavy stockbuilding in 1991 to an actual decline in intervention stock levels. Part of this is due to disposals from stock, and part is due to an increase in market sales of fresh produce, thus reducing the intake into intervention storage. Because of this stock decline, it seems likely that agricultural exports will increase in 1992 by about 25 per cent in value, and perhaps by rather more in volume. For 1993, it seems possible that the volume of agricultural exports will remain at roughly the 1992 level, with continued disposal of the very large intervention stocks built up in recent years and some further expansion of overseas market sales of fresh produce. This implies a further large fall in the value of intervention stocks.

The response of manufactured and other industrial exports to sterling's devaluation is one of the major questions concerning Irish economic performance in 1993. So large and sudden a deterioration in competitiveness in relation to a major market has not previously been faced by Irish industry. Thus past experience provides little guide, and any predictions must be treated with considerable caution.

With this proviso, it seems probable that the major immediate impact of sterling devaluation on manufactured exports in 1992 will have been a severe price reduction in Irish pound terms, and a consequent loss of export value. In the short run it is reasonable to assume there has been only a small loss in the volume of manufactured exports to the UK, with exporters continuing to fill existing orders even where this has caused a short-term loss. In fact, the downward adjustment in our forecast of manufactured export volumes since the Summer *Commentary* is due mainly to the less buoyant economic trends now being seen in non-UK European markets.

For 1993 the picture is rather different. Assuming that the sterling exchange rate remains at roughly its current level, average Irish pound export prices to the UK will be substantially below the 1992 level, although not by the full extent of the devaluation, as UK import prices will tend to rise in sterling terms. At the same time, relative Irish materials costs will have had time to adjust, easing some of the acute squeeze in margins felt by Irish producers in the initial weeks after the devaluation. Nevertheless, even with temporary subsidies and other cost cutting measures, including the plant-level deferment of some previously agreed pay increases, it seems inevitable that a proportion of UK orders will be forfeited on the grounds that they have become unprofitable. The volume of exports of traditional manufactured goods to the UK is thus likely to decline moderately in 1993. The traditional manufacturing sector exports relatively little to countries other than the UK. Thus the additional competitiveness of UK exporters in third markets is unlikely to have a great effect on Irish export volumes.

TABLE 2: Exports of Goods and Services

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Agricultural	2251	28	25	2814	0	−1½	2772
Manufactured	10526	8½	10¼	11605	4½	3½	12011
Other Industrial	2066	3½	3	2128	3	2	2171
Other	181	−8¼	−8¼	166	0	0	166
Total Visible	15025	10½	11¼	16713	3½	2½	17120
Adjustments	−320			−300			−280
Merchandise	14705	10¾	11½	16413	3¾	2½	16840
Tourism	1202	2¼	5½	1268	4¼	6	1344
Other Services	750	2¼	5½	791	3	4½	827
Exports of Goods and Services	16657	9¾	11	18472	3¾	3	19011

The volume of exports to the UK from the modern sector of manufacturing should continue to increase slightly. The products tend to be less price sensitive, are less likely to be in direct competition with domestic UK output, the Irish value-added component of total costs is smaller, and, in many cases, the pre-devaluation profit margins were wider. In total, it seems possible that the volume of manufactured exports to the UK will remain roughly static in 1993, or even increase marginally. Lower average prices, however, are likely to lead to a fall in the value of such exports, possibly by about 5 per cent.

Manufactured exports to other markets should continue to grow in both volume and value. Despite the slowdown of the European economy, total imports are expected to increase modestly in most continental European countries. Irish market share should continue to increase from its very small base. The US market is expected to show a stronger recovery, and Irish competitiveness should improve as the dollar appreciates. In the light of past experience there seems no reason why Irish manufactured exports to non-UK markets should not increase by about 6 per cent in volume and 7 per cent in value in 1993, with the modern industrial sector accounting for most of the expansion.

As shown in Table 2, the volume of total visible exports is thus tentatively forecast to increase by 4 per cent in 1993, a major reduction from the 10½ per cent growth likely in 1992. The reduction in the rate of growth in the value of visible exports is even sharper, from over 11 per cent in 1992 to about 3 per cent in 1993.

There is still some dispute about the level of tourist earnings in 1992, reflecting disparate experience among the various sectors of the tourist industry. However, on the basis of official figures to date, it seems probable that there has been an increase of about 5½ per cent in the value of tourist receipts, implying a volume rise of some 2¼ per cent. A further recovery in the number of American tourists can be expected in 1993, but this could be offset by continued stagnation in the number of UK tourists and a slower growth in the number of continental visitors. Increases of 4½ per cent in volume and 6 per cent in value are accordingly projected for 1993.

In the absence of up-to-date estimates of trends in other service exports, an assumption of continuing modest growth is made. Significant revisions to these forecasts might have to be made when official data for the second half of 1991 and some of 1992 become available.

Total exports of goods and services are forecast to rise by 9¼ per cent in volume and 10¾ per cent in value in 1992. While this is very close to our previous forecast, there is a substantial change in composition, with agricultural exports accounting for a much higher proportion of the total growth. For 1993, the projected increases are 4¼ per cent in volume and 3½ per cent in value. It must be stressed that a considerable margin of error attaches to these projections, and that it will be well into 1993 before an accurate assessment of the impact of sterling devaluation on Irish exports can be made.

Stocks

The increase in the number of animals on farms in 1992 now seems likely to be greater than was expected earlier in the year. The value of the physical change in farm stocks has thus been revised upwards to £55 million. There will be less incentive to increase herd size in 1993, and so an unchanged level of farm stocks is projected for that year.

After two years of massive increase, there has been a substantial fall in intervention and related stocks in 1992. This is partly due to sales out of stock and partly due to a lower intake of produce. It is still too early to make accurate estimates for 1992, as sales and purchases in the closing months of the year can have a significant impact on the annual level. However, the forecast for 1992 shown in Table 3 for the value of physical changes in such stocks is compatible with the forecast level of agricultural exports, when allowance is made for the different prices at which stocks and exports are valued. A further reduction in intervention and related stocks is projected for 1993.

No short-term indicators are available for other stocks, comprising industrial material and product stocks, work in progress and distribution stocks. These fell marginally in 1991, but a modest increase, some of it involuntary, seems likely in 1992. A similar modest rise is projected for 1993.

TABLE 3: Stock Changes

	1991 £m	Change in Rate £m	1992 £m	Change in Rate £m	1993 £m
Livestock on Farms	27	28	55	– 55	0
Irish Intervention Stocks[1]	535	– 835	– 300	50	– 250
Other Stocks	– 5	55	50	0	50
Total	557	– 752	– 195	– 5	– 200

[1]Including subsidised private storage.

Investment

Trends in housebuilding, planning permissions and employment suggest that until September investment in building and construction was on course to meet our previous forecast of a 2½ per cent volume growth in 1992. Although no figures are yet available for the final quarter of the year, it seems inevitable that the sharp rise in interest rates following sterling devaluation has interrupted

TABLE 4: Gross Fixed Capital Formation

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Building and Construction	2545	1	3½	2634	2	4½	2753
Machinery and Equipment	2058	−1½	½	2068	3	4	2151
Total	4603	−¼	2¼	4702	2½	4¼	4904

this recovery in building. For 1992 as a whole, a volume increase of about 1 per cent in investment in building and construction now seems likely.

The period of high interest rates, even if it ends quickly as assumed in this *Commentary*, must already have delayed many plans for 1993. Some pick-up is expected in the course of the year as interest rates fall, but the general uncertainty concerning economic prospects is likely to limit new investment. The forecast of a 2 per cent growth in building investment in 1993, as shown in Table 4, is a significant downward revision from our previous projection.

On the evidence of import statistics, investment in machinery and equipment stabilised in the first half of 1992 after a substantial fall in 1991. Continued weakness in commercial vehicle registrations appears to have been offset by an increase in investment in other capital goods. As with building, increased uncertainty and higher interest rates are likely to have deterred investment in machinery and equipment in the last quarter. An annual decline of 1½ per cent in the volume of such investment is thus forecast for 1992. A mild upturn of about 3 per cent is projected for 1993, with most of the increase expected in the second half of the year as the economic outlook becomes less uncertain.

