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The forecasts in this Commentary are based on data available by mid-June 1995.

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SUMMARY

Unless revisions are made to some of the economic data already available, 1994 is likely to have joined 1968 and 1990 as a year of exceptional growth in real GNP. Our revised estimate of a GNP growth rate of 7½ per cent reflects strong increases in the volume of both domestic demand and exports, with the latter not fully reflected in higher profit outflows. This rapid economic expansion generated a substantial rise in employment, but did not result in any discernible increase in inflationary pressures.

A continuation of rapid, well-balanced, growth seems certain in 1995, although larger profit expatriations are forecast to reduce the real GNP growth rate to 6 per cent. Employment is still rising strongly, even if this has not been matched in the trend of registered unemployment. Although the consumer price index has risen in the first half of 1995, this has been due to the increase in mortgage interest rates, and the non-housing price index is expected to rise by 2½ per cent in 1995, compared with 3 per cent in 1994. Combined with the likelihood of a 7½ per cent current account surplus on the balance of payments, this constitutes fair evidence that inflationary pressures remain very moderate, and that the Programme for Competitiveness and Work continues to provide an effective protection against a rise in pay inflation.

International trends have greatly reduced fears of further interest rate increases in the course of the year, and although renewed currency instability can never be ruled out, the current pattern of exchange rates appears compatible with continued, broad-based, industrial growth. The coming together of several expenditure obligations from the past is causing some fiscal difficulties, but fears that either public spending or fiscal policy are slipping out of control appear excessive. A combination of relatively minor adjustments to existing plans for expenditure, taxes, asset disposals and borrowing should enable the non-recurring obligations to be met without any serious impairment of the long-term economic strategy. However, the present difficulties do point to the desirability of future Budgets containing greater contingency provision than was the case this year, so that there will be more scope for flexibility when unexpected problems inevitably arise.

FORECAST NATIONAL ACCOUNTS 1994

A. Expenditure on Gross National Product

	1993	1994	Change in 1994				
	Preliminary[1]	Estimate	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	18,065	19,510	1,445	984	8	2½	5½
Public Net Current Expenditure	5,167	5,580	413	155	8	4¾	3
Gross Fixed Capital Formation	4,808	5,375	567	419	11¾	2¾	8¾
Exports of Goods and Services (X)	21,883	25,188	3,305	2,865	15	1¾	13
Physical Changes in Stocks	-179	-170	9	0			
Final Demand	49,744	55,483	5,739	4,423	11½	2½	9
less:							
Imports of Goods and Services (M)	17,508	20,044	2,536	2,019	14½	2¾	11½
GDP at Market Prices	32,236	35,439	3,203	2,404	10	2¼	7½
less:							
Net Factor Payments (F)	3,804	4,125	321	247	8½	1¾	6½
GNP at Market Prices	28,432	31,314	2,882	2,157	10¼	2½	7½

B: Gross National Product by Origin

	1993	1994	Change in 1994	
	Preliminary	Estimate		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,193	2,321	128	5¾
Non-Agricultural: Wages, etc.,	15,886	16,998	1,112	7
Other:	9,258	10,540	1,282	13¾
less:				
Adjustments	1,338	1,369	31	2¼
Net Factor Payments	3,804	4,125	321	8½
National Income	22,195	24,365	2,170	9¾
Depreciation	3,044	3,242	198	6½
GNP at Factor Cost	25,239	27,607	2,368	9½
Taxes less Subsidies	3,193	3,707	514	16
GNP at Market Prices	28,432	31,314	2,882	10¼

C: Balance of Payments on Current Account

	1993	1994	Change in 1994
	Preliminary[1]	Estimate	
	£m	£m	£m
X - M	4,376	5,144	768
F	-3,804	-4,125	-321
Net Transfers	1,890	1,474	-416
Balance on Current Account	2,462	2,493	31
as % of GNP	8¾	8	-¾

[1] Adjusted for Balance of Payments Revisions.

