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SUMMARY

The preliminary National Accounts estimates show that there was significant growth in the Irish economy in 1991, with real GDP increasing by almost 3 per cent and real GNP rising by over 3½ per cent. Indicators for the early months of 1992 suggest that growth has accelerated, with rising domestic demand complementing a continued expansion in the volume of net exports.

For 1992 as a whole, the forecast increase in real GDP is 4 per cent, although a rise in profit outflows is expected to keep the increase in real GNP at about 3½ per cent. The current account surplus on the balance of payments seems set to rise to an extraordinary 8½ per cent of GNP, price inflation should fall to 3 per cent or less by the end of the year, and the Exchequer borrowing requirement is likely to be significantly below the Budget target.

Thus, in most respects, the Irish economy has shown great resilience in the face of the world recession, and particularly in relation to the fall in UK output in both 1991 and 1992. Even with regard to employment, there appears to have been a modest rise in the number of non-agricultural jobs in both 1991 and 1992. However, the deep UK recession has reversed the normal flow of migration, contributing to the current acute unemployment crisis.

It had been hoped that the recovery of the world economy in the second half of 1992 and in 1993 would enable Ireland to achieve a high enough growth rate to generate a substantial increase in employment. Unfortunately, this now seems less likely. Although a world recovery is still expected, Europe will probably lag behind growth rates elsewhere, while the UK could remain enmeshed in recession throughout 1993. Indeed, so intractable are the UK's economic problems that there is a very strong risk of a sterling devaluation within the next twelve months.

For the purpose of making our forecasts, we have assumed that there will be approximate parity of value between the Irish pound and the pound sterling in 1993. On this basis, and assuming that tight control is kept on Irish industrial costs and on public expenditure, a GNP growth rate of 3½ per cent is projected for 1993. Exports are forecast to grow more slowly, but both domestic demand and imports are likely to increase faster than in recent years.

Temporary factors will make the budgetary situation in 1993 exceptionally difficult, and this will place a tight constraint on any initiatives to ameliorate the unemployment crisis. Fiscal responsibility has played a crucial role in achieving the competitive strength that the Irish economy has exhibited in recent years. Premature relaxation could drive up interest rates and thus exacerbate the employment problem.

Economic policies on a European scale are more important to Irish employment prospects than most domestic actions. Strenuous efforts to raise the priority of employment in European policy formulation should therefore accompany the relatively minor modifications in domestic policy which can be made in the coming months.

FORECAST NATIONAL ACCOUNTS 1992

A: Expenditure on Gross National Product

	1991 Preliminary £m	1992 Forecast £m	Change in 1992 £m Value	Change in 1992 £m Volume	Change in 1992 % Value	Change in 1992 % Price	Change in 1992 % Volume
Private Consumer Expenditure ...	15065	15939	874	377	5¾	3¼	2½
Public Net Current Expenditure ...	4387	4720	333	66	7½	6	1½
Gross Fixed Capital Formation	4603	4774	171	43	3¾	2½	1
Exports of Goods and Services (X) ...	16657	18565	1908	1588	11½	1¾	9½
Physical Changes in Stocks	577	185	-372	-360			
Final Demand	41269	44183	2914	1714	7	2¾	4¼
less:							
Imports of Goods and Services (M) ...	14285	15187	902	631	6¼	1¾	4½
GDP at Market Prices	26984	28996	2012	1083	7½	3¼	4
less:							
Net Factor Payments (F)	2732	3031	299	246	11	1¾	9
GNP at Market Prices	24252	25965	1713	837	7	3½	3½

B: Gross National Product by Origin

	1991 Preliminary £m	1992 Forecast £m	Change in 1992 £m	Change in 1992 %
Agriculture, Forestry, Fishing ...	1791	1970	179	10
Non-Agricultural: Wages, etc. ...	13620	14437	817	6
Other: ...	6890	7682	792	11½
less:				
Adjustments	736	966	230	31
Net Factor Payments	2732	3031	299	11
National Income	18833	20092	1259	6¾
Depreciation	2684	2818	134	5
GNP at Factor Cost	21517	22910	1393	6½
Taxes less Subsidies	2735	3055	320	11¾
GNP at Market Prices	24252	25965	1713	7

C: Balance of Payments on Current Account

	1991 Preliminary £m	1992 Forecast £m	Change in 1992 £m
X—M	2372	3378	1006
F	-2732	-3031	-299
Net Transfers	1976	1850	-126
Balance on Current Account ...	1616	2197	581
as % of GNP	6¾	8½	1¾

FORECAST NATIONAL ACCOUNTS 1993
A: Expenditure on Gross National Product

	1992	1993	Change in 1993				
	Forecast	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	15939	16943	1004	510	6¼	3	3¼
Public Net Current Expenditure ...	4720	5102	382	47	8	7	1
Gross Fixed Capital Formation	4774	5129	355	232	7½	2½	4¾
Exports of Goods and Services (X) ...	18565	20011	1446	1320	7¾	¾	7
Physical Changes in Stocks	185	95	−90	−80			
Final Demand	44183	47280	3097	2029	7	2¼	4½
less:							
Imports of Goods and Services (M) ...	15187	16356	1169	907	7¾	1½	6
GDP at Market Prices	28996	30924	1928	1122	6¾	2¾	3¾
less:							
Net Factor Payments (F)	3031	3244	213	190	7	¾	6¼
GNP at Market Prices	25965	27680	1715	932	6½	3	3½

B: Gross National Product by Origin

	1992	1993	Change in 1993	
	Forecast £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	1970	2069	99	5
Non-Agricultural: Wages, etc. ...	14437	15303	866	6
" Other ...	7682	8451	769	10
less:				
Adjustments	966	1108	142	14¾
Net Factor Payments	3031	3244	213	7
National Income	20092	21471	1379	6¾
Depreciation	2818	3001	183	6½
GNP at Factor Cost	22910	24472	1562	6¾
Taxes less Subsidies	3055	3208	153	5
GNP at Market Prices	25965	27680	1715	6½

C: Balance of Payments on Current Account

	1992	1993	Change in 1993
	Forecast £m	Forecast £m	£m
X—M	3378	3655	277
F	−3031	−3244	−213
Net Transfers	1850	1900	50
Balance on Current Account ...	2197	2311	114
as % of GNP	8½	8¼	−¼

COMMENTARY

The International Economy

General

Uncertainty and a widespread sense of disappointment are the dominant attitudes to the course of the world economy during the summer of 1992. A slow but fairly steady recovery from recession had been generally expected in the first half of the year, with the pace of recovery increasing in the second half. Instead, the upturn has proved slower and more fragmentary than anticipated, and the downward adjustment of expectations, exemplified by falling share prices, is itself inhibiting the increase in productive investment which should be a major element in a sustained recovery.

In the corresponding period of most previous cycles, US growth has tended to accelerate once it had become established. In 1992, this acceleration has failed to take place, with second quarter growth significantly lower than the quite strong performance recorded in the first quarter. Stagnation in the Japanese economy has lasted longer than expected, due mainly to continued weakness in business investment. Although output has been falling in Germany, domestic demand has remained stronger than expected. While this has allowed export growth in the rest of Europe, its overall effect has probably been deflationary as it has caused the German authorities to tighten monetary policy yet further, thereby restricting consumption and investment growth in most European countries. There has been no sign of economic recovery in the UK, where the combination of an overvalued currency and a large private sector debt overhang are likely to hold back UK participation in the international recovery when it does gather pace.

The counterpart to the slow growth in world economic output is a general absence of inflationary pressures. Most commodity prices remain stable at a relatively low level and the rate of domestic price increases in the major economies is quite modest. Even in Germany both price and wage inflation are tending to decline, and the Bundesbank's worries are based more on trends in the money supply than on movements in price indices.

In spite of current uncertainties concerning the timing of recovery, the unco-ordinated economic policies of the major countries and the outcome of the GATT negotiations, the international outlook is not entirely gloomy. Output is growing, albeit slowly, inflation is low, and full-scale protectionist policies are most unlikely to be adopted. At some time within the next twelve months it remains probable that a vigorous international economic recovery will become firmly established. The timing, however, is difficult to predict.

The US Economy

The US economy grew strongly in the first quarter of 1992, but instead of becoming consolidated, as expected, the recovery has tended to falter during

June and July. Recent economic indicators have been mixed, but on balance they suggest that growth has slowed rather than ceased, and that considerable regional disparities in economic performance persist. One reason for the geographically uneven pace of recovery is that some areas heavily dependent on military procurement are suffering from cuts in defence spending.

More generally, it appears that continuing uncertainty is restraining both consumer demand and business investment, despite interest rates which are at their lowest short-term levels for over twenty years. It seems increasingly possible that this uncertainty will continue until the political situation is resolved by the elections in November. After the election confidence could return quite suddenly, leading to a sustained growth in domestic demand in 1993.

For the remainder of 1992 some economic growth is likely to result from an increase in the volume of net exports, as trade patterns respond to the depreciation of the dollar in the first half of the year. If there is a strong recovery in domestic demand in 1993, then it is likely that US interest rates will increase during the year. This should lead to a gradual appreciation in the value of the dollar in the course of 1993.

Inflationary pressures are currently quite weak in the US, and because the economy is so little dependent on foreign trade, the depreciation of the dollar is not likely to have a significant impact on US price levels. Given the degree of slack in the labour market, even quite rapid economic growth is unlikely to cause serious inflationary pressure during 1993.

Although considerable uncertainty remains, it thus seems most likely that the growth of US real GNP in 1992 will be about 1½ per cent, but that the growth rate will improve to over 3 per cent in 1993.

The European Economy

As usual, the European economy is dominated by developments in Germany. German output increased quite strongly in the first quarter of 1992, but has since declined slightly. However, German consumer demand remains strong, and could be boosted in the second half of the year by the removal in July of the 7½ per cent income tax surcharge.