The volume of gross fixed capital formation as a whole is thus forecast to decline marginally in 1992, and to rise by 2½ per cent in 1993. This approximate halving of the projected growth in investment volume since our previous Commentary reflects the less favourable economic outlook and the effects of the temporary rise in interest rates.

Consumption

Retail sales statistics for the period up to September 1992 confirm expectations that personal consumption would show a steady but unspectacular growth this year. The rise in interest rates and increase in uncertainty since September is likely to have a dampening effect on consumption in the final quarter of the year, although the widespread deferment of increases in mortgage repayments could limit the short-term impact of higher interest rates on personal consumption. As shown in Table 5, a modest slowdown during the final quarter of 1992 would leave personal consumption increasing by 6 per cent in value and 2¾ per cent in volume for the year as a whole. Such an increase would imply virtually no change in the personal savings ratio compared with 1991.

While personal spending in the early months of 1993 is likely to be inhibited by economic uncertainty and by high interest rates, it is assumed that both of these constraints will be eased by the middle of the year. Renewed growth in consumption is thus likely in the second half of 1993. Changes in the probable composition of personal income should be conducive to a modest lowering of

TABLE 5: Consumption Indicators

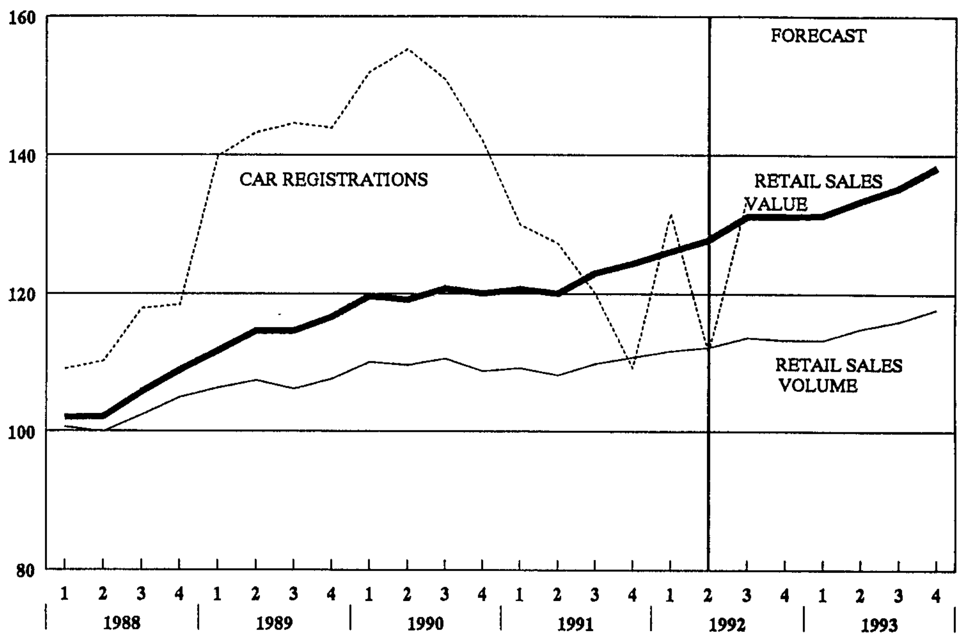
	Annual Percentage Change						
	1988	1989	1990	1991	1992 To Date	1992 Forecast	1993 Forecast
Consumption Value							
NIE 1991, Personal Consumption	7.3	7.7	4.8	3.5	—	6.0	4.8
Retail Sales Index, Value	4.8	9.2	4.8	1.8	5.6	5.5	4.3
Divergence	2.5	− 1.5	0	1.7	—	0.5	0.5
Consumption Volume							
NIE 1991, Personal Consumption	4.6	3.8	3.0	0.3	—	2.7	3.0
Retail Sales Index, Volume	2.1	4.7	2.7	− 0.2	3.2	2.7	2.5
Divergence	2.5	− 0.9	0.3	0.5	—	0	0.5
Consumer Prices							
NIE 1991, Personal Consumption Deflator	2.6	3.8	1.7	3.2	—	3.2	1.7
Retail Sales Index Deflator	2.6	4.3	2.0	2.0	2.4	2.6	1.8
Consumer Price Index	2.1	4.0	3.4	3.2	3.4	3.2	1.5

the personal savings ratio. Assuming a reduction of ¼ per cent in the ratio, which would not imply any significant change in consumer confidence, the value of personal consumption in 1993 could increase by about 4¾ per cent. With price increases likely to be very low, this would convert to a rise of about 3 per cent in the volume of personal consumption.

Net public expenditure on current goods and services is expected to be roughly in line with budget projections in 1992, showing an increase of about 7½ per cent in value and 1½ per cent in volume. The policy assumptions on

FIGURE 2: Consumption

Quarterly Averages Seasonally Adjusted, 1987=100



which this *Commentary* is based imply a similar value rise in 1993, which, with a rather higher pay deflator, suggests a volume increase of about 1 per cent. This would be below the average of the past few years although not representing a return to the spending cuts of the late '80s.

Final Demand

Final demand is forecast to increase by 5¾ per cent in value and 3½ per cent in volume in 1992. This represents a substantial downward revision on our previous forecasts, partly because of the effects of the currency crisis and partly because the different composition of exports has resulted in a major negative revision to our forecast of stock changes. The import intensity of final demand in 1992 remains relatively low.

The volume of final demand is projected to grow more slowly in 1993, at about 3 per cent. Because price increases are expected to be very low, the growth in the value of final demand is likely to slacken more noticeably to about 4¼ per cent. The composition of final demand in 1993 is expected to be rather more import intensive than in 1992.

Imports

In the first nine months of 1992, the value of visible imports was 3 per cent higher than in the corresponding period of 1991. As would be expected from the pattern of final demand, imports of consumer goods and materials for industry rose, while imports of capital goods and materials for agriculture declined. With import prices above 1991 levels in the first quarter, but tending to decline thereafter, the increase in the value of imports would appear to have been accounted for by an equivalent volume rise. Import volumes seem likely to continue their gentle upward trend in the closing months of 1992, but average import prices seem likely to have fallen significantly. Thus for the year as a whole, a volume increase of 4¼ per cent is forecast, with the value increase at 3½ per cent, as shown in Table 6, which also indicates the approximate composition of total imports.

Figures for the first three quarters indicate that travel abroad has increased in 1992, with the value of tourist spending rising by almost 10 per cent. Making

TABLE 6: Imports of Goods and Services

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Capital Goods	1814	– 1½	– 1½	1787	4	3	1841
Consumer Goods	3620	5	4½	3783	5½	4½	3953
Intermediate Goods:							
Agriculture	466	– 2	– 5	443	– 3	– 3½	427
Other	6871	6	5	7214	5	5	7576
Other Goods	83	3½	3½	86	0	0	86
Total Visible	12853	4¼	3½	13313	4¾	4¼	13883
Adjustments	– 188			– 180			– 180
Merchandise Imports	12665	4½	3¾	13133	4¾	4¼	13703
Tourism	699	6	9½	765	5	6¾	816
Other Services	921	3	6	976	3	5	1025
Imports of Goods and Services	14285	4½	4	14874	4¾	4½	15544

the technical assumption of a moderate increase in other service imports, the forecast for total imports of goods and services in 1992 is for an increase of 4 per cent in value and 4½ per cent in volume.

Partly because of a more import intensive composition of final demand, and partly because of improved UK competitiveness, a marginally faster increase in the volume of imports is projected for 1993 in spite of an expected decline in the rate of growth of final demand. Sterling devaluation could lead to a substantial fall in import prices. However, it is very likely that many British producers will seek to widen their margins which have been badly squeezed in the past two years. When allowance is also made for the fact that most materials imports into the UK have become more expensive as a result of devaluation, the actual reduction in the price of Irish imports from the UK in 1993 compared with 1992 will probably be quite limited. Prices of imports from most other sources will probably increase somewhat, especially as the US dollar is expected to appreciate. Thus the fall in the annual unit value of total imports is forecast at about ½ per cent, leaving the projected increase in the value of visible imports at 4¼ per cent.