FORECAST NATIONAL ACCOUNTS 1995

A. Expenditure on Gross National Product

	1994 Estimate £m	1995 Forecast £m	Change in 1995 £m Value	Change in 1995 £m Volume	Change in 1995 % Value	Change in 1995 % Price	Change in 1995 % Volume
Private Consumer Expenditure	19,510	21,023	1,513	956	7¾	2¾	5
Public Net Current Expenditure	5,580	6,000	420	196	7½	4	3½
Gross Fixed Capital Formation	5,375	6,161	786	621	14½	2¾	11½
Exports of Goods and Services (X)	25,188	28,295	3,107	2,658	12¼	1½	10½
Physical Changes in Stocks	-170	50	220	180			
Final Demand	55,483	61,529	6,046	4,611	11	2½	8¼
less:							
Imports of Goods and Services (M)	20,044	22,679	2,635	2,169	13¼	2¼	10¾
GDP at Market Prices	35,439	38,850	3,411	2,442	9½	2½	7
less:							
Net Factor Payments (F)	4,125	4,799	674	598	16¼	1½	14½
GNP at Market Prices	31,314	34,051	2,737	1,844	8¾	2¾	6

B: Gross National Product by Origin

	1994 Estimate £m	1995 Forecast £m	Change in 1995 £m	Change in 1995 %
Agriculture, Forestry, Fishing	2,321	2,425	104	4½
Non-Agricultural: Wages, etc.,	16,998	18,103	1,105	6½
Other:	10,540	12,041	1,501	14¼
less:				
Adjustments	1,369	1,341	-28	- 2
Net Factor Payments	4,125	4,799	674	16¼
National Income	24,365	26,429	2,064	8½
Depreciation	3,242	3,469	227	7
GNP at Factor Cost	27,607	29,898	2,291	8¼
Taxes less Subsidies	3,707	4,153	446	12
GNP at Market Prices	31,314	34,051	2,737	8¾

C: Balance of Payments on Current Account

	1994 Estimate £m	1995 Forecast £m	Change in 1995 £m
X - M	5,144	5,616	472
F	-4,125	-4,799	-674
Net Transfers	1,474	1,769	295
Balance on Current Account	2,483	2,586	103
as % of GNP	8	7½	-½

COMMENTARY

The International Economy

General

The currency instability which has characterised the early months of 1995 has so far had only a marginal impact on the prospects for world economic growth. Some developing countries, especially in Latin America and Asia, have suffered from a substantial rise in interest rates following the Mexican financial crisis, and this is likely to reduce their growth rates in 1995 and 1996. However, there has been no general rise in interest rates in the major industrial countries in 1995, with minor reductions in short-term rates in Germany and Japan offset by small increases in some other European countries. Long-term interest rates have tended to fall slightly in most developed countries. There thus seems no reason why the increase in productive investment, which is a key element in the current recovery stage of the global economic cycle, should not continue as expected in 1995 and 1996. The alterations in exchange rates, if they persist, might have some effect on the pattern of growth, retarding expansion in Germany and, especially, Japan, but increasing it in the USA and other countries whose currency has depreciated.

While growth prospects remain good, there seems little danger of a serious acceleration in inflation. The degree of unused capacity and the high level of European unemployment are such that continued moderate growth can be accommodated without intensifying international inflation pressures. On the other hand, it seems unlikely that growth in 1995 will result in a substantial reduction in unemployment levels.

The US Economy

As expected, the rate of growth of the US economy is moderating, under the influence of last year's increases in interest rates. The volume of retail sales has remained virtually static since October 1994, while both car registrations and housing starts are below their levels in the early months of 1994. However, corporate investment is still rising, as is the volume of exports. Allied to a substantial carryover from 1994, the buoyancy of investment and exports should ensure that real GNP growth in 1995 will be about 3¼ per cent, easing to perhaps 2½ per cent in 1996.

Total employment appears to be levelling off, but at a low unemployment level of just under 5½ per cent. Despite the relatively strong labour market over the past year, there has been no evidence of an inflationary surge in pay rates, with hourly earnings having increased by little more than 2 per cent. Price inflation also remains subdued, with an annual increase in consumer prices of about 3 per cent, and a rise of under 2 per cent in producer prices. Recent currency fluctuations are unlikely to have much impact on the inflation rate, partly because of the relatively small ratio of international trade to total output in the US economy, and partly because the currencies of important trading partners, such as Canada and, of course, Mexico, have depreciated even further than the US dollar.

The European Economy

In most European economies, domestic demand, especially fixed investment, is expected to be the major source of growth in 1995 and 1996. Although personal consumption is also increasing, its rise is moderate and is likely to be restrained by the need for most countries to improve their fiscal balance. The overall contribution from net exports is expected to be relatively small, although for countries such as Italy, whose competitiveness has been improved through currency depreciation, a considerable increase in the volume of net exports appears probable.