Aided by the weakness of the world economy, and by the strong appreciation of the EMS currencies against the dollar and the yen, the rate of price inflation in Germany has declined rapidly in recent months. Most pay settlements have been at an annual rate of below 6 per cent, which is lower than was feared at the beginning of the year, although above the official target of the authorities. The indicator of inflationary pressure which is causing most concern is the money supply. This is continuing to grow strongly, and is the principal cause of the action of the Bundesbank in tightening monetary policy during July.

The strength of German domestic demand, allied to some loss of German competitiveness within the EMS, has enabled most other continental European countries to increase the volume of their exports to Germany in the first half of 1992, although the rate of increase is slower than in 1991. Conversely, the high interest rates determined by German monetary policy are restricting the growth in consumer spending in the rest of Europe and have so far prevented any recovery in business investment. Total growth therefore remains low, and unemployment is rising significantly in most countries. Although a strong case could be made for concerted action by other central banks to force general European interest rates below the current German level, such action remains most unlikely. Thus the course of German interest rates will have a major influence on the pace of growth in the European economy in the remainder of 1992 and in 1993. No change is expected over the next few months, so that the current situation is likely to prevail throughout 1992. This suggests that the typical growth of real GNP in continental Europe in 1992 will be between 1½ and 2 per cent. A significant relaxation in German monetary policy seems likely in 1993, especially if there is some shift towards a tighter fiscal policy. Growth rates between 2 and 3 per cent can thus be expected in 1993, with Germany towards the lower end of this range. Inflation is likely to remain low in most countries, but unemployment could continue to increase for most of 1993.

The UK Economy

The brief hopes engendered after the general election that a modest recovery was commencing in the UK economy have since evaporated. Domestically, the private sector debt overhang and high interest rates continue to inhibit investment and consumer demand, and there is no sign of an upturn in the volume of domestic spending. Although the volume of exports is higher than in 1991, the rate of increase is slow. This is partly due to the generally sluggish growth in world trade, but is mainly a symptom of the overvaluation of sterling. This, in turn, has been exacerbated in 1992 by the depreciation of the dollar, particularly damaging for the UK for which the US is a major export market. While the domestic economy stagnates and exports grow only slowly, the volume of UK imports has risen rapidly in the first half of 1992, presaging a current account deficit of over £10 billion despite the depth of the UK recession.

Given the failure of the recovery to materialise, the consensus forecast is for a further decline of about ½ per cent in real GNP in 1992, following the 2.4 per cent fall in 1991. The rate of price inflation has fallen sharply in 1992, due partly to the recession itself and partly to the depreciation of the dollar. Wage inflation, however, while lower than in 1991, is still above the average for EMS countries. This is tending to erode yet further the already weak competitiveness of the UK economy.

At current exchange rates, but assuming some reduction in European interest rates next year, it seems improbable that real GNP in the UK could rise by more than 1 per cent in 1993, and quite possible that it would not rise at all. A modest recovery in domestic demand might well take place, but most of the increase would be met by imports. Export growth is likely to remain weak, especially as the impact of the recent large depreciation of the dollar has not yet been felt on UK export volumes. Thus, even with very weak economic growth, a considerable deterioration in the current account balance of payments seems certain.

A rising deficit will result in recurring periods of pressure on the value of sterling. Maintenance of the current exchange rate within the EMS will probably require a widening of the interest rate differential between Germany and the UK, at least offsetting the expected reduction in German interest rates.

Allied to the debt overhang, a wider interest differential would result in UK domestic demand increasing at well under the European average in 1993. This, of course, would be in keeping with the medium-term strategy required if UK competitiveness is to be restored gradually at current exchange rates. However, the social and political costs of pursuing such a strategy for several years could be very great. Despite repeated policy statements from the UK authorities, the financial markets are so far not convinced that such a strategy will be maintained.

Although a resolute adherence to a policy of relative deflation at the current exchange rate cannot be ruled out, it seems more probable that at some point in the next twelve months the authorities will choose, or be forced by the markets, to devalue within the EMS or to leave the exchange rate mechanism and allow sterling to float downwards.

For the purpose of this *Commentary,* we assume the middle course of a devaluation within the EMS in early 1993, taking the value of sterling to approximate equality with the Irish pound. It is further assumed that devaluation will not be accompanied by any form of incomes policy, but that the level of unemployment will temporarily limit the inflationary impact of the measure. As a consequence of these assumptions, a UK growth rate of 2 per cent is forecast for 1993, with a continuing, but much slower, rise in unemployment.

The Rest of the World

The Japanese economy continues to stagnate, and industrial production has fallen for six successive months. The principal weakness lies in business investment, with the sharp fall in share prices tending to undermine business confidence as well as the ability to finance major expansion. However, as in Germany, the stagnation is taking place at a high level of activity, with unemployment remaining low and consumer demand quite strong. The slowdown has removed inflationary pressures, and the forthcoming wage round is expected to be settled at under 5 per cent. Both fiscal and monetary policies are now expansionary, and economic growth is expected to resume in the coming months.

Most other Asian industrialised countries have maintained high growth rates throughout the recession. Expansion is expected to continue unabated in 1993. Canada and Australia, as usual, are tending to follow the US economic cycle, with hesitant recovery in 1992 likely to become firmer in 1993. Recovery seems to be well established in most of Latin America, with the debt burden somewhat eased through domestic measures and the weaker dollar.

The Context for Ireland

As should be clear from the discussion so far, external conditions have been far from favourable in 1992. The UK, still Ireland's major market, has remained in deep recession, while growth in the rest of the world has been far below its historical average. Interest rates throughout Europe are damagingly high, with no prospect of an imminent reduction. Industrial investment on a world basis has been weak, and unemployment in most countries is high and still tending to rise.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1992	1993	1992	1993	1992	1993	1992	1993	1992	1993
UK	– ½	2	4¼	4	6¼	5¾	10¼	10¾	– 2	– 2¾
Germany	1½	2¼	3¾	3	6	5¼	5	5¼	– ½	– ¼
France	2	3	3	3	5¼	5	10	10	– ¼	– ¼
Italy	1½	2½	5½	5	5¾	5½	11	11¼	– 1¾	– 2
Total EC	1¼	2½	4	3½	6	5½	9½	9¾	– ¾	– 1¼
USA	1½	3¼	2½	2¾	3¾	4	7¼	7	– ¾	– 1
Japan	2	3½	2	2½	4¾	4¾	2½	2½	2¼	2½
Total (OECD)	1½	3	3¼	3	5½	5¼	7¾	7¾	– ¼	– ¼
Ireland	3½	3½	3¼	3	5	4¾	17¼	18½	8½	8¼

Inflation is low in most major countries, and this, coupled with slow growth and rising unemployment, has encouraged the authorities in the US and Japan to adopt expansionary economic policies. Because of the problems of German unification, governments and central banks in Europe have been unable to follow the American lead, and monetary policy, in particular, has remained firmly contractionary in western Europe.

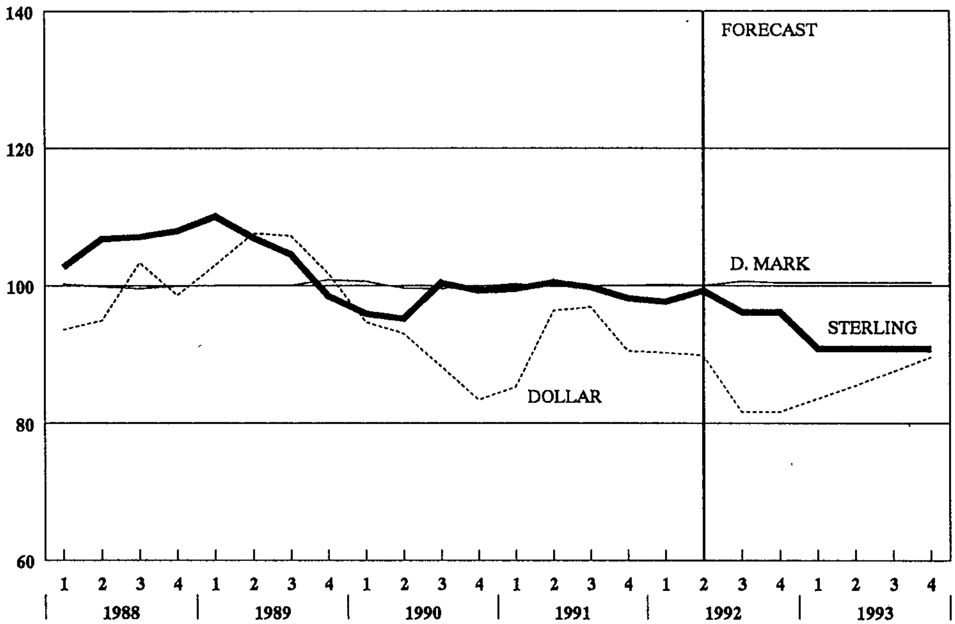
Although much uncertainty remains, it seems probable that most of the world will return to a more normal growth path in 1993, as confidence returns and expansionary policies take effect. Even in Europe, monetary policy is likely to ease and growth should accelerate, although remaining slower than in North America or Japan. Thus the general economic climate for trade and for international industrial investment should be considerably better in 1993 than in 1992.

Unfortunately, as already discussed, it does not seem likely that the UK will share fully in this general recovery of the world economy in 1993. Either there will be little or no growth in the UK economy, or modest growth will be achieved following sterling devaluation. We consider the latter to be more likely, and have assumed a fall of about 6 per cent in the value of sterling.

Although a general realignment is possible, no change in EMS parities is assumed for 1993, beyond the devaluation of sterling. In particular, it is assumed that there will be no change in the central value of the Irish pound compared with the Deutschmark. As the US economy recovers, American short-term interest rates seem likely to rise, and thus a gradual appreciation of the dollar is assumed during 1993, although its annual average value is expected to remain below the 1992 average.