A moderate increase of 5 per cent in the volume of tourist spending abroad, and the technical assumption of a 3 per cent increase in the volume of other service imports keep the projected increase in the volume of total imports of goods and services at 4¾ per cent, the same as for visible imports. A rise of 4½ per cent is projected for the value of imports of goods and services.

Balance of Payments

It is already clear from the monthly trade statistics that there will be a massive increase in the surplus on visible trade in 1992. On probable trends, the annual surplus will be about £3,400 million. When balance of payments adjustments and a slight deterioration in the service balance are taken into account, the surplus on trade in goods and services in 1992 is likely to be about £3,600 million.

On the currency and growth assumptions we have made, it seems probable that there will be a small weakening of the trade balance in 1993. However, as shown in Table 7, a large surplus should be maintained in the balance of trade in goods and services.

As no detailed official figures have been made available for the period since June 1991, estimates or forecasts of factor flows must inevitably be regarded as tentative. Given the upturn in the value of high-technology exports by multinational companies since mid-1991, a substantial increase in profit expatriation is expected in 1992. The forecast of a slower growth in relevant export values in 1993 suggests that the increase in profit expatriation next year should also be rather slower. There is no reason to expect any major change in national debt interest paid abroad in either 1992 or 1993. Other debit flows tend to be volatile, but, in the absence of any up-to-date information, a technical assumption has been made that they will continue to rise by about 5 per cent per year.

The strong rise in credit flows should continue, reflecting the high level of capital outflows, although here also the lack of recent figures makes extrapolation difficult. However, on the reasonable assumption that errors

TABLE 7: Balance of Payments

	1991 £m	Change %	1992 £m	Change %	1993 £m
Visible Trade Balance	2171	56½	3400	-4¾	3237
Adjustments	-131		-120		-100
Merchandise Trade Balance	2040	60¾	3280	-4¼	3137
Service Trade Balance	332	-4¼	318	3¾	330
Trade Balance in Goods and Services	2372	51¾	3598	-3¾	3467
Factor Flows:					
Profits etc.	-2207	15	-2538	10	-2792
National Debt Interest	-1024	2	-1044	0	-1044
Other Debit Flows	-1248	5	-1310	5	-1376
Total Debit Flows	-4479	9¼	-4892	6½	-5212
Credit Flows	1747	10½	1930	11	2142
Net Factor Flows	-2732	8½	-2962	3¾	-3070
Net Transfers	1977	-7½	1830	1	1850
Balance on Current Account	1616	52½	2466	-9	2247

concerning the individual items will largely cancel out, the forecast increases of 8½ per cent and 3¾ per cent in net factor outflows should be of the correct order of magnitude.

A significant fall in net transfers from the EC appears likely in 1992, with a fall in intervention-related transfers being only partly offset by increased structural funds. Despite negative movements in net factor flows and net transfers, the surge in the trade surplus in 1992 is sufficiently large to result in a substantial increase in the total current account surplus. In 1993 a modest decline in the current account surplus seems likely, although at about £2¼ billion it should still amount to over 8 per cent of GNP.

Agriculture

Increases in crop and livestock output are expected to result in a rise of almost 2 per cent in the volume of gross agricultural output in 1992. Input volumes are declining, so that the volume of gross agricultural product could increase by almost 5 per cent.

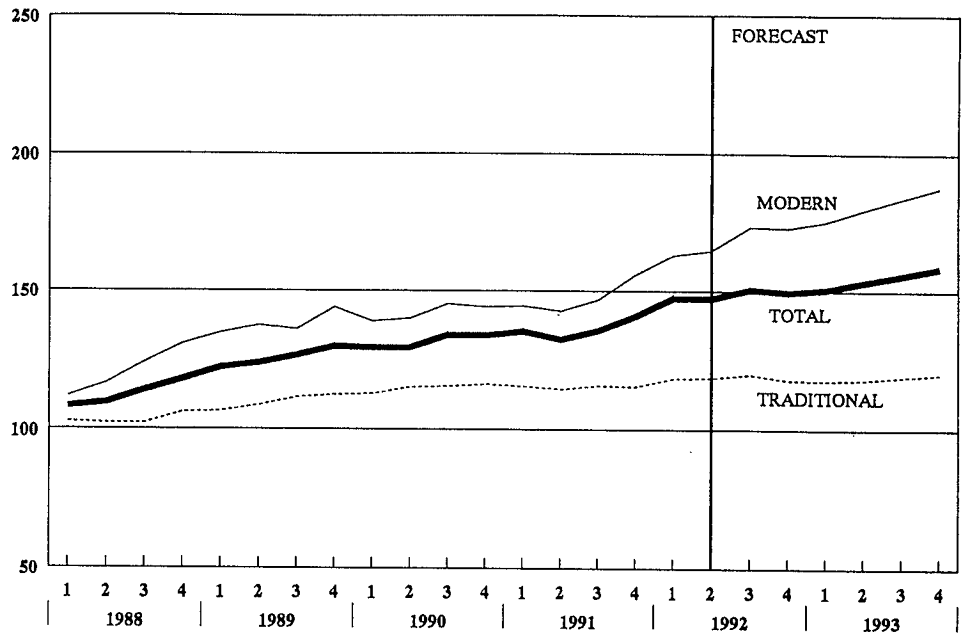
As Irish agriculture starts adjusting to the coming regime of CAP reform and possible GATT requirements, the recent growth in agricultural output is likely to cease in 1993, and could be replaced by a slight fall. Input volumes are expected to continue their decline, so there may well be no appreciable change in the volume of gross agricultural product in 1993.

Industry

The volume of production in manufacturing industry increased by 10¾ per cent in the first eight months of 1992. Although chemicals, office and data processing machinery and electrical engineering contributed strongly to this increase, most other industry groups shared to some extent in the upward trend. The industrial production index is not yet available for any period since the devaluation of sterling, but the CII-ESRI Survey of Business does not

FIGURE 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1987=100



suggest any sharp fall from the high level of industrial production achieved during the summer. Despite weakening order books, expectations of future production show no major downturn. For 1992 as a whole, it thus seems reasonable to expect an increase of about 9 per cent in manufacturing production. Allowing for a slightly slower increase in the output of mining, quarrying and turf and the utilities, and for near stagnation in the building industry, output in the broad industry sector seems likely to rise by about 6 per cent in 1992.

The predicted slowdown in the growth of manufactured exports in 1993 will be reflected in a slower growth in manufacturing production, which seems unlikely to increase by much more than 4 per cent. On the general assumptions of this *Commentary,* even this growth seems likely to come from the advanced sector of industry, with output in the more traditional sectors remaining virtually static. With only a small increase in building activity likely in 1993, the output of the broad industry sector is projected to rise by less than 3½ per cent.

Services

The modest growth of the domestic economy in 1992, combined with a relatively slack tourist season and some increase in the volume of public services, suggests that the volume of service output has grown by about 2 per cent. Public service provision in 1993 is likely to be constrained by the tight budgetary situation. The general domestic economy is expected to expand slightly faster than in 1992, and tourism, although unlikely to resume the rapid growth of recent years, could be a little more buoyant than it was this year. On balance, it seems reasonable to expect that the volume of total service output in 1993 will continue to increase by about 2 per cent.

Employment

The preliminary estimates from the 1992 Labour Force Survey show that total employment in April 1992 was the same as in the previous April at 1,125,000. A rise of 10,000 in service employment offset falls of 4,000 in agriculture and, more surprisingly, 6,000 in industry, mostly in building. Further falls seem likely in the year to April 1993 in both agricultural and industrial employment, while the rise in service employment will probably slow down, leading to a fall of perhaps 4,000 in total employment. The following twelve months could see some recovery in industrial employment, especially in building, and a modest rise in the total at work.