Local institutes forecast an increase of about 3 per cent in real German GDP in 1995, marginally faster than was achieved in 1994. Growth is expected to remain stronger in the former East Germany than in the country as a whole. Investment, especially in machinery and equipment, is likely to be the principal source of growth in 1995, with fiscal considerations preventing more than a modest increase in either personal or public consumption. The volume of exports is forecast to rise quite strongly, at 5 per cent or more, in spite of the appreciation of the DM. However, the volume of imports is likely to rise by a similar proportion, so that net exports will make little or no contribution to growth.

German price inflation was reduced quite sharply in 1994, and, aided by the currency appreciation, should decline further in 1995 to about 2 per cent. Average earnings are, however, expected to rise rather faster than last year, although the projected increase of about 3½ per cent remains moderate. The unemployment rate is likely to fall from 9.6 per cent in 1994 to just over 9 per cent in 1995.

Given the relatively modest rate of growth, especially in consumption, the lack of inflationary pressures and the strength of the currency, there is little expectation of an increase in short-term interest rates in 1995, although a small rise still seems likely in 1996.

Prospects for the French economy in 1995 and 1996 similarly include an investment led expansion in domestic demand, a fairly high rate of growth in both exports and imports and an inflation rate of about 2 per cent. The projected increase in real GDP is about 2¾ per cent in both years, and the rate of unemployment is forecast to decline only slowly from 12½ per cent in 1994 to 12 per cent in 1996.

Largely because of the depreciation of the lira, net export values are expected to make a positive contribution to an Italian growth rate of over 3 per cent in 1995, although here too fixed investment in machinery and equipment will also rise substantially. However, currency weakness will probably result in an increase in the rate of price inflation to about 5 per cent, and short-term interest rates are likely to remain at least 5 per cent about those in Germany. The unemployment rate is expected to be a little higher than in 1994 at about 12 per cent.

Spain and Portugal are also likely to see price inflation of the order of 5 per cent in 1995, with no substantial reduction in unemployment, and GDP growth rates between 2 and 2½ per cent. Greece is expected to achieve a growth rate of about 1½ per cent in 1995, with unemployment continuing to rise and price inflation remaining at almost 10 per cent.

The Low Countries and Austria can be expected to move roughly in line with Germany, with moderate rates of growth, low inflation and a small reduction in unemployment. The Scandinavian members of the EU are expected to out-perform the EU as a whole in 1995 terms of growth, with fixed investment rising very rapidly in Sweden and Finland. Inflation in Scandinavia is forecast to remain moderate, and unemployment rates are likely to fall. There could be some reduction in government borrowing, although in both Finland and Sweden the size of the budget deficit will probably remain unsustainably high.

The more advanced economies of Eastern Europe are likely to achieve moderate growth in 1995, despite a continuing high level of inflation. There is, however, little sign of stability being established in the Russian Federation.

The UK Economy

The volume of personal consumption in the UK appears to have been virtually static in recent months, which is not unexpected given the increases in interest rates during 1994 and early 1995, the fiscal tightening in recent budgets, and the relatively weak state of consumer confidence. While some upturn can be expected in the second half of the year, the annual increase is unlikely to be more than 2 per cent. However, in common with the rest of Europe, investment in machinery and equipment is increasing, so that the volume of domestic demand is likely to expand by about 2½ per cent.

Largely because of the substantial depreciation of sterling relative to most European currencies, the volume of exports is expected to rise faster than the volume of imports, as was the case in 1994. Thus real GDP is forecast to grow by about 3 per cent in 1995, and to continue growing at a moderate rate in 1996. A gradual rise in total employment, with a corresponding fall in unemployment, is expected to continue for at least the remainder of 1995.

Consumer price inflation has increased to well over 3 per cent in the first half of 1995, higher mortgage interest rates and the depreciation of the currency accounting for most of the rise. This latter factor has not yet fully worked through the economy to the retail price index, but unless there is an early appreciation of sterling it seems likely to continue affecting consumer prices in the second half of the year. The particular recessionary circumstances which prevented the devaluation of 1992 having much impact on the rate of consumer price inflation no longer fully apply. Thus it is likely that the average value of the consumer price index in 1995 will be more than 3½ per cent above its 1994 value. Although the average level of pay settlements has been edging upwards in the past six months or so, a significant surge in average earnings remains unlikely during 1995.