FIGURE 1: Exchange Rates

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



The Domestic Economy

General

The recent publication of *National Income and Expenditure* 1991 by the CSO confirms the view consistently taken in the *Commentary* that there was positive economic growth in Ireland in 1991. The expenditure-based increase in the volume of Gross Domestic Product, at 2½ per cent, was close to the predictions made in *Commentaries* throughout the year, while the increase of 4¼ per cent in the volume of Gross National Product was well above our forecasts, as we had allowed for an upturn in profit expatriation in the second half of the year which, on the basis of the preliminary CSO figures, did not materialise.

Although the preliminary estimates are liable to revision, especially when detailed balance of payments figures become available, the principal message is unlikely to change. This is that the Irish economy performed relatively well in 1991 against the background of an unfavourable international environment. This pattern appears to be continuing in 1992, where the delayed world recovery and the prolonged stagnation in the UK have not prevented a further strong rise in Irish exports and industrial production.

Both 1991 and 1992 have provided concrete evidence of the benefits of improved Irish competitiveness. In normal circumstances, these benefits should be much greater in 1993, when the world economy is expected to grow more rapidly. Unfortunately, the prospect is clouded by the severe difficulties of the

UK economy. At current exchange rates, there would be little or no growth in the UK in 1993. If our assumption of sterling devaluation is correct, Irish exporters to the UK will suffer a significant, if temporary, loss of competitiveness, while British producers will gain competitiveness in the Irish domestic market. This is the main reason why the growth rates forecast here for 1993 are no higher than those for 1992, despite the anticipated upturn in the world economy.

Exports

Given the lack of buoyancy in Ireland's main export markets, the growth of exports in the first five months of 1992 has been extraordinarily vigorous. The value of both total and manufactured exports were 16¾ per cent higher than in the corresponding period of 1991. Prices may have been about 4 per cent above 1991 levels, implying a volume rise of over 12 per cent.

The very large increase in agricultural exports obviously reflects considerable sales out of intervention stocks, as well as some shipment of stocks for storage abroad. However, it also includes a significant upturn in normal market sales of agricultural products at full prices. Because agricultural exports recovered in the second half of 1991 after a very poor first half, the annual rate of increase in the remainder of 1992 is likely to be less dramatic than in the opening months. Nevertheless, the rise in both the value and volume of agricultural exports in the year as a whole is expected to be substantial. A further steady growth is projected for 1993, including both additional disposals out of intervention and improved market sales.

The growth of manufactured exports in the first five months of 1992 is dominated by a continued rapid expansion in exports of chemicals and a strong recovery in the value of office and data processing machine exports. Nevertheless, a broad range of products, many in the more traditional sectors, also recorded substantial, if not spectacular, gains. Manufactured export values should continue to increase in the remainder of 1992, although, as in the case of agricultural exports, a higher base of comparison could reduce the annual rate of growth.

The improvement in Irish competitiveness, allied to a recovering world market might be expected to result in a faster increase in manufactured exports in 1993. However, if our assumption of a sterling devaluation early in that year is correct, a squeeze on the prices, and to a lesser extent the volume, of manufactured exports to the UK can be expected. Thus a rather slower growth in the volume of manufactured exports than in 1992 is projected for 1993, with no increase in average prices.

Other industrial exports, comprising mainly crude materials, beverages and tobacco and some manufactured foods, have been growing much more slowly in 1992 than either agricultural or manufactured exports. Modest further growth is projected for the remainder of 1992 and for 1993.

As shown in Table 2, the value of visible exports is thus forecast to increase by 12 per cent in 1992 and is projected to rise by 7½ per cent in 1993. The corresponding volume increases are 10¼ and 7 per cent. After adjustment for balance of payments purposes, the increases forecast for merchandise exports are marginally higher.

TABLE 2: Exports of Goods and Services

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Agricultural	2251	14	15	2589	6	7	2770
Manufactured	10526	11	13	11894	8	8	12846
Other Industrial	2066	3	4	2149	4	5	2256
Other	181	0	0	181	0	0	181
Total Visible	15025	10¼	12	16813	7	7½	18053
Adjustments	-320			-320			-290
Merchandise	14705	10½	12¼	16493	7¼	7¾	17763
Tourism	1202	3	6¼	1277	6¾	10	1405
Other Services	750	3	6	795	3	6	843
Exports of Goods and Services	16657	9½	11½	18565	7	7¾	20011

Reports on the progress of the current tourist season are very mixed. On the basis of official figures for the first half of the year, it seems probable that there will in fact be a small rise in both the volume and value of foreign tourist spending in Ireland in 1992 as a whole. The disenchantment of much of the tourist industry can probably be ascribed to the failure of tourist numbers to increase as rapidly as the provision of capacity, and to the tendency, already apparent in the half-yearly figures, for Irish holiday-makers to resume their visits abroad at the expense of domestic holidays. With the world economy expected to recover in 1993, a rather faster increase in tourist earnings is projected, although the weakness of the dollar may limit the rise in the number of US visitors.

Until the results of the new CSO surveys on other service transactions are published later in the year it is difficult to make a realistic forecast of other service exports. Therefore the technical assumption is made that the implied 1991 value increase of 6 per cent will be repeated in both 1992 and 1993.

On this basis it seems likely that exports of goods and services in 1992 will rise by about 9½ per cent in volume and 11½ per cent in value. The projection for 1993 is for a volume increase of 7 per cent and a value rise of 7¾ per cent, the very low price deflator reflecting the assumption of a sterling devaluation.

Stocks

Stockbuilding was extremely heavy in both 1990 and 1991, mainly because the low volume of agricultural exports resulted in a massive rise in intervention stocks. Although it is too early to be certain of the precise level, it is clear that stockbuilding will be much lower in 1992.

The number of animals on farms is likely to increase slightly in 1992, partly because this year is due to be used as a benchmark for the calculation of future premium eligibility. Without this incentive, an unchanged number of livestock is projected for 1993.

Although there has been a substantial reduction in intervention stock levels in the first half of the year, the main season for intake is about to begin. For the year as a whole, it is likely that there will still be a net increase in the level

TABLE 3: Stock Changes

	1991 £m	Change in Rate £m	1992 £m	Change in Rate £m	1993 £m
Livestock on Farms	27	-7	20	-20	0
Irish Intervention Stocks[1]	535	-370	165	-120	45
Other Stocks	-5	5	0	50	50
Total	557	-372	185	-90	95

[1]Including subsidised private storage.

of intervention stocks, but the rise will be much lower than in 1990 or 1991. The figure shown in Table 3 is compatible with the forecast level of agricultural exports, although, as always, the exact balance between exports and stocks depends heavily on the timing of shipments in the closing months of the year. A further favourable shift in the balance between exports and intervention stocks is projected for 1993. An actual fall in intervention stocks seems possible next year, but caution suggests that a small net increase should be projected.

The preliminary National Accounts indicate that there was only a marginal fall in non-agricultural, non-intervention stock levels in 1991. Import trends to date do not suggest that there has been any resumption of industrial or distribution stock building in 1992. An unchanged stock level is therefore forecast for this year, with a moderate upturn projected for 1993 as the volume of imports increases.

Investment

The volume of gross domestic fixed capital formation fell by 6½ per cent in 1991, with investment in building and construction declining by 1½ per cent and investment in machinery and equipment by 11½ per cent.

A strong second half performance meant that the fall in investment in building and construction in 1991 was much less severe than had seemed likely earlier in the year. This momentum was carried over into the early months of 1992, and makes it likely that there will be a modest rise in the volume of such investment in the year as a whole. The sectoral pattern of growth expected in 1992 is very mixed, with substantial increases in residential and infrastructure investment, including the gas interconnector, offset by continued declines in commercial and agricultural construction. Given the continued oversupply of office accommodation, commercial construction is likely to remain weak in 1993, but most other sectors are projected to expand, especially if there is a reduction in interest rates. Overall, investment in building and construction is projected to increase by 4 per cent in volume and 7 per cent in value in 1993, as shown in Table 4.

TABLE 4: Gross Fixed Capital Formation

	1991	% Change		1992	% Change		1993
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	2545	2½	5½	2685	4	7	2873
Machinery and Equipment	2058	-1	1½	2089	6	8	2256
Total	4603	1	3¾	4774	4¾	7½	5129

The rapid fall in capital goods imports in 1991 persisted into the first few months of 1992. Commercial vehicle registrations similarly fell very sharply in the first six months of 1992, continuing the downward trend seen in 1991. However, the upturn in domestic consumer spending and the continued buoyancy of industrial exports suggest that there could soon be a recovery in investment in plant and equipment. For 1992 as a whole, a volume decline of 1 per cent is forecast, implying a small rise of about 1½ per cent in value. A more significant increase of about 6 per cent in the volume of investment in machinery and equipment is projected for 1993, as purchases postponed from 1991 and 1992 can be delayed no longer against the background of a steadily growing economy.

Thus total fixed investment is forecast to grow by 1 per cent in volume in 1992, a downward revision from previous *Commentaries,* and a volume growth of almost 5 per cent is projected for 1993.

Consumption

The 1991 National Accounts incorporate a major upward revision to estimates of personal consumption in 1990, and significant upward adjustments for previous years. Not only do the revised figures present a more plausible picture of the course of the boom in 1988 and 1989 and of its petering out in 1990, but they also imply that the personal savings ratio since 1987 has been significantly lower than had been believed. On the basis of the latest estimates, it now appears that the savings ratio reached a low point of 10.6 per cent of personal disposable income in 1989, increasing to 12.2 per cent in 1990 and about 14 per cent in 1991. These new estimates are all about 2 percentage points lower than earlier estimates, and suggest that the rise in consumer confidence in 1988 and 1989 was stronger than had been realised and the subsequent weakening of confidence less acute than had been feared.