Much of the movement in the twelve months to April 1993 is likely to take place at the end of the period, as exchange rate effects damage employment in the traditional industries. Similarly much of the improvement in the ensuing year will not be seen until early 1994. Thus, on an annual basis, the total at work in 1992 is expected to be virtually unchanged from the 1991 level, while 1993 is forecast to show a small deterioration, as shown in Table 8.

The Labour Force Survey Estimates indicate that the rise in reported unemployment in the year to April 1992 was much smaller, at 17,000, than the increase in the Live Register over the same period, which amounted to 33,000. This divergence, which is difficult to explain, resulted in the growth in the labour force being considerably lower than had been expected, and accounts for the surprisingly low estimate of net immigration over the period.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000	1990	1991	1992	1993	1994
Agriculture	167	154	150	147	144
Industry	320	322	316	311	316
Services	639	649	659	663	670
Total at Work	1126	1125	1125	1121	1130
Unemployed	179	208	225	245	267
Labour Force	1305	1334	1350	1366	1393
Unemployed Rate %	13.2	14.7	16.7	17.9	18.7
Live Register	221	248	281	305	323

B: Annual Averages '000	1990	1991	1992	1993
Agriculture	160	152	149	146
Industry	321	319	315	312
Services	645	655	662	666
Total at Work	1126	1126	1126	1124
Unemployed	185	216	235	256
Labour Force	1311	1342	1361	1380
Unemployed Rate %	13.4	15.1	17.1	18.5
Live Register	225	254	285	315

With employment static in 1992, and due to fall in 1993, and with little likelihood of an early return to significant net emigration, unemployment seems set to continue its relentless increase, whether measured by Labour Force Estimates or by the Live Register. As the 1992 results illustrate, the forecasts of the actual level of unemployment are subject to a considerable margin of error, but, unfortunately, the direction of change seems certain.

Incomes

Despite current problems facing certain sectors of farming, the official advance estimates for the year show that agricultural incomes as a whole have increased significantly in 1992. Quite apart from the rise in the volume of gross agricultural product, average agricultural output prices have risen while input prices have remained roughly static. When allowance is made for the rise in net subsidies, but also for difficulties in the forestry sector, the broad agricultural sector has achieved a substantial rise in income in 1992. An adverse movement in relative output and input prices seems probable in 1993, if the general assumptions underlying this *Commentary* prove correct. Allied to approximate stagnation in the volume of gross agricultural product, this is likely to result in a fall in agricultural incomes in 1993, perhaps by about 2½ per cent.

Despite a probable squeeze on earnings in some exposed industries in the closing months of the year, it seems likely that average private sector earnings will have risen by almost 5 per cent in 1992. With public service earnings rising slightly faster, and a marginal increase in total non-agricultural employment, aggregate wages, salaries and pensions in 1992 are forecast to rise by 5¾ per cent. Under the terms of the PESP, modified by last winter's agreement, public service pay is due to rise more rapidly in 1993. However, on the currency assumptions of this *Commentary* it seems inescapable that most wages in the exposed sector will increase more slowly than in 1992 and below the PESP guidelines. Combined with virtual stagnation in non-agricultural employment, this suggests that aggregate earnings will rise by about 5 per cent in 1993, as shown in Table 9.

Income from self employment and from interest, dividends and rent grew quite sharply from 1989 to 1991. It is likely that the rate of increase has slowed

TABLE 9: Personal Disposable Income

	1991	Change		1992	Change		1993
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	1794	9	161	1955	– 2½	– 49	1906
Non-Agricultural Wages, etc.	13620	5¾	783	14403	5	720	15123
Other Non-Agricultural Income	2824	4	113	2937	4	118	3055
Total Income Received	18238	5¾	1057	19295	4	789	20084
Current Transfers	4250	8½	363	4613	6¾	312	4925
Gross Personal Income	22488	6¼	1420	23908	4½	1101	25009
Direct Personal Taxes	4969	7¼	360	5329	5¼	279	5608
Personal Disposable Income	17519	6	1060	18579	4½	822	19401
Consumption	15065	6	904	15969	4¾	767	16736
Personal Savings	2454	6¼	156	2610	2	55	2665
Savings Ratio	14.0			14.0			13.7

significantly in 1992 and will remain low in 1993. Current transfers, on the other hand, have grown rapidly in 1992, and will continue to increase, albeit at a rather slower rate, in 1993. The rise in gross personal income is thus expected to slow from about 6¼ per cent in 1992 to about 4½ per cent next year.

Direct personal taxation is likely to rise by about 7¼ per cent in 1992, with lower income tax rates offset by better tax collection and higher PRSI receipts. Even on the assumption of unchanged real tax rates, the increase in direct personal taxation is likely to be significantly smaller in 1993, probably amounting to about 5¼ per cent.

Personal disposable income is thus forecast to rise by about 6 per cent in 1992, with the increase spread over most forms of income. By contrast, the smaller increase of 4½ per cent projected for 1993 is concentrated on non-agricultural incomes. Allowing for no significant change in consumer confidence, it seems reasonable to expect the personal savings ratio to remain at the 1991 level in 1992, but to fall by about ¼ per cent in 1993 as a result of changes in the composition of income.

Consumer Prices

In the Summer *Commentary* we anticipated a significant reduction in the rate of price inflation in the second half of 1992. In fact, the reduction in the twelve-month increase in the consumer price index to 2.8 per cent in August was marginally better than we had assumed. However, the November index will be affected by the consequences of the September currency crisis. While sterling devaluation will clearly have reduced the price of many items in the index, this is likely to have been offset by the steep increase in mortgage interest charges, which have a substantial weighting in the index. Thus, the rise in the index in the twelve months to November 1992 is expected to be in the region of 3 per cent, leaving the annual increase in 1992 at about 3¼ per cent.

On the basis of the assumptions made for this *Commentary*, the benefits of low import prices from the UK will continue to feed through to the consumer price level during 1993, with the main effect being felt in the first half of the year. The impact of the appreciation of the US dollar, against the Irish pound is likely to be much weaker than the sterling effect, and slower to be reflected in the consumer price index. Most vitally, mortgage interest rates should fall, especially in the first two quarters of the year. For 1993 as a whole, it appears likely, provided that our underlying assumptions are broadly correct, that the consumer price index will increase by about 1½ per cent. The increase in the twelve months to November 1993 should be less than 2 per cent.

Public Finances

In the Summer *Commentary* it was suggested that the current budget deficit in 1992 was likely to be below £250 million and the Exchequer Borrowing Requirement in the region of £500 million. The additional costs imposed by the currency crisis, together with the revenue effects in the final quarter, make it unlikely that the outcome will be so favourable. Nevertheless, both the current budget deficit and the EBR should remain within their original target, with the EBR not exceeding 2.3 per cent of GNP.

The turbulence on the currency and capital markets is likely to seriously exacerbate the already difficult budgetary situation in 1993. With employment prospects poorer than had been expected, pay increases in the exposed sector likely to be severely constrained and price inflation likely to be at its lowest rate for many years, tax buoyancy will be very weak. When allowance is also made for specific revenue losses related to the completion of the Single European Market, it seems probable that tax revenue could increase by no more than 2½ per cent in 1993, on our usual assumption of unchanged real tax rates. Non-tax revenue is also unlikely to be buoyant. Thus even if effective measures can be found to offset some of the anticipated Single Market revenue losses, the increase in total revenue in 1993 will probably be little more than 3 per cent.

Expenditure will be boosted by the agreed terms of public service pay rises under the PESP, by increasing unemployment, by the cost of the devaluation subsidy to business, and, even on our general assumptions, by slightly higher annual interest charges than had been anticipated. On a broad assumption of unchanged policies, the value of net current expenditure could rise by more than 8 per cent.

Our fiscal assumption that the EBR will be held to £800 million thus implies a pruning of expenditure estimates to keep the rise in current spending to under 6 per cent. Clearly this would involve considerable stringency with regard to the volume of discretionary expenditure, with the abandonment or postponement of some programmes currently scheduled for 1993.