While UK economic growth in 1995 thus remains moderate and fairly well balanced, with the current account balance of payments deficit no longer a short-term constraint, there are fears that prospects could deteriorate in the medium term, perhaps starting in 1996. The failure of manufacturing industry to participate fully in the general upturn in investment so far suggests that capacity constraints on output could emerge in the near future, curtailing the potential growth rate and risking the intensification of inflationary pressures. This danger is accentuated by the probability of fiscal stimulus to domestic demand in the run-up to the next general election. Whether monetary policy will be tightened further to offset fiscal relaxation remains uncertain. In the medium term it seems almost inescapable that either the UK growth rate will be significantly below the European norm or the UK inflation rate will be well above that in the former narrow-band ERM countries.

The Rest of the World

The Japanese economic recovery appears to have become established, but it remains uncharacteristically slow and hesitant because of the high value of the Yen against other major currencies. Most of the expected growth rate of about 2 per cent in 1995 will come from consumption, both private and public. Net exports are obviously being impeded by the exchange rate, and, more seriously for long-term prospects, a high proportion of corporate profits continues to be invested abroad rather than in domestic Japanese industry.

The rate of growth in most other Asian industrial or industrialising countries appears likely to moderate in 1995, although still remaining very high by world standards. In part this slowdown reflects a more cautious approach by international investors following the Mexican financial crisis.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
UK	4	3	2½	3¾	3¾	4¼	9½	8¼	-	-½
Germany	3	3	2¾	2¼	2¾	3½	9½	9¼	-1¾	-1
France	2½	3	1¾	2	2½	3	12½	12¼	½	½
Italy	2½	3¼	4	5	4	5	11½	11½	1¼	1¼
Total EU	2¾	3	3	3	3½	4	11½	11	-	-
USA	4	3¼	2½	3	2¾	3¼	6¼	5¾	-2¼	-2½
Japan	½	2	¾	1	1½	1½	3	3	3	2½
Total (OECD)	3¼	3	4½	4¾	3¼	3¾	8½	8¼	-¼	-¼
Ireland	7½	6	2½	2¾	4	3¾	14¾	14	8	7½

Latin America has been more strongly affected by the Mexican crisis, although growth is expected to remain positive in most countries, aided by a substantial depreciation in their currencies. This in turn, however, could make current stabilisation policies in some countries more difficult to implement.

Primary producing countries have tended to benefit from rising prices for many commodities over the past year or so. The rise in commodity prices is generally expected to ease in 1995, especially in terms of the stronger European currencies. Despite continued world economic growth there is little expectation of a substantial increase in crude oil prices, with increased demand being met by an expansion in output.

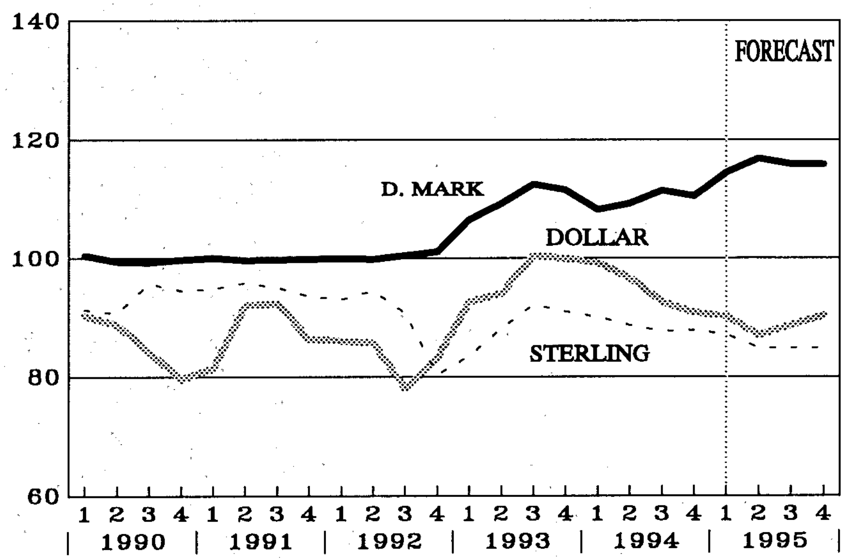
The Context for Ireland

World economic growth, at about 3 per cent, is likely to be much the same in 1995 as in 1994. However, a significant change is expected in the geographical composition of this growth, with the rate of expansion declining in most English-speaking countries but accelerating in continental Europe and Japan. In most countries capital investment in machinery and equipment remains strong, and as a corollary to this, the volume of available multinational investment is relatively high.