The trend in consumer spending in the first half of 1992, as measured by the retail sales index and confirmed by indirect tax receipts, is compatible with an approximate stabilisation of the personal savings ratio. Matched against a moderate upturn in the second half of 1991, the annual increases in the retail sales index are likely to be slightly lower than in the first six months of 1992, as shown in Table 5.

It is possible that with an upturn in the world economy in 1993, consumer confidence will improve substantially, with a fall in the savings ratio enabling a large rise in personal consumption. However, given the influence of the UK, both through trade links and demonstration effects, it seems more probable that the continuing difficulties of the UK economy will have a dampening effect on Irish consumer spending. Thus it is reasonable to project only a slight increase in the rate of growth of personal consumption in 1993, accompanied by a virtually unchanged personal savings ratio.

On the basis of Budget estimates, it seems probable that government consumption will increase in 1992 by about 7½ per cent in value and 1½ per cent in volume. Given the difficult budgetary arithmetic which will be faced in 1993, it seems inevitable that strong efforts will be made to restrict the growth in the volume of public net current expenditure. However, it is probably unrealistic to expect a return to the actual cuts in the volume of government

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	—	5.8	6.3
Retail Sales Index, Value	4.8	9.2	4.8	1.8	5.4	5.0	5.5
Divergence	2.5	−1.5	0	1.7	—	0.8	0.8
Consumption Volume							
NIE 1991, Personal Consumption	4.6	3.8	3.0	0.3	—	2.5	3.2
Retail Sales Index, Volume	2.1	4.7	2.7	−0.2	2.9	2.4	2.7
Divergence	2.5	−0.9	0.3	0.5	—	0.1	0.5
Consumer Prices							
NIE 1991, Personal Consumption Deflator	2.6	3.8	1.7	3.2	—	3.2	3.0
Retail Sales Index Deflator	2.6	4.3	2.0	2.0	2.3	2.5	2.7
Consumer Price Index	2.1	4.0	3.4	3.2	3.6	3.3	3.0

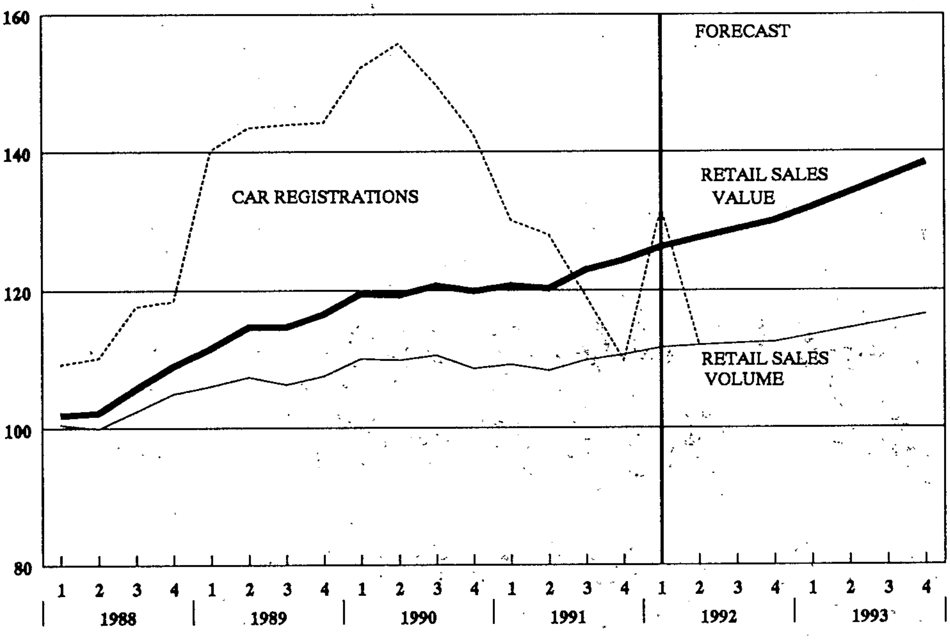
consumption last seen in 1989, and a marginal volume rise of 1 per cent is projected for 1993. This implies a value increase of the order of 8 per cent, uncomfortably high in the context of the once-off revenue losses expected next year.

Final Demand

In 1991, final demand increased by 3½ per cent in value and 1¾ per cent in volume, with the composition of demand resulting in an abnormally low import intensity. Final demand in 1992 is forecast to be considerably more

FIGURE 2: Consumption

Quarterly Averages Seasonally Adjusted, 1987=100



buoyant, growing by 7 per cent in value and 4¼ per cent in volume. However, with investment in machinery and equipment remaining weak and non-agricultural stocks static, the import-intensity of final demand in 1992 should again be well below average.

The projected increase in final demand in 1993 is very similar to that forecast for 1992, at 7 per cent in value and 4½ per cent in volume. With more of the growth likely to take the form of investment in machinery and equipment and industrial stockbuilding, final demand in 1993 is expected to be considerably more import-intensive than in 1991 or 1992.

Imports

There was remarkably little growth in the seasonally corrected level of visible imports, either in volume or value, between the second quarter of 1990 and the end of 1991. A slight upward trend appears to have been established in the value of imports in the first five months of 1992, but import growth continues to lag far behind the growth in exports.

In part, this relative sluggishness in import growth reflects the very gentle pace of the recovery in domestic demand, with a moderate rise in consumer spending largely offset by a continued decline in investment in machinery and equipment. More surprisingly, it suggests that a rapid increase in manufactured exports no longer automatically draws in a corresponding increase in materials imports. Apart from possible changes in manufacturers' stock levels, and possibly an increase in the incidence of transfer pricing, the explanation could lie in structural changes within manufacturing industry. Among the export sectors which have grown most strongly over the past two years are organic chemicals and pharmaceuticals. Neither is particularly import intensive, although both tend to generate a high level of expatriated profits. More broadly, the changing relationship between manufactured exports and materials imports could perhaps be evidence of an extension of linkages within Irish industry, coupled with the improving competitiveness of Irish suppliers.

If the pattern of Irish domestic demand develops as expected in the remainder of 1992, with a gradual pick-up in investment, import growth should be faster in the second half of the year than in the first five months. For the year as a whole, a volume growth of 4¼ per cent and a value rise of just over 6 per cent are forecast, as shown in Table 6. The greater import-intensity of final demand projected for 1993 dictates a faster rise of about 6¼ per cent in the forecast volume of visible imports. The relatively low increase in import prices projected for 1993 is a direct consequence of our assumption that there will be a sterling devaluation early in the year.

Official estimates for the first half of 1992 indicate a substantial rise in tourist travel overseas, following the decline in the volume of such expenditure in 1991. It seems likely that this upward trend in tourist spending abroad will continue in the remainder of 1992 and in 1993. As in the case of non-tourist service exports, estimates of the value of other service imports must be regarded as extremely tentative pending the completion of the current CSO surveys. In the meantime, the same technical assumption has been made for imports as for exports, that the modest growth of recent years will be continued in 1992 and 1993.

TABLE 6: Imports of Goods and Services

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Capital Goods	1814	–3	–1	1796	7	9	1958
Consumer Goods	3620	4	6	3837	6	7½	4125
Intermediate Goods:							
Agriculture	466	–3	–1	461	0	1	466
Other	6871	7	8½	7455	6½	8	8051
Other Goods	83	0	0	83	0	2	85
Total Visible	12853	4¼	6	13632	6¼	7¾	14685
Adjustments	–188			–190			–195
Merchandise Imports	12665	4½	6	13442	6¼	7¾	14490
Tourism	699	6½	10	769	5	8	831
Other Services	921	3	6	976	3	6	1035
Imports of Goods and Services	14285	4½	6¼	15187	6	7¾	16356

On this basis, the volume of imports of goods and services is forecast to increase by almost 4½ per cent in 1992 and by 6 per cent in 1993. The corresponding value increases are 6¼ per cent and 7¾ per cent, indicating that in neither year should import prices place a significant upward pressure on domestic price levels.

Balance of Payments

Only preliminary and incomplete estimates of the 1991 current account balance of payments surplus are available in *National Income and Expenditure 1991*. Thus in Table 7 only the major balances of visible trade, trade in goods and services, net factor flows, net transfers and the current account surplus itself are based on official estimates for 1991. The detailed items represent our own estimates based mainly on trends in the first half of the year. Both these

TABLE 7: Balance of Payments

	1991 £m	Change %	1992 £m	Change %	1993 £m
Visible Trade Balance	2171	46½	3181	6	3368
Adjustments	–131		–130		–95
Merchandise Trade Balance	2040	49½	3051	7¼	3273
Service Trade Balance	332	–1½	327	16¾	382
Trade Balance in Goods and Services	2372	42½	3378	8¼	3655
Factor Flows:					
Profits etc.	–2207	18	–2604	13	–2943
National Debt Interest	–1024	1½	–1039	0	1039
Other Debit Flows	–1248	5	1310	5	1376
Total Debit Flows	–4479	10½	–4953	8¼	5358
Credit Flows	1747	10	1922	10	2114
Net Factor Flows	–2732	11	–3031	7	–3244
Net Transfers	1977	–6½	1850	2¾	1900
Balance on Current Account	1616	36	2197	5¼	2311

estimates and the major balances for 1991 are liable to substantial revision when the CSO completes its full balance of payments estimates for the year.

With regard to 1992, it is already clear that there will be a massive increase in the visible trade surplus. The rise in the first five months of the year is £870 million, and for the year as a whole the increase is forecast at £1,070 million, the largest absolute annual rise ever recorded. Unless the surveys of service trade lead to major revisions, it seems likely that there will be little change in the balance of trade in services in 1992, so that the surplus on trade in goods and services is also forecast to increase by just over £1,000 million, to the extraordinary level of £3,378, or 11½ per cent of GDP.

After their implied fall of about 10 per cent in 1991, profit expatriations are expected to rise sharply in 1992, reflecting the increased value of multinational companies' exports since mid-1991. However, there should be little increase in overseas national debt interest, and in the absence of any recent data it seems reasonable to project a moderate rise in other current debit flows, in line with the implied rate of increase in 1991.