Interest Rates

The interest rate assumptions for 1993 are central to the forecasts in this *Commentary.* An indefinite continuation of the post-September level of interest rates, let alone a consolidation of the more recent rise in wholesale rates into mortgage and other retail rates, would render the forecast of an improvement in domestic demand in 1993 invalid. Thus the prospects for achieving an early reduction in short-term interest rates take on a key significance in assessing the likely course of the economy.

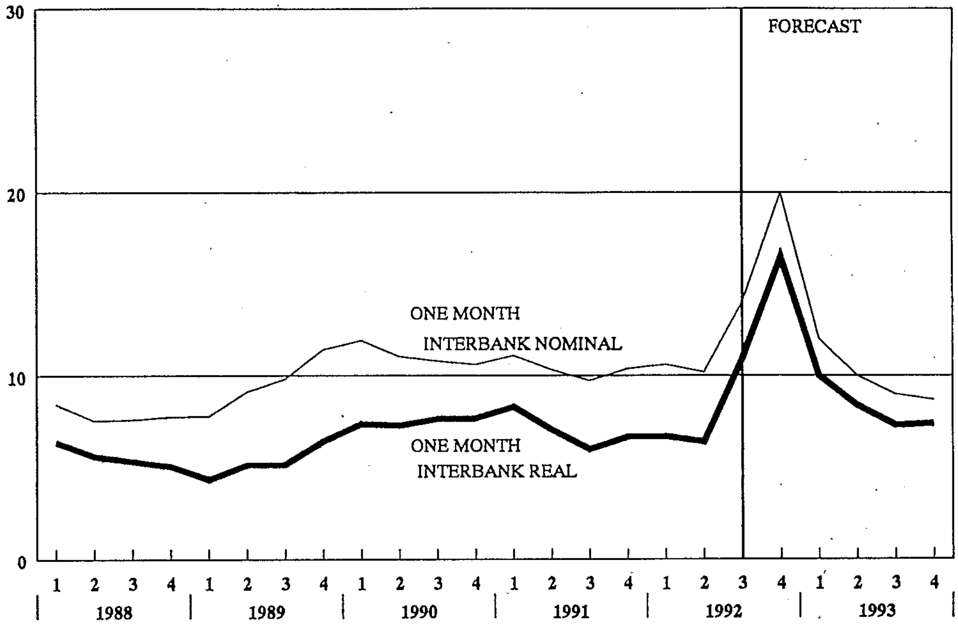
Obviously, the principal factor determining Irish short-term interest rates is the market perception of Irish currency stability. In part, this is a symptom of a wider problem concerning the future of the ERM as a whole. In greater part, it reflects doubt as to whether Ireland can realistically maintain its current ERM parity in the face of a large, and possibly incomplete, depreciation of sterling.

Although the broader question of the future of the ERM will be decided by actions in other countries, especially Germany, the specific question of the Irish parity will be heavily influenced by domestic decisions. The hard currency policy so far followed might well achieve the full credibility which has so far eluded it, if it were to be reinforced by a domestic consensus to adjust to an appreciated exchange rate.

If interest rates are to be brought down at the pace assumed in this *Commentary,* it is necessary that the credibility of the exchange rate is established at an early date. Even then it seems likely that market flows of capital will be insufficient on their own to create the liquidity needed to bring about the end of the post-September crisis differential over foreign interest rates. A significant

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



stepping up of the recent policy of borrowing in foreign currency, to replace a part of the overseas holdings of Irish pound debt, will probably also be required. Such a move would also demonstrate official confidence in the exchange rate, and might thus reinforce confidence in the currency itself.

Thus despite the renewed speculative pressures being faced at the time of writing, it remains reasonable to assume that the emergency differential in Irish interest rates can be dissolved by the end of the first quarter of 1993, and that some further fall in interest rates can be expected later in the year as German interest rates are reduced.

General Assessment

Available indicators show that up to August 1992 the Irish economy was growing at a moderate rate, with net exports expanding strongly and personal consumption recovering from its 1991 stagnation. However, in retrospect it is becoming increasingly clear that the relatively robust performance of the Irish economy throughout the recession has owed much to the progressive overvaluation of sterling. This enabled Irish exports to the UK to continue growing despite the deep recession in that country, thus contributing significantly to Ireland's achievement, unusual in Europe during that period, of actually increasing the level of non-agricultural employment.

The sudden removal of this competitive advantage over the UK, with the devaluation of sterling being earlier, larger and less controlled than had been anticipated, makes forecasting the course of the Irish economy in 1993 exceptionally difficult. Recent trends cannot realistically be projected forward, while the scale of the currency shock means that neither formal econometric models nor an informal comparison with past events can provide a reliable guide to the likely outcome for 1993. All short-term economic forecasts are subject to a considerable margin of error, but the margins surrounding the forecasts in this *Commentary* are inescapably wider than normal.

With this proviso borne firmly in mind, it does appear overwhelmingly likely that the Irish economy faces a particularly difficult year in 1993. On the specific assumptions spelt out in the introduction to the *Domestic Economy* section of this *Commentary,* it seems probable that real GNP growth in 1993 will be less than 2 per cent, that employment will fall slightly and that unemployment will continue to increase rapidly. The budgetary situation will be especially difficult, with the likely EBR exceeding 3 per cent of GNP unless there is a significant reduction in expenditure commitments. The only positive elements of the forecast are that inflation is likely to be exceptionally low at about 1½ per cent, and that the current account balance of payments will remain in massive surplus.

Even this far from satisfactory outlook depends entirely on the assumptions made. When preparation of the forecasts commenced, the assumptions appeared realistic and mutually compatible. More recent events have cast some doubt on whether the assumptions can still be regarded as realistic and compatible. It is therefore more than ever important to examine the assumptions and the probable consequences of any of them proving untenable.

The most important linked assumptions are those concerning currency values and interest rates. In recent weeks the danger of the UK authorities forcing down their interest rates at a pace which would induce a further collapse in the value of sterling appears to have receded. Accordingly the assumption that sterling will remain at or slightly above its current DM parity appears increasingly reasonable, although still subject to some doubt.

It might have been hoped that the lessening prospect of a further sterling depreciation would have strengthened the position of the Irish pound within the ERM. However, the pressure placed on the Irish pound, together with the Danish krone and the French franc, following the forced devaluation of the Swedish krone proves that the markets still perceive the current ERM parity of the Irish pound as vulnerable. This suggests the most unwelcome possibility that the Irish pound will remain subject to pressure whenever any event, however remote from Ireland, unsettles the currency markets. It is possible that defeat of the current round of speculation, together with a convincing international reaffirmation of the principles of the ERM, will persuade the markets that there are no circumstances in which a realignment of narrow-band ERM parities will take place. However, while this possibility enables the assumption of unchanged parities to be maintained, the danger of recurrent pressure cannot be ignored.

Because of renewed currency instability, the interest rate assumptions at present appear subject to considerable doubt. So far from edging downwards in recent weeks, as had been hoped, short-term interest rates have been forced to unprecedented heights. However, it is too early to abandon the assumptions, as an early re-establishment of credibility in the present ERM parities could lead to a rapid reversal of speculative flows, and enable successive cuts in Irish short-term interest rates during December 1992 and in the first quarter of 1993.

Nevertheless, although both the currency and interest-rate assumptions in this *Commentary* remain tenable, serious attention needs to be paid to the possibility that they might prove to be mistaken. The most probable change to the exchange rate assumption is that the Irish pound might be devalued within the ERM. In itself, this would provide a short-term boost to the Irish economy, with higher net export volumes taking the growth rate in 1993 to between 2½ and 3 per cent. However, depending on the nature of the devaluation, there could be adverse repercussions on the evolution of interest rates, and there would certainly be additional pressure on the already difficult budgetary situation.