Although the slowing of domestic demand growth in the UK and US could cause problems for some firms or industries, the general pattern of growth remains favourable for the Irish economy. The buoyancy of the continental market and the high level of demand for electronic capital goods and services is permitting a continued high rate of increase for total Irish exports. At the same time new capital investment, much of it multinational, is increasing Irish capacity to meet these export demands.

Figure 1: Exchange Rates

IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1989=100



Investment, both multinational and domestic, is also encouraged by interest rates which are still relatively low by the standards of the last decade or so. Having withstood the currency fluctuations of early 1995 without substantial effects, interest rates, both short- and long-term, are not expected to show much further movement in 1995, at least in developed economies.

While approximate stability in international interest rates can be predicted with reasonable confidence, it is much harder to forecast whether exchange rates will remain close to present levels, or whether they will resume their volatility of recent years. It still appears that both the US dollar and sterling are somewhat undervalued on a short- to medium-term perspective, but political uncertainties in both countries could prevent the currency appreciation which might otherwise be expected. In the longer term renewed depreciation, especially of sterling, remains a clear possibility. For the purpose of this *Commentary* it is assumed that there will be little significant change in current exchange rates in the remainder of 1995, apart from a modest appreciation of the US dollar.

The Domestic Economy

General

Although it is almost half way through 1995, gaps in statistical data still render it difficult to provide an authoritative estimate of economic growth in 1994. At the time of writing, annual trade statistics are not available, while other, highly volatile, balance of payments items have only been officially estimated for the first three-quarters of the year.

Nevertheless, sufficient evidence is available for it to be certain that 1994 was a year of exceptionally rapid economic growth. It is also clear that growth was well balanced, with the volume of both exports and domestic demand increasing strongly. Despite this very buoyant economic expansion, there was no sign of serious inflationary pressures developing, with price and wage increases remaining moderate and the trade surplus continuing to increase.

On the partial evidence so far available for 1995, the economy is continuing to grow quite strongly, and, with a substantial carryover from 1994, the annual growth rate should again be high. As already discussed, the international environment remains quite favourable, both for exports and for inward investment. Earlier fears of a substantial rise in interest rates have receded, and although currency instability can never be ruled out, there is no obvious reason why there should be further deleterious currency fluctuations in the remainder of 1995.

Exports

Provisional trade statistics for the first eleven months of 1994 show an increase of 16½ per cent in the value of visible exports compared with the corresponding period of the previous year. It is always possible that provisional figures will be revised, but there is no *prima facie* reason to anticipate such a revision. Data collection methods did not change significantly between 1993 and

1994, and the published export statistics appear fully compatible with survey data and with trends in industrial turnover and production.

Thus the value of visible exports is estimated to have risen by 16 per cent in 1994 as a whole. This represents a substantial upward revision to our previous estimate of a 14 per cent increase, and reflects a surge in high-technology exports during the autumn months. Considerable uncertainty surrounds the decomposition of this value increase between its volume and price components, as the monthly unit value export price index is not always a reliable guide to annual price changes. However, the monthly index shows moderate price rises in the first half of the year, followed by a significant decline in later months. A similar pattern can be observed from a comparison of the industrial turnover and production indices. For the year as a whole it appears likely that average export prices rose by less than 2 per cent, implying an increase of about 14 per cent in the volume of visible exports.

Preliminary estimates indicate that the rise in tourist earnings was rather disappointing, at 9½ per cent in value, and thus about 7 per cent in volume. On the basis of balance of payments estimates for the first three-quarters, it seems likely that other services increased by about 7 per cent in value. Total exports of goods and services in 1994 are thus estimated to have increased by 15 per cent in value and 13 per cent in volume, as shown in Table 2.

TABLE 2: Exports of Goods and Services

	1993	% Change		1994	% Change		1995
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	2,850	3½	6	3,021	1	3	3,112
Manufactured	13,357	18	20	16,028	13	14½	18,352
Other Industrial	2,435	6½	8¼	2,636	9	11	2,926
Other	1,000	8¼	10	1,100	8	10	1,210
Total Visible	19,642	14	16	22,785	10¾	12¼	25,600
Adjustments	-192			-235			-250
Merchandise	19,450	14	16	22,550	10¾	12½	25,350
Tourism	1,367	7	9½	1,497	11	14	1,707
Other Services	1,066	4½	7	1,141	5½	8½	1,238
Exports of Goods and Services	21,883	13	15	25,188	10½	12¼	28,295