With capital outflows continuing at an enormous rate, the resulting current factor inflows can be expected to increase substantially, even allowing for relatively poor returns on some foreign investments. Thus net factor outflows are forecast to rise by 11 per cent in 1992 to £3,031 million, slightly below the 1990 level.

Net international transfers grew very strongly in 1991. With the build-up of intervention stocks likely to be much lower in 1992, some decline in the value of net transfers seems probable in 1992. Even allowing for this, the current account surplus is forecast to increase to above £2,200 million in 1992, an almost incredible 8½ per cent of GNP.

The projected acceleration in import growth in 1993 should limit the increase in the visible trade balance to less than £200 million. However, the balance of trade in services is expected to improve, taking the increase in the surplus of trade in goods and services to almost £300 million. A further substantial rise in profit expatriation is probable, but this should be partly offset by an increase in credit flows. Thus net factor outflows in 1993 are projected to increase by about 7 per cent. Assuming a marginal increase in net transfers, the current account surplus could be over £2,300 million, still 8¼ per cent of GNP.

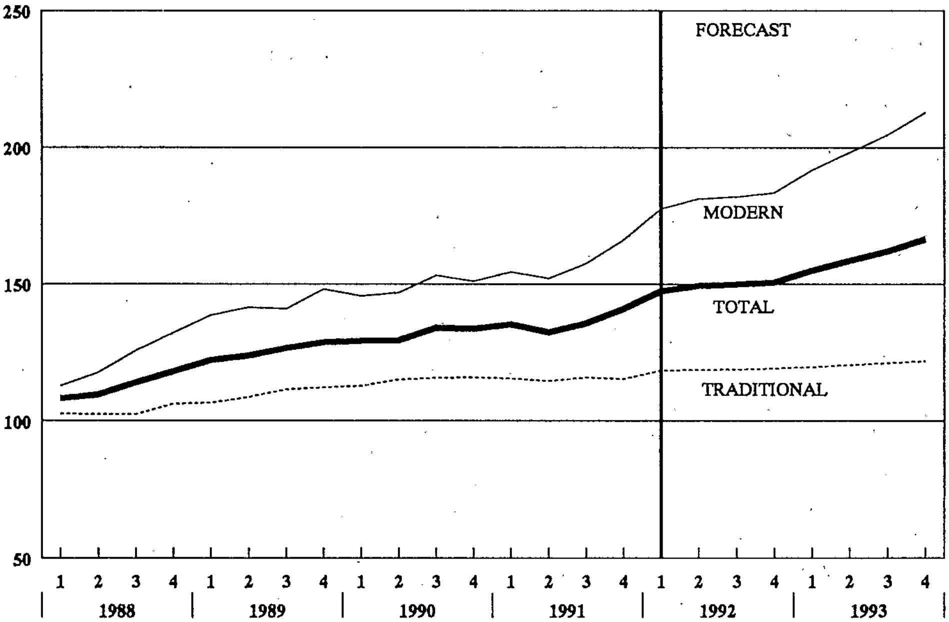
If these forecasts prove anywhere near correct, the current account surplus in both 1992 and 1993 will exceed the total of net transfers. A surplus on trade less factor outflows, before allowing for large transfer inflows, is a sign both of underlying economic strength and of underutilisation of resources.

Agriculture

After a marginal increase in 1991, the volume of gross agricultural output is expected to increase by about 3½ per cent in 1992, with a small rise in livestock production reinforced by a considerable rise in crop production. The volume of inputs is likely to decline, so that the forecast rise in the volume of gross agricultural product is above 5 per cent, with a similar increase forecast for the output of the broad agricultural sector. A rather slower increase of about 2½ per cent is projected for 1993.

FIGURE 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1987=100



Industry

The volume of production index for manufacturing industry shows that output was more than 11 per cent higher in the first five months of 1992 than in the corresponding period of 1991. The EC-financed CII/ESRI Business Survey indicates that industrial production has remained strong since May. While rapid expansion in the chemical industry and a recovery in office and data processing machinery have contributed much of this growth in manufacturing output, industrial strength seems fairly widespread, with most industry groups recording significant increases over their 1991 levels of production.

Even allowing for slower growth in the remainder of the year, it seems likely that the volume of production in manufacturing industry will increase by almost 10 per cent in 1992 as a whole. When allowance is made for the less dynamic performance of mining, quarrying and turf and of the utilities, the likely volume growth of all industry in 1992 is over 8½ per cent. Building output is forecast to increase by about 2½ per cent in 1992, so that output in the broad industrial sector is forecast to grow by about 7½ per cent in 1992.

If our forecast that manufactured export volumes will increase less rapidly in 1993 is correct, then industrial production will also grow more slowly. An annual increase in manufacturing output of about 7½ per cent would be compatible with our underlying assumptions. With building output set to grow faster than in 1992, an increase of 7 per cent in the volume of output of the broad industrial sector is projected for 1993.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1990	1991	1992	1993	1994
Agriculture	167	154	152	149	146
Industry	320	322	322	326	332
Services	639	649	654	660	667
Total at Work	1126	1125	1128	1135	1145
Unemployed	179	208	241	265	280
Labour Force	1305	1334	1369	1400	1425
*Unemployed Rate %	13.2	14.7	16.7	18.0	18.7
Live Register	221	248	281	301	316

B: Annual Averages '000

	1990	1991	1992	1993
Agriculture	160	153	151	148
Industry	321	322	324	329
Services	645	651	657	663
Total at Work	1126	1126	1132	1140
Unemployed	183	215	252	275
Labour Force	1309	1341	1384	1415
*Unemployed Rate %	13.4	15.1	17.2	18.5
Live Register	225	254	286	309

*New official rate based on ILO definitions. Because these refer to activity in the week preceding the Labour Force Survey, the unemployment rate cannot be derived directly from the figures in the table, which relate to principal economic status as recorded in the Survey.

Services

The volume of output of the service sector, after adjustment for financial services, increased by 1¼ per cent in 1991. A rather faster increase is expected in 1992, in line with the expansion of domestic demand, with a 2½ per cent value growth appearing a reasonable forecast. Public service output may be restricted in 1993 by the budgetary constraint, but private service output should grow more rapidly as both personal consumption and investment volumes improve. A total service volume output of about 3 per cent is thus projected for 1993.

Employment

Despite recent announcements of job losses, most available indicators continue to point to a very slow rise in non-agricultural employment, with small increases in industry and services just outweighing a decline in building employment. As the domestic economy in general and building activity in particular gain momentum the increase in non-agricultural employment should accelerate slightly in 1993.

Employment in agriculture is almost impossible to predict, but a return to a gradual decline is assumed, after the dramatic fall in the year to April 1991. On this basis the annual average number at work is forecast to increase by 6,000 in 1992 and 8,000 in 1993, as shown in Table 8.

Such increases are obviously insufficient to absorb the natural growth in the labour force in the absence of large scale emigration. However, the increase in the Live Register since April 1991, especially when changes in definition are taken into account, are too great to be explained solely by the gap between net job creation and the natural growth in the labour force of about 25,000 per year. The secular increase in the eligibility to register, especially among females, accounts for some of the rise in the Live Register, but even so the CSO estimate of net immigration of 2,000 in the year to April 1992 is surprisingly low. With the deterioration in the UK labour market continuing, it is probable that there has been further net immigration since April.

Unfortunately, the prognosis for employment levels in the UK remains very bleak. Not only is UK employment likely to fall further in 1993, but the recession is likely to remain especially severe in those sectors and regions of greatest relevance to Irish emigrants, namely building and construction and services in South East England. A resumption of net emigration to the UK therefore seems most unlikely during the remainder of 1992 and 1993, although the rate of net immigration might slacken. Job prospects in the US and other countries might well improve during 1993, but the impact on Irish migration rates is likely to be limited.

Thus it seems inevitable that the labour force will continue to increase by at least 25,000 in 1993, and that unemployment, however measured, will continue to rise. The Live Register appears set to exceed 300,000 in the coming winter, and the unemployment rate, on the new internationally comparable basis, seems likely to average about 18½ per cent in 1993.

Incomes

The recovery in gross agricultural product in 1992 will be accompanied by a favourable movement in relative prices, with agricultural output prices rising moderately while input prices remain roughly static. When account is also taken of higher net subsidy income to farmers, income arising in the broad agricultural sector is forecast to increase by about 10 per cent in 1992. With market conditions still strengthening, a slight further improvement in relative agricultural prices seems probable in 1993, resulting in a projected income increase of about 5 per cent.

Aggregate non-agricultural earnings increased by 6½ per cent in 1991, comprising a gain of about 5½ per cent in average earnings and an increase of almost 1 per cent in non- agricultural employment. It seems likely that the increase in average non-agricultural wages will be almost 5½ per cent in 1992, with average private sector earnings increasing rather faster than in 1991 at about 5 per cent, but average public service pay rising less rapidly than last year. With employment levels increasing by roughly ½ per cent, aggregate non- agricultural earnings are forecast to increase by about 6 per cent.

Average public service incomes are due to rise more rapidly in 1993, under the terms agreed for implementing PESP phasing. However some slowdown can be expected in the increase in private sector earnings, with many employers continuing to take a strong line in resisting the local bargaining elements of the PESP. Thus average non-agricultural wages, salaries and pensions are projected to increase by less than 5 per cent in 1993, with higher employment levels taking the rise in aggregate earnings to 6 per cent, as shown in Table 9.