The most probable change to the interest rate assumptions is that short-term interest rates might remain at emergency levels well into 1993, with each period of amelioration followed by renewed increases in response to fresh speculation. If short-term rates remain high, the present segmentation of the capital markets by the authorities and the banks will prove untenable, and some further rise in retail interest rates, including mortgage rates, will be unavoidable. Prolonged high mortgage interest rates would similarly render unworkable the temporary compromise of extending repayment periods, and a general increase in monthly repayments could no longer be postponed.

Commentators sometimes exaggerate the potential impact of minor changes in interest rates on the level of economic activity. However, there can be little doubt that large changes, and the existence of prolonged differentials over rates in competing countries, do have a substantial influence on economic performance. The emergency increase of about 3 per cent in most retail interest rates following the September currency crisis has raised the real cost of borrowing well into double figures, and established a differential of more than 4 per cent over interest rates in competing countries. If such rates continued indefinitely in 1993, our growth forecasts for 1993 would have to be revised downwards severely.

Projections for both exports and employment would need to be reduced, as an additional proportion of potential orders would be rendered unprofitable and some exporting firms would find it impossible to survive. The personal consumption forecast would also need to be scaled back, due partly to the cost of consumer credit but mainly to the loss of discretionary income as mortgage repayments increased. Most of all, forecasts of investment, especially in building and construction, would need to be cut sharply, implying yet further job losses.

In total, it seems probable that a continuation of present interest rates would result in approximate stagnation in real GNP in 1993, as well as a substantial deterioration in the already difficult fiscal position. A sustained further increase in retail interest rates would almost certainly push the Irish economy into a full-scale recession.

Compared with the consequences of continued emergency interest rates, variations in the other assumptions would have relatively minor effects, at least within 1993. Provided that interest rates do in fact come down, so that the basic forecast remains broadly valid, a minor change in either direction in the planned EBR for 1993 would have a short-term impact that would lie within the margin of error of the forecast. A major planned increase in the EBR could be expected to have an adverse effect on both short-term and long-term interest rates which would largely offset any direct fiscal boost provided.

The pay assumption is more interesting. As it stands, it implies the introduction of increased inequity into the system, as jobs are lost and wages are held down by force of circumstance in much of the exposed sector, while scheduled increases are paid in full in the sheltered sector, including the public service. A more equitable assumption, under which pay increases would be deferred in both the exposed and sheltered sectors, would have beneficial consequences. There could be a slight, but significant, improvement in competitiveness in the exposed sector, leading to a higher employment level than currently predicted. Some of the pressure on the budgetary situation would be eased, permitting a higher level of services or more capital investment within the constraint of a given EBR. Inflation would be even lower than predicted, compensating for some of the deferred income, and limiting the potential loss of consumption volume due to lower incomes.

It is obvious from the foregoing discussion that the incoming government is faced with extremely difficult economic circumstances. The overriding policy imperative is to bring about an almost immediate reduction in short-term interest rates. Unless this problem is tackled with extreme urgency, long-term aspirations will be drowned in a morass of reactive crisis management as the economy stagnates or slides into recession.

The key to interest rate reductions is the early re-establishment of confidence in the currency. One element in this is the re-establishment of confidence in the entire ERM system. Although this is clearly outside Ireland's control, it is not necessarily beyond Irish influence. With many other countries apparently pre-occupied with domestic problems, Ireland could play an important role in discussions designed to re-affirm and strengthen the system. Particularly in conjunction with Denmark and France, Ireland would be well placed to press for more rapid movement towards effective monetary union among the present narrow band members, thus safeguarding the high degree of convergence already achieved.

However, international action will not restore confidence in the Irish currency without much more determined domestic action than has so far been taken. The markets are not unreasonable in their perception that, given Ireland's unemployment level, the indefinite retention of high interest rates is likely to prove untenable. Evidence of a more fundamental adjustment to the loss of competitiveness caused by the decline of sterling is necessary.

If confidence is to be restored in the present ERM parity of the Irish pound, a comprehensive adjustment package involving both the government and the social partners is urgently required. The centre-piece of such a package must be a radical renegotiation of the PESP. The simplest, and probably most effective, form this could take would be a lengthy deferral, perhaps for one year, of all increases or payments due under the PESP, including the basic terms, special awards, retrospection and productivity bargaining. This would send a powerful signal that the country, as distinct from just the authorities, was serious about restoring competitiveness, improving job prospects and maintaining equity within the context of moving closer to monetary union. A second basic element of such a package would be a government commitment to remain within the Maastricht criteria with regard to the EBR and debt reduction. Within this fiscal constraint, some further transfer of resources from the sheltered to the exposed sector could also be beneficial, both in restoring competitiveness and in signalling the determination to do so. Finally, a well publicised intensification of the recent policy of replacing foreign held Irish-pound debt with long-term direct foreign borrowing would demonstrate confidence in the exchange-rate, while providing the liquidity necessary to bring interest rates down sharply.

Such a package, combined with effective international action to reduce speculation against ERM currencies, offers the optimum chance of averting the impending crisis in the Irish economy. However, if the domestic package cannot be obtained, or if Ireland's choice is pre-empted through a decision by France or Denmark to devalue, then some form of devaluation of the Irish pound appears inevitable. Despite the strong and well-rehearsed arguments against devaluation, the undoubted long-term costs and the uncertainties about its immediate consequences, it would be preferable to enduring recurrent periods of acute speculative pressure against a currency perceived to be overvalued.

Provided that it was accompanied by a credible international commitment that this was the final adjustment on the path towards effective monetary union, a general ERM realignment including a devaluation of the Irish pound might well establish immediate credibility in the new narrow-band parities. A clear demonstration would be needed that the realignment did not represent an Irish retreat from the Maastricht disciplines. Thus elements of the domestic package, especially those relating to fiscal targets, would still be required, but the total package would not need to be quite so stringent as if the present parity is to be maintained. Given an orderly re-alignment and a modified domestic package, there would thus be a good probability that Irish interest rates could be reduced quickly.

A unilateral devaluation would carry much higher risks. It would confirm market suspicions that the Irish pound is still not fully de-coupled from sterling. Thus any future weakness of sterling would tend to bring renewed pressure on the Irish pound. Indeed, if the initial devaluation was perceived to be inadequate, these pressures could prove to be immediate, reinforcing instability rather than curing it. Full confidence could take much longer to restore than in the case of a general ERM re-alignment, so that there would be a considerable danger that the Irish interest-rate differential would remain substantial for some years.

The extent to which these risks would be realised would depend largely on the nature and context of the devaluation. The sometimes-mooted strategy of abandoning the ERM and re-establishing a link with sterling would be difficult to achieve technically. Even if it could be done, it would be a retrograde step, exposing Ireland fully to the vagaries of UK economic management and tying Ireland closer to one of the weakest economies in Europe. Many of the gains of the past decade, in terms of trade diversification and low inflation would be placed in jeopardy. The option of joining any group of core countries proceeding towards an early *de facto* monetary union would be lost.

Temporary suspension of the Irish pound from the ERM, with a view to re-entry after a short period of floating would also be dangerous. It would tend to prolong uncertainty, and the impact of any reduction of interest rates on the currency would be hard to predict. Although Irish domestic problems are less acute, the difficulty that Italy has faced in establishing the conditions for re-entry to the ERM serves as a warning of possible problems.

Almost certainly, the least damaging form of unilateral devaluation would be a simple reduction of Ireland's central parity within the ERM. However, to offer a realistic hope that it could result in an early and substantial reduction in Irish interest rates, such a move would have to be carefully handled. Obviously, the devaluation itself would need to be large enough to be credible to the markets. Equally, it would need to be accompanied by evidence of a firm commitment to maintain the new parity whatever the future vicissitudes of the European economy, including any future new depreciation of sterling. Such a commitment would require, not only statements of intent concerning Ireland's place among the narrow band ERM currencies, but also a domestic policy package along much the same lines as that necessary to retain the current parity. Any widespread impression that devaluation was seen as a soft option, designed to avoid making difficult domestic decisions, would defeat the principal aim of the move.