The rate of increase in other non-agricultural incomes slowed down in 1991,

TABLE 9: Personal Disposable Income

	1991	Change		1992	Change		1993
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	1794	9¾	176	1970	5	99	2069
Non-Agricultural Wages, etc.	13620	6	817	14437	6	866	15303
Other Non-Agricultural Income	2824	3	85	2909	5	145	3054
Total Income Received	18238	6	1078	19316	5¾	1110	20426
Current Transfers	4250	8½	361	4611	7½	346	4957
Gross Personal Income	22488	6½	1439	23927	6	1456	25383
Direct Personal Taxes	4969	7½	373	5342	6	321	5663
Personal Disposable Income	17519	6	1066	18585	6	1135	19720
Consumption	15065	5¾	874	15939	6¼	1004	16943
Personal Savings	2454	8	192	2646	5	131	2777
Savings Ratio	14.0			14.2			14.1

as the sluggish domestic market restricted earnings from self-employment and income from interest dividends and rent reflected lower average interest rates and a check in the rise in dividends and rents. Income from these sources seems likely to grow quite slowly in 1992, but could accelerate in 1993 with the expected upturn in the domestic economy.

Rising unemployment is reflected in rapidly increasing transfer payments. These are set to increase by about 8½ per cent in 1992. If the rate of increase in unemployment slackens in 1993, and on the assumption that benefit rates are raised by little more than the rate of price inflation, the increase in transfer income in 1993 could slow to about 7½ per cent.

Thus gross personal income is forecast to increase by about 6½ per cent in 1992, compared with a rise of just under 6 per cent in 1991. The projection for 1993 is for a 6 per cent increase. Direct personal taxes seem likely to rise by about 7½ per cent in 1992, considerably higher than the original Budget estimate. For 1993, an increase of 6 per cent in direct personal taxation is assumed, after making allowance for a fall in receipts of DIRT.

Personal disposable income is thus forecast to increase by about 6 per cent in both 1992 and 1993, compared with a rise of about 5½ per cent in 1991. Consumption forecasts of a 5¾ per cent value rise in 1992 followed by a 6¼ per cent increase in 1993 imply a marginal annual increase in the personal savings ratio in 1992 and approximate stability in 1993. Such movements accord with our general assumption of a very gradual recovery in consumer confidence after its steep decline between mid-1990 and mid-1991.

Consumer Prices

After increasing significantly in the course of 1991, the rate of price inflation is expected to slacken considerably in the remainder of 1992. With the weakness of the dollar due to be reflected in some import prices, the continuing recession restraining UK prices and last year's increase in seasonal vegetable prices unlikely to be repeated, it would be surprising if the twelve-month increases in the consumer price index exceeded 3 per cent in the second half of 1992. Such an outcome would result in an annual average increase in the consumer price index in 1992 of 3.3 per cent.

It seems quite possible that the average rate of price inflation in 1993 could fall significantly below 3 per cent, especially if our assumption of a sterling devaluation proves correct. However, given the observed tendency for low import prices not to be fully reflected at the retail level, the probability of some appreciation of the dollar in the course of the year and making some allowance for unforeseeable shocks, it appears more prudent to project an annual increase of 3 per cent in the consumer price index in 1993. This would be close to the long-term trend increase which would appear compatible with full EMS membership and an eventual common currency.

Public Finances

Exchequer returns for the first seven months of 1992 remain in line with the forecasts published in the Spring *Commentary*. These were for tax revenue to exceed £9,000 million, the current budget deficit to be below £250 million and the Exchequer borrowing requirement to be about £500 million, or under 2 per cent of GNP. If such an out-turn is achieved in 1992 it will represent an excellent fiscal performance at a time when most European countries are facing a deterioration in their public finances. Taken together with probable valuation changes in the overseas national debt, a borrowing requirement of £500 million would leave the end-1992 debt GNP ratio very close to the medium-term fiscal target of 100 per cent.

However, despite the probability of a better than expected fiscal result for 1992, the budgetary problems to be faced in 1993 remain severe. At the projected rate of economic growth, underlying tax buoyancy is likely to be little greater than in 1992, while the bonus from improved collection methods and the ending of some corporate tax exemptions will probably be smaller than in 1991 or 1992. In addition, revenue losses can be expected from the reduction in DIRT rates, from some further harmonisation of indirect tax rates, and from the once-off effect of ending the collection of VAT at point of entry.

When these special factors are taken into account, it seems probable that tax revenue, on our usual assumption of unchanged real tax rates, would increase by no more than 4 per cent in 1993. With substantial pay commitments due to be met, and unemployment almost certain to rise further, even severe parsimony in framing the 1993 Estimates seems unlikely to be able to hold the increase in current expenditure to much less than 6 per cent.

The most likely prospect, assuming government determination to restrict expenditure and to postpone further real tax-cuts, is therefore for the current budget deficit to increase to about £400 million in 1993, with the Exchequer Borrowing requirement rising to over £650 million or almost 2½ per cent of GNP. Given that this deterioration in the public finances can be attributed to once-off factors affecting only 1993, such an outcome could be regarded as acceptable, provided the government signalled clearly that it was only accommodating these temporary factors and not changing the tenor of medium-term fiscal strategy, or reducing its commitment to meeting the fiscal prerequisites for a common European currency. The fact that even on these projections the debt/GNP ratio would fall well below the psychologically important 100 per cent level in 1993 should help to maintain confidence in the face of a minor temporary increase in the EBR. However, a deterioration in the public finances significantly greater than that projected here would run the risk of damaging market confidence. Strict control over the expenditure Estimates in the coming months is absolutely vital.

Interest Rates

Any hopes of a sustained fall in interest rates in 1992 have now been extinguished. The reduction of ½ per cent in most retail rates in May took them back to the level obtaining in the second half of 1991, but the Central Bank's short-term facility and most retail interest rates have risen again to the levels of early 1992 in recent weeks.

The principal cause of this renewed increase has been the tightening of German monetary policy in July, which has put upward pressure on wholesale interest rates throughout the EMS. Some additional pressure may have been put on Irish rates by the weakness of sterling, which has moved to the bottom of its broad ERM band in the EMS. However, although official data are not yet available, capital outflows do not appear to have been on the scale of movements which accompanied some previous periods of sterling depreciation. Perhaps the perception is growing that the next significant change in the value of sterling is more likely to be a devaluation than a return towards its ERM mid-point!

There is no sign of a market reappraisal of the relative strengths of the Deutschmark and other EMS currencies, and thus no progress towards eroding the remaining differentials over German interest rates, let alone establishing the reverse differentials which would appear to be justified by a comparison of inflation rates. Thus the course of interest rates in the remainder of 1992 and in 1993 seems likely to remain determined by German monetary policy.

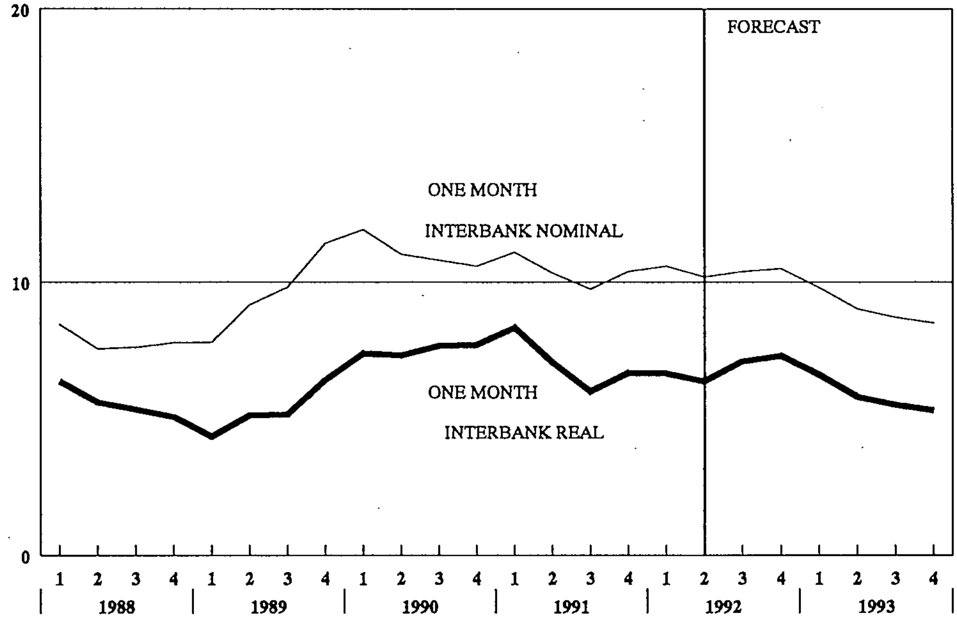
With German money supply still growing at an unacceptably rapid rate, despite a declining rate of price and cost inflation, there seems no chance of an early reduction in German official interest rates, although a further rise will probably be avoided. Because past models offer little guidance on the developing impact of German unification, it is difficult to predict the course of the German economy, and thus of German monetary policy, with any great degree of confidence. However, it is reasonable to hope that with inflation abating, the growth of German money supply will slacken sufficiently for the Bundesbank to commence reducing its key interest rates early in 1993. A fall of about 1 per cent in the annual average level of German interest rates next year seems more likely than an indefinite continuation of present levels.

Assuming that fiscal policy is sufficiently responsible to maintain market confidence, Irish differentials over German interest rates should remain quite narrow. Thus Irish interest rates also should be lower in 1993 than in 1992, with a reduction of 1 per cent in the annual average appearing a reasonable, and perhaps conservative, assumption. It must be stressed however that even a 1 per cent reduction would still leave 1993 interest rates extremely high by historical standards, and far above the level appropriate for a country with a massive unemployment problem.

Unfortunately, there is no domestic action which could be taken to significantly lower Irish interest rates so long as rates in Europe generally remain high. With capital markets effectively internationalised, domestic

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



decisions can force up the local differential over the European norm, but they cannot bring local rates below that norm. Irish influence, such as it is, can only attempt to modify German monetary policy; it cannot break away from it.

General Assessment

There is deep irony in Ireland's current economic situation. Since the mid-'80s Irish economic management has conformed to virtually every precept of modern economic orthodoxy. Government borrowing has gradually been brought down to about 2 per cent of GNP, while a strong and stable exchange rate has been placed at the centre of monetary policy. At the same time many controls have been relaxed or removed, both in the sphere of foreign exchange transactions and in relation to domestic capital markets. Considerable reform of the tax system has taken place, with marginal rates of income tax substantially reduced. In a major, but undoubtedly beneficial, departure from strict modern orthodoxy, most of these policies have been underpinned by a broad consensus, expressed in formal agreements between the government and the social partners.

In most ways this policy mix has been successful. Price inflation has been brought down to below the West European average, and excessive inflationary expectations have been removed. Moderate income growth has become the norm, so that international competitiveness has improved substantially. The ratio of national debt to GNP has been reduced sharply, so that it is now below those of Belgium and Italy. Interest rate differentials over Germany have been eroded to under 1 per cent, roughly in line with most European countries. The current account of the balance of payments has swung into massive surplus. Perhaps most striking of all, a major fiscal adjustment has been accompanied since 1987 by a relatively high rate of economic growth and by a significant increase in the level of non-agricultural employment.

The irony, of course, lies in the fact that just at the time when the Irish economy had overcome its past problems and was poised for sustainable rapid growth, the major world economies, many of them more committed than Ireland to a monetarist ideology, entered the longest, and in some cases the deepest, recession since the second world war. Thus, so far from reaping the full benefits of its own successful policies, Ireland has had to share the consequences of weak world trade, falling investment, stagnant personal consumption, and, above all, soaring unemployment as migration flows were reversed by the severity of the UK recession.

In assessing what action should now be taken in Ireland, it is vital that understandable concern with the unemployment crisis is not allowed to distract attention from the relative success of current policies. In the two years since the international recession started, Ireland has maintained positive growth, increased non-agricultural employment, and avoided any significant deterioration in the public finances. Although domestic demand stagnated in 1991, it appears to be recovering modestly in 1992. It may be small comfort to those unable to find jobs either at home or overseas, but economic conditions in Ireland over the past two years could have been a great deal worse, and almost certainly would have been had current policies not already succeeded in improving competitiveness and establishing financial confidence. The current situation would thus appear to call for some modification of policy, but certainly not for the abandonment or reversal of policies which have, in fact, served the country well in extremely difficult international circumstances.

Consideration of policy modifications must start from a realistic appraisal of likely developments in the world, and especially the European, economy. Until quite recently it seemed reasonable to expect that the normal cyclical upturn in the international economy would become firmly established in 1992 and would gather pace in 1993. The recovery was expected to ease Ireland's problems through a faster expansion in exports, renewed growth of productive investment and an increase in consumer confidence. Rapid growth in 1993 and 1994 would check the rise in unemployment and would come close to resolving the remaining difficulties in the public finances. Now, this benign prospect of a rising tide must be open to considerable doubts.

Despite the current apparent faltering of the US recovery, it remains likely that the American economy will grow quite rapidly in 1993. The US economy is large enough and self-contained enough for domestic rather than international factors to determine its course. Low interest rates are reducing the severity of the debt overhang, and once the political uncertainties engendered by the election have been resolved, both consumption and investment can be expected to resume their recovery. Japan, likewise, will probably grow quite strongly in 1993, despite its current financial problems. As in the case of the US, the Japanese economy is strong enough for the authorities to be able to take effective action to stimulate growth, while the authorities themselves have been sufficiently pragmatic to adopt such policies when they appeared necessary.

From Ireland's point of view the major external difficulties concern Europe in general and the UK in particular. It is by no means certain that an economic recovery in the USA and Japan would automatically spread to Europe. At the current exchange rate between the US dollar and EMS currencies, exports from Europe to the US are likely to be seriously inhibited, so that the faster growth in the US market could be offset by a fall in the European share of that market. Secondly, even as world investment volumes increase, investment within Western Europe could continue to be restrained by the high interest rates which are likely to be still obtaining next year. Finally, the German economy, which has tended to stagnate at a high level of activity in 1992, could remain out of phase with the world economic cycle and decline in 1993, exerting downward pressure on growth in the rest of Europe.

However, in spite of these fears, it is more likely that economic growth in continental Europe will accelerate in 1993, although not as strongly as in North America or Japan. Unfortunately the prognosis for the UK is very poor. With interest rates remaining high, little progress is being made in reducing the private sector debt overhang. Indeed, the falling rate of inflation could prolong the effects of the real debt burden, as low pay rises and narrow trading margins prevent the erosion of debt as a proportion of available income. Thus the level of indebtedness is likely to continue to depress both consumption and business investment in 1993. Even more serious is the clear evidence of sterling overvaluation. At the corresponding phase of the previous trade cycle, in 1981, the UK had a current account balance of payments surplus of £6.7 billion. In 1992, in an even deeper recession, a current account deficit of over £10 billion seems probable. Despite very weak domestic demand, import volumes are continuing to grow rapidly in 1992, while export growth is sluggish. At current exchange rates, both within the EMS and against the dollar and yen, substantial growth in net exports appears virtually impossible.

It is difficult to foresee how the UK authorities will handle their dilemma over the coming twelve months or so. On the one hand, defence of the current exchange rate within the EMS will almost certainly result in periodic sterling crises, and will probably require a significant widening of interest rate differentials over German levels. Yet higher interest rates will further exacerbate the recession in domestic demand, and do nothing to improve the competitiveness of UK industry. If the exchange rate is maintained, it is difficult to see how real growth in the UK economy in 1993 can exceed 1 per cent, if it occurs at all.

On the other hand, to devalue sterling within the EMS or to leave the exchange rate mechanism altogether would be to admit the failure of past policy, and would have unpredictable economic consequences. It is probable that the current level of unemployment would prevent the immediate erosion of devaluation's competitive gain through higher wage increases, although of course devaluation would raise the rate of price inflation. Thus, after the usual lag, the effect of devaluation on the volume of net exports would almost certainly be favourable.

With regard to domestic demand, the effect would depend largely on the course of interest rates. It seems unlikely that devaluation within the EMS would result in a significant reduction in UK interest rates, although the widening of the differential over Germany might be averted. The floating of sterling could, in theory, be accompanied by a major reduction in interest rates, but such a move would probably result in a massive depreciation of the currency. For an economy as open as the UK's, this would imply a rapid increase in inflation, negating the whole thrust of the Government's economic philosophy. Moreover, a large depreciation of sterling would evoke strong resistance among the other EC member states.

While no certainty can be attached to forecasting political decisions, the balance of probability seems to lie with a combination of political and financial pressure forcing the UK Government to abandon its current EMS exchange rate within the next twelve months. The technical assumption made in this *Commentary* is for a devaluation within the EMS at the beginning of 1993, bringing the value of the pound sterling to approximate equality with the Irish pound. Of course, this technical assumption is unlikely to prove precisely accurate, but it represents something close to the mid-point of possibilities with regard both to scale and to timing.

On the basis of this assumption, it seems possible that there could be some pick-up in the UK economy in 1993, although its growth rate would still remain well below the likely average of the EC and world economies.

Against this background, it has become unrealistic to rely solely on an improvement in the external environment to ease Irish problems in 1993. Net emigration is most unlikely to resume and a further increase in unemployment seems almost inevitable. Even to repeat this year's moderate growth rate, and thus to achieve a small increase in non-agricultural employment, will call for a concerted effort to limit the potential damage of sterling devaluation on the Irish economy.

Cost increases in industry, whether exporting to the UK or serving the domestic market must be kept to an absolute minimum, and the need for this must be recognised by both sides of industry. Diversification from the UK market to the continent should be accelerated, as continental Europe offers the prospect of higher growth not only in 1993 but also for the indefinite future.

The authorities need to ensure that confidence in the public finances is maintained, so that there is no risk of Irish interest rate differentials widening. Within this constraint, the pattern of expenditure, and possibly also of taxation, could perhaps be made more job intensive. However, expectations of what can be achieved by policy modifications within Ireland should be realistic, which means strictly limited.

The decisions which will determine when Ireland's unemployment crisis will abate will basically be taken outside Ireland, by the authorities in the major EC countries and, to a lesser extent, by the EC Commission. If the Irish government and Central Bank can influence these decisions, this could have a far greater impact on the Irish economy than any of the restricted actions which they can take domestically.

Fundamentally, the Irish authorities should intensify their support for moves to raise the priority given to unemployment in the formulation of economic policy throughout Europe. Few other countries have gone so far ideologically as the British in abdicating government responsibility for employment levels, but in many it appears that maintaining employment is a very subsidiary policy aim. If the reduction of unemployment could be elevated to the status of a central aim, alongside the control of inflation, significant policy shifts could result. Such matters as reducing direct tax rates, curtailing State services and investment, and privatisation could come to be seen as policy tools, sometimes appropriate and sometimes not, rather than as major policy ends in themselves. Even a minor move in this direction in the major EC countries could have a significant impact on employment prospects throughout Europe in the coming years.

More immediately there is a requirement to prevent any further rise in European interest rates and to bring about a reduction as soon as possible. German policy, and in particular the balance between fiscal and monetary measures used to contain the problems caused by unification, is clearly central to this concern. While the German authorities appear to be understandably resistant to mere nagging on this issue, especially from countries whose own record of economic management is less than solid, there are cogent arguments that can be advanced that faster European growth, based on a more balanced European monetary policy, would be in Germany's own interests. Ireland's status as a sincerely reformed sinner with regard to economic policy could give it an influence beyond its size in advancing such arguments.

Pending a change in German policy, and indeed the eventual resolution of the imbalance through the completion of German unification, and, it is to be hoped, the establishment of a single European currency under a European Central Bank, there is an urgent need to limit the differentials between German interest rates and those in other EMS countries. In the absence of exchange controls, this can only be achieved by calming the uncertainty surrounding the pattern of EMS exchange rates. It is possible that credibility in the system could be re-established at current parities through a combination of determined market intervention and some relatively minor interest rate adjustments. However, given the implausibility of current exchange rates as the basis for permanent parities within a single currency, it seems probable that speculation on EMS currency movements would recur at intervals in the coming year or so.