In past *Commentaries,* we have consistently called on decision-makers in government and among the social partners to take a long-term view of economic advantage. This *Commentary,* breaking with this tradition, has focused almost entirely on immediate concerns. The reason is that we believe that the scale of the impending crisis if interest rates remain at emergency levels is not fully appreciated. Long-term issues, especially strategies to improve employment prospects obviously remain vital, and will be addressed in future *Commentaries.* However, unless the immediate problems of the currency and interest rates are successfully resolved, the context for tackling the underlying unemployment issues will have deteriorated irrevocably.

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
1985	100.0	100.0	100.0	11919	23948	186.9	39.4	147.5
1986	102.9	107.1	100.0	12466	22680	184.2	40.2	143.8
1987	113.6	133.8	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	160.4	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	183.8	112.3	13640	18068	187.0	45.3	141.8
1990	149.2	189.0	117.6	14325	19539	193.0	48.3	144.8
1991	154.1	196.1	118.0	14990	19652	194.6	50.4	144.2
Quarterly Averages or Totals								
1989 I	139.2	189.1	102.4	3522	3663	182.5	43.7	138.8
II	147.3	192.9	112.9	3250	4203	184.9	44.5	140.5
III	132.1	163.3	105.8	3160	5467	189.8	46.5	143.5
IV	151.8	192.0	118.1	3708	4735	190.8	46.6	144.2
1990 I	147.6	195.5	108.2	3782	4372	189.2	45.9	143.6
II	153.3	195.3	119.3	3368	4667	191.9	47.2	144.9
III	139.8	174.3	109.8	3272	5313	195.6	49.9	145.5
IV	156.3	192.9	122.1	3903	5187	195.4	50.3	145.2
1991 I	154.2	203.8	110.7	4018	4785	192.6	49.2	143.3
II	156.1	198.2	118.7	3484	4164	193.7	49.4	144.4
III	141.9	176.1	110.1	3455	5228	195.6	50.8	144.8
IV	164.7	209.0	121.5	4033	5475	196.4	52.1	144.1
1992 I	168.5	230.3	113.4	4187	4377	191.9	51.1	141.0
II	173.4	228.3	122.8	3644		193.7	51.1	142.6
III				3602				
IV								
Quarterly Averages or Totals (Seasonally Corrected)								
1989 I	138.7	179.8	106.6	3243	No Seasonal Pattern	184.3	44.3	140.0
II	140.6	183.3	108.7	3455		185.8	45.1	140.7
III	143.6	181.6	111.4	3458		188.0	45.8	142.4
IV	147.3	192.3	112.3	3495		189.8	46.0	143.8
1990 I	146.7	185.4	112.7	3488		191.2	46.6	144.9
II	146.9	186.9	115.0	3584		192.8	47.8	145.1
III	152.1	193.9	115.4	3577		193.7	49.1	144.5
IV	151.7	192.4	116.1	3676		194.3	49.6	144.7
1991 I	153.4	192.8	115.4	3708		194.7	50.0	144.7
II	150.2	190.5	114.5	3709		194.6	50.1	144.5
III	153.9	195.9	115.6	3777		193.7	50.0	143.9
IV	159.8	208.2	115.5	3796		195.2	51.4	143.5
1992 I	167.3	217.6	118.2	3864		194.0	51.9	142.4
II	167.0	220.0	118.5	3879		194.7	51.8	142.7
III				3939				
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	
100.0	100.0	100.0	81.3	92.5	170.2	60.4	230.6	1985
104.4	104.9	102.5	87.3	95.7	172.0	64.4	236.4	1986
116.4	128.3	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	146.2	111.7	96.1	100.0	169.7	71.7	241.4	1988
142.4	159.7	116.8	100.0	100.0	160.0	71.6	231.6	1989
144.5	154.0	119.9	103.9	100.5	152.1	72.6	224.7	1990
148.0	153.3	120.8	108.4	101.6	170.5	83.5	254.0	1991
Quarterly Averages								
142.6	170.4	108.9	97.9	99.6	169.5	73.0	242.6	1989 I
148.9	170.7	118.5	99.1	99.8	159.7	70.9	230.7	II
130.1	138.3	108.8	100.9	100.1	155.9	72.7	228.6	III
148.7	162.2	120.8	102.1	100.5	154.7	69.7	224.4	IV
145.8	167.7	111.2	100.9	98.5	158.3	71.7	230.0	1990 I
149.3	162.9	121.4	103.1	100.3	148.2	71.2	219.4	II
133.6	137.5	111.3	105.1	101.3	149.7	75.0	224.7	III
149.5	151.0	124.1	106.3	101.9	152.1	72.6	224.7	IV
149.7	163.1	114.0	105.5	100.3	165.8	77.9	243.7	1991 I
150.6	158.0	121.2	108.7	102.6	167.2	81.1	248.3	II
135.6	136.5	112.2	108.6	101.1	173.1	88.7	261.8	III
156.7	158.0	124.4	110.9	102.6	175.7	86.3	262.0	VI
164.1	177.5	118.6	110.1	101.1	186.8	91.4	278.1	1992 I
167.3	175.9	127.1			183.9	93.1	277.0	II
					188.5	101.8	290.2	III
								VI
Quarterly Averages (Seasonally Corrected)								
139.9	160.5	112.2	98.8	100.6	164.1	72.5	236.8	1989 I
142.3	160.0	114.1	99.1	99.8	161.4	71.8	233.2	II
142.2	155.9	115.3	100.6	99.9	158.0	70.9	228.9	III
145.9	164.6	115.3	101.5	99.8	156.3	71.1	227.4	IV
142.7	157.2	114.7	101.9	99.5	152.9	71.4	224.4	1990 I
143.3	153.9	117.0	103.1	100.2	149.9	71.9	221.9	II
146.1	155.3	117.7	104.8	101.2	151.6	73.1	224.7	III
146.4	152.7	118.4	105.6	101.1	153.8	74.1	227.9	IV
146.1	152.2	117.7	106.5	101.4	160.4	77.6	238.1	1991 I
144.9	150.0	116.9	108.6	102.5	168.9	81.8	250.7	II
148.3	154.2	118.5	108.3	100.9	175.0	86.7	261.7	III
153.3	159.6	118.7	110.2	101.9	177.5	87.8	265.3	IV
160.1	165.3	122.5	111.3	102.2	181.5	91.1	272.6	1992 I
161.3	167.5	122.5			185.6	93.8	279.4	II
					190.3	99.7	290.0	III
								VI

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural 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	1985 = 100	1985 = 100	1985 = 100	Jan. 1988 = 1000
1985	86.5	100.0	100.0	100.0	100.0	100.0	100.0	580.4
1986	89.8	98.8	97.8	99.5	88.8	92.7	104.3	907.7
1987	92.6	100.4	98.4	103.5	88.8	92.7	104.4	1326.2
1988	94.6	104.5	102.4	114.4	94.6	99.3	105.0	1294.6
1989	98.5	109.5	108.1	120.1	100.7	105.9	105.1	1633.6
1990	101.7	107.8	105.1	106.5	95.7	95.9	100.2	1562.2
1991	105.0	108.7	106.4	103.1	97.9	95.2	97.2	1382.4

Quarterly Averages

1989 I	96.8	108.2	107.2	121.2	100.9	104.3	103.4	1473.5
II	97.8	109.7	108.4	125.1	101.4	106.4	104.9	1638.9
III	99.2	110.5	109.0	121.0	101.7	108.0	106.2	1710.6
IV	100.0	109.7	107.7	116.7	98.7	104.3	105.6	1711.3
1990 I	100.9	108.4	105.8	115.6	95.4	100.0	104.8	1813.2
II	101.2	107.9	104.6	111.4	92.3	97.9	106.1	1673.2
III	102.1	108.0	105.4	103.4	96.5	95.8	99.3	1523.7
IV	102.7	106.7	104.7	101.2	97.8	92.5	94.6	1238.8
1991 I	103.5	107.3	105.1	104.9	96.7	93.0	96.1	1241.3
II	104.3	108.8	106.4	106.1	97.2	93.8	96.5	1466.9
III	105.7	109.2	106.9	101.6	98.4	95.6	97.1	1413.3
IV	106.4	109.5	107.3	103.6	98.5	96.1	97.6	1408.3
1992 I	107.3	110.2	107.8	107.4	97.7	95.2	97.4	1426.9
II	108.1	111.3	108.3	109.7	97.0	97.9	101.0	1389.8
III	108.7	110.6		106.7				1263.1
IV								