In this context, it seems probable that a general realignment of EMS currencies could be beneficial. Provided the new central rates appeared readily defensible, credibility would be restored to the system, and upward pressures on interest rate differentials would be alleviated. In any general movement of exchange rates, Ireland should be grouped with the stronger currencies, in keeping with its record of low inflation and strong current account surplus. A major benefit of a general realignment is that it would permit the necessary sterling devaluation with the minimum political embarrassment to the British government, and could forestall the much more serious international consequences of the UK leaving the system.

Looking further ahead, and assuming that ratification of Maastricht is accomplished, attempts could be made to soften some of the conditions, or at least the interpretation of the conditions, for the establishment of the common European currency. The aim of this, of course, would not be to ease the targets for Irish membership. For our own reasons we need to continue reducing the ratio of debt to GNP, which is the sole criterion we have yet to meet. Rather it would be to enable more expansionary fiscal policies in some of the major EC countries which already have relatively low debt ratios, but which are inhibited from stimulating economic growth during recessions by excessively tight criteria on year to year borrowing.

In summary, 1993 is likely to prove a more difficult year for the Irish economy than had been anticipated. The pattern of the world recovery will probably be of less direct benefit to Ireland than had been hoped. There is a very real threat that the consequences of a sterling devaluation will have to be faced, while, if this is avoided, the alternative of continued recession in the UK is equally daunting.

However, the underlying strength of the Irish economy, demonstrated in the weathering of the recession so far, should enable a growth rate of about 3½ per cent to be achieved again in spite of an unfavourable external environment. While this will be insufficient to meet the need for new jobs, it would be rash to embark on a radical change in economic policy. Any modifications will have to be made within the context of a temporarily difficult budgetary situation, and the hard won gains of fiscal credibility must not be jeopardised by premature relaxation.

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	132.6	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	162.1	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	189.4	112.3	13640	18068	187.0	45.3	141.8
1990	149.2	198.4	117.6	14325	19539	193.0	48.3	144.8
1991	154.1	209.6	118.0	14990	19652	194.5	50.3	144.3

Quarterly Averages or Totals

1989 I	139.2	193.0	102.4	3522	3663	182.5	43.7	138.8
II	147.3	196.8	112.9	3250	4203	184.9	44.5	140.5
III	132.1	167.0	105.8	3160	5467	189.8	46.5	143.5
IV	151.8	196.3	118.1	3708	4735	190.8	46.6	144.2
1990 I	147.6	203.4	108.2	3782	4372	189.2	45.9	143.6
II	153.3	203.0	119.3	3368	4667	191.9	47.2	144.9
III	139.8	181.4	109.8	3272	5313	195.6	49.9	145.5
IV	156.3	201.1	122.1	3903	5187	195.4	50.3	145.2
1991 I	154.2	215.9	110.7	4018	4785	192.6	49.2	143.3
II	156.1	209.7	118.7	3484	4164	193.7	49.4	144.4
III	141.9	186.5	110.1	3455	5228	195.6	50.8	144.8
IV	164.7	221.7	121.5	4033	5475	196.4	51.6	144.5
1992 I	168.5	248.4	113.4	4187		193.0		
II								
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1989 I	138.7	183.2	106.5	3245	No Seasonal Pattern	184.3	44.3	140.0
II	140.6	187.1	108.8	3454		185.8	45.1	140.8
III	143.6	186.3	111.5	3458		188.0	45.8	142.4
IV	147.3	196.1	112.1	3492		189.8	46.0	143.8
1990 I	146.7	192.7	112.7	3492		191.2	46.6	144.8
II	146.9	194.2	115.1	3582		192.8	47.8	145.1
III	152.1	202.8	115.6	3577		193.7	49.1	144.5
IV	151.7	199.9	115.8	3671		194.3	49.7	144.7
1991 I	153.4	204.4	115.4	3715		194.7	50.0	144.6
II	150.2	201.2	114.6	3705		194.6	50.1	144.6
III	153.9	208.6	115.8	3778		193.7	49.9	143.8
IV	159.8	219.9	115.2	3791		195.2	51.0	144.0
1992 I	167.3	235.1	118.3	3873		195.1		
II								
III								
IV								

Output per Head			Money Earnings	Real Earnings	Unemployment			
9	10	11	12	13	14	15	16	
Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Manufacturing	Manufacturing	Live Register Male	Live Register Female	Live Register Total	
1985 = 100	1985 = 100	1985 = 100	1989 = 100 Av. Weekly	1989 = 100 Av. Weekly	'000s Av. Monthly	'000s Av. Monthly	'000s Av. Monthly	
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	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.8	111.7	96.1	100.0	169.7	71.7	241.4	1988
142.4	164.5	116.8	100.0	100.0	160.0	71.6	231.6	1989
144.5	161.7	119.9	103.9	100.5	152.1	72.6	224.7	1990
148.1	164.2	120.7	108.4	101.6	170.5	83.5	254.0	1991
Quarterly Averages								
142.6	173.9	108.9	97.9	99.6	169.5	73.0	242.6	1989 I
148.9	174.2	118.5	99.1	99.8	159.7	70.9	230.7	II
130.1	141.4	108.8	100.9	100.1	155.9	72.7	228.6	III
148.7	165.8	120.8	102.1	100.5	154.7	69.7	224.4	IV
145.8	174.5	111.2	100.9	98.5	158.3	71.7	230.0	1990 I
149.3	169.4	121.4	103.1	100.3	148.2	71.2	219.4	II
133.6	143.1	111.3	105.1	101.3	149.7	75.0	224.7	III
149.5	157.4	124.1	106.3	101.9	152.1	72.6	224.7	IV
149.7	172.8	114.0	105.5	100.3	165.8	77.9	243.7	1991 I
150.6	167.1	121.2	108.7	102.6	167.2	81.1	248.3	II
135.6	144.6	112.2	110.6	101.1	173.1	88.7	261.8	III
157.1	169.2	124.1	110.7	102.4	175.7	86.3	262.0	VI
			110.2		186.8	91.4	278.1	1992 I
					183.9	93.1	277.0	II
								III
								VI
Quarterly Averages (Seasonally Corrected)								
140.3	163.1	112.2	98.9	100.6	163.9	72.5	236.5	1989 I
142.2	163.4	114.1	99.1	99.7	161.5	71.9	233.4	II
142.5	160.1	115.3	100.6	99.9	158.2	71.0	229.2	III
145.1	168.3	115.2	101.4	99.8	156.1	71.1	227.2	IV
143.4	163.0	114.8	102.0	99.5	152.8	71.2	224.0	1990 I
143.0	159.9	117.0	103.1	100.2	150.1	72.0	222.1	II
146.5	162.6	117.8	104.8	101.2	151.8	73.2	225.1	III
145.5	158.9	118.2	105.5	101.1	153.6	74.1	227.7	IV
147.1	161.1	117.8	106.6	101.4	160.2	77.4	237.6	1991 I
144.5	158.3	116.9	108.7	102.4	169.1	82.0	251.1	II
148.8	164.3	118.7	108.3	100.9	175.3	86.8	262.1	III
152.5	170.5	118.1	109.8	101.6	177.3	87.8	265.1	IV
			111.3		181.2	90.9	272.1	1992 I
					185.9	94.0	279.8	II
								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	95.8	98.1	1426.9
II	108.1	111.3		109.7				1389.8
III								
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	109.5	108.6	122.9				
III	99.1	110.2	108.6	122.5				
IV	100.1	110.0	107.8	119.1				
1990 I	100.8	108.7	106.1	114.0				
II	101.3	107.7	104.8	109.4				
III	102.0	107.6	104.9	104.7				
IV	102.8	107.0	104.8	103.3				
1991 I	103.4	107.6	105.3	103.5				
II	104.4	108.6	106.5	104.2				
III	105.6	108.8	106.5	102.9				
IV	106.5	109.7	107.3	105.9				
1992 I	107.2	110.5	108.0	106.0				
II	108.2	111.1		107.7				
III								
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

25	26	27	28	29	30	31	32	
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		2299	2374	75	10.2	8.8	II
								III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

25	26	27	28	29	30	31	32	
19285	179.6	94.6	2004	1958	- 46	No Seasonal Pattern	No Seasonal Pattern	1989 I
19741	184.6	95.7	1849	2021	172			II
19799	184.6	94.7	2051	2042	- 8			III
19835	187.7	95.8	1873	2007	134			IV
20936	192.5	98.0	2056	2122	66			1990 I
21417	192.1	97.9	2071	2048	- 24			II
20597	194.3	98.5	2120	2085	- 35			III
19620	193.1	96.8	2032	2169	136			IV
17891	194.3	97.2	2059	2191	131			1991 I
17606	193.6	96.5	2158	2405	246			II
16379	198.0	97.9	2301	2190	- 111			III
15087	200.2	98.6	2244	2294	50			IV
18137	203.2	99.5	2237	2401	164			1992 I
15437	206.2		2401	2389	- 12			II
								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	12961.0	2449.1	13685.4	3223.6	67.63	0.9155	1.6561	2.6692
III								
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
1075.0	1173.5	98.5	141.4	155.4	– 589	167	1991 I
1072.4	1258.6	186.2	140.5	165.2	– 843	85	II
1036.3	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	144.5	173.3			1992 I
1107.8	1456.6	348.8					II
							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	200.1	130.5	141.9			III
1043.3	1240.1	196.8	133.8	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	133.2	140.6	159.4			1991 I
1072.3	1216.1	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
1084.8	1371.6	286.8	141.5	176.7			1992 I
1107.0	1408.0	301.0					II
							III
							IV