Quarterly Averages (Seasonally Corrected)

1989 I	96.7	108.4	107.4	119.3	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	97.8	109.4	108.5	122.9				
III	99.1	110.2	108.6	122.5				
IV	100.1	110.0	107.7	119.1				
1990 I	100.8	108.7	106.0	114.0				
II	101.3	107.7	104.7	109.4				
III	102.0	107.7	105.0	104.7				
IV	102.8	107.0	104.7	103.3				
1991 I	103.5	107.6	105.3	103.5				
II	104.4	108.5	106.5	104.2				
III	105.5	108.9	106.5	102.9				
IV	106.5	109.8	107.3	105.9				
1992 I	107.3	110.5	108.0	106.0				
II	108.2	110.9	108.4	107.7				
III	108.5	110.3		108.0				
IV								

Consumption Indicators			Government			Interest Rates			
25	26	27	28	29	30	31	32		
New Cars Regis-tered	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter bank Rate	Long term Gilt Rate		
Total	1980 = 100	1980 = 100	£m	£m	£m	Per cent per annum	Per cent per annum		
59592	155.9	91.0	6331	7615	1284	11.9	12.6	1985	
58760	158.8	90.5	6709	8104	1395	12.4	11.1	1986	
54341	161.3	89.3	7152	8332	1180	10.8	11.3	1987	
61888	169.1	91.1	7690	8006	317	7.8	9.5	1988	
78383	184.5	95.4	7756	8019	263	9.6	8.9	1989	
83407	193.5	98.0	8269	8421	152	11.1	10.1	1990	
68533	197.5	97.8	8776	9076	300	10.4	9.3	1991	
Quarterly Averages or Totals									
25672	177.1	93.2	1807	2057	250	7.8	8.7	1989	I
25536	182.3	94.6	1812	2011	199	9.2	9.1		II
18192	181.4	93.2	2008	1924	- 84	9.8	8.8		III
8983	195.9	99.8	2129	2027	- 102	11.4	9.2		IV
27830	189.9	96.6	1872	2236	364	11.9	10.2	1990	I
27883	189.8	96.8	2004	2036	32	11.0	10.0		II
18928	190.9	96.9	2101	1970	- 131	10.8	10.2		III
8766	201.6	100.8	2293	2180	- 113	10.6	10.0		IV
23797	191.8	95.9	1886	2313	427	11.1	9.3	1991	I
22979	191.2	95.5	2074	2390	316	10.3	9.1		II
15051	194.4	96.3	2295	2071	- 224	9.7	9.6		III
6706	208.7	102.6	2521	2302	- 219	10.4	9.0		IV
24133	200.6	98.2	2055	2538	483	10.6	8.7	1992	I
20174	203.6	99.0	2299	2374	75	10.2	8.8		II
16797			2473	2307	- 166	14.0	9.3		III
									IV
Quarterly Averages or Totals (Seasonally Corrected)									
19251	179.9	94.7	2015	1952	- 63	No Seasonal Pattern	No Seasonal Pattern	1989	I
19720	184.5	95.7	1848	2021	173				II
19896	184.5	94.6	2035	2051	16				III
19810	187.8	95.9	1876	2009	133				IV
20905	192.6	98.1	2073	2110	37			1990	I
21358	191.8	97.7	2072	2049	- 23				II
20757	194.5	98.5	2096	2096	0				III
19546	193.3	96.9	2037	2173	136				IV
17888	194.4	97.3	2081	2172	91			1991	I
17520	193.3	96.4	2160	2409	249				II
16521	198.1	97.9	2266	2203	- 63				III
15031	200.3	98.7	2251	2299	48				IV
18121	203.2	99.5	2266	2378	111			1992	I
15328	205.8	100.0	2398	2393	- 5				II
18447			2430	2459	29				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£	Per IR£
1985	8924.8	2514.1	8441.1	2271.9	62.41	0.8234	1.0659	3.1134
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
	End-Period Totals				Quarterly Averages			
1989 I	10231.7	2435.4	11057.8	2735.8	63.49	0.8262	1.4440	2.6708
II	10506.9	2302.0	11764.9	2497.5	63.64	0.8500	1.3831	2.6698
III	10712.5	2350.7	11815.0	2886.7	64.21	0.8693	1.3877	2.6691
IV	10945.0	2417.7	12538.3	2521.0	66.32	0.9226	1.4621	2.6490
1990 I	11289.9	2526.0	12681.5	2457.8	68.07	0.9475	1.5703	2.6539
II	11381.6	2506.6	13082.8	3097.3	68.73	0.9542	1.5981	2.6809
III	12421.6	2454.7	13230.6	3705.6	67.85	0.9046	1.6850	2.6828
IV	12540.7	2506.0	13855.9	2891.7	68.65	0.9154	1.7817	2.6735
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	2502.2	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								
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1989 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
1990 I II III IV								
1991 I II III IV								
1992 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	1985 = 100	1985 = 100	£m	£m	
9428.2	9743.0	314.8	100.0	100.0	- 1966	- 650	1985
8621.3	9374.3	753.0	103.0	104.0	- 1957	- 509	1986
9155.2	10723.5	1568.3	109.4	118.8	- 1957	239	1987
10214.8	12304.8	2090.1	114.5	127.1	- 2588	391	1988
12284.3	14597.0	2312.8	129.3	141.4	- 3149	261	1989
12479.5	14343.0	1863.5	138.3	153.5	- 3089	556	1990
12864.1	15030.9	2166.9	139.2	162.0	- 2732	1616	1991
Av. Monthly Totals			Quarterly Averages or Totals				
1003.0	1118.7	115.7	126.5	131.8	- 660	89	1989 I
1042.8	1270.6	227.8	130.7	146.9	- 927	- 24	II
974.5	1214.9	240.4	121.9	138.3	- 612	341	III
1075.7	1261.4	185.8	138.5	149.1	- 950	- 145	IV
1043.7	1218.1	174.4	138.7	149.9	- 752	176	1990 I
1048.0	1257.2	209.2	144.4	158.1	- 838	65	II
995.8	1110.4	114.7	131.3	142.7	- 626	291	III
1071.1	1195.2	124.1	139.4	159.2	- 873	24	IV
1073.4	1173.5	100.1	141.4	155.4	- 589	167	1991 I
1072.2	1258.6	186.4	140.5	165.2	- 843	85	II
1036.1	1228.0	191.8	134.0	158.2			III
1104.0	1347.8	243.8	142.6	172.6			IV
1109.1	1347.2	238.1	144.4	174.3			1992 I
1107.0	1453.5	346.7	145.2	182.7			II
1061.4	1342.1	280.7					III
							IV
Av. Monthly Totals (S.C.)			Quarterly Averages or Totals (S.C.)				
981.9	1164.5	182.7	124.1	137.8	No Seasonal Pattern	No Seasonal Pattern	1989 I
1046.6	1231.3	184.7	130.4	142.1			II
1036.8	1237.0	200.2	130.5	141.9			III
1043.3	1240.1	196.8	134.2	145.1			IV
1021.7	1244.5	222.8	136.1	153.6			1990 I
1049.2	1219.7	170.5	143.8	153.1			II
1058.8	1149.3	90.5	140.4	148.9			III
1028.5	1176.6	148.2	133.8	155.3			IV
1068.2	1201.4	134.9	140.6	159.4			1991 I
1072.3	1215.7	143.8	139.6	159.4			II
1085.5	1277.7	192.2	141.7	166.4			III
1062.7	1317.0	254.3	136.3	166.9			IV
1084.6	1369.7	285.1	141.6	177.7			1992 I
1106.0	1405.2	299.1	144.3	176.3			II
1138.9	1386.2	272.3					III
							IV

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