The time path of visible exports in 1994 ensures a considerable carryover of growth into 1995. Surveys suggest that exports have continued to increase in the first half of the year. With the continental European market, especially for capital goods, remaining buoyant, and additional capacity becoming available, high technology exports should continue to grow strongly throughout 1995. More traditional exports, which tend to be more dependent on the UK market, could face some difficulties due to the depreciation of sterling in the early months of the year. Survey results to date do not show any obvious sign of reduced growth in such exports. However, some traditional exporters have almost certainly suffered a significant narrowing of margins, and others are likely to do so once the period for which they covered themselves against currency movements expires. Thus it is possible that the second half of 1995 will see some slackening in the rate of increase in exports to the UK, although even this may be ameliorated by a growing shortage of capacity among their UK competitors. With agricultural exports due to be restrained by a lack of product availability, now that intervention stocks are at minimal levels, it seems reasonable to project a value increase of just under 12½ per cent in visible exports in 1995, significantly lower than in 1994. It is difficult to predict the trend of average export prices, as there are likely to be major differences between various markets and products. Overall, another small rise of 1½ per cent in average prices is assumed, implying a volume rise of 10¾ per cent in total visible exports.

Tourist earnings could increase rather more strongly than in 1994, although our forecast does not include any major allowance for a "peace dividend" element in 1995. Other service exports are forecast to increase slightly faster than in 1994. Thus total exports of goods and services are projected to increase by 12¼ per cent in value and 10½ per cent in volume. It will be well into the second half of the year before reliable data become available to confirm whether or not this projection is of the right order of magnitude

Stocks

The surge in exports in the closing months of 1994, the relatively modest growth of imports throughout the year, and survey responses to questions on stock levels have led us to revise heavily our estimates of stock-building in 1995. It now seems most likely that total stocks fell almost as heavily as in 1993, with substantial reductions in both intervention and other stocks, as shown in Table 3.

TABLE 3: Stock Changes

	1993	Change in Rate	1994	Change in Rate	1995
	£m	£m	£m	£m	£m
Farm Stocks	-10	20	10	-10	0
Irish Intervention Stocks	-62	-88	-150	120	-30
Other Non-agricultural Stocks	-107	77	-30	110	80
Total	-179	9	-170	220	50

In 1995, little or no change is expected in the level of farm stocks. The projected fall in intervention stocks is much smaller than that estimated to have taken place in 1994, because opening stocks are at such a low level that only a minor reduction is possible. Other stocks, including materials, finished goods, work in progress and distribution stocks remain, as always, an imponderable, as no short-term indicators exist to monitor current trends. Although we now believe that the increase we had expected in 1994 in line with the general expansion of the economy did not in fact occur, it still seems probable that economic growth in 1995 will be reflected in a moderate increase in such non-agricultural stocks. Thus total stock-building is forecast to be moderately positive, but the very large stock changes which were characteristic of the early 1990s are unlikely to be repeated.

Investment

Our estimates of capital formation in 1994 have been revised upwards in the light of information which has become available since our previous *Commentary*. It must be stressed, however, that there is still a considerable potential margin of error, particularly with regard to investment in machinery and equipment.

The rapid rate of growth in construction in 1994 implies a large carryover into 1995. In addition, the time-scale of construction is such that many projects planned and launched in 1994 will reach fruition this year. House completions in 1995 should exceed those in 1994, although the rate of increase will be much less dramatic. However, non-residential construction, which was considerably slower to get under way in 1994, will increase much more strongly in 1995. Fears that a substantial rise in interest rates might inhibit investment decisions in the course of the year are receding, and it now seems probable that construction will continue to increase throughout the year. The forecast of a 10½ per cent volume increase shown in Table 4 might prove to be cautious.

TABLE 4: Gross Fixed Capital Formation

	1993	% Change		1994	% Change		1995
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	2,788	9	12½	3,136	10½	14	3,575
Machinery and Equipment	2,020	8¼	10¾	2,239	13	15½	2,586
Total	4,808	8¾	11¾	5,375	11½	14½	6,161

The stage of the economic cycle suggests that investment in machinery and equipment should peak in 1995, as both industrial and commercial enterprises seek to expand and up-date capacity in response to continuing economic growth. In the absence of current indicators, experience of previous cycles suggests that a volume increase of about 13 per cent is a reasonable forecast for 1995. Thus total gross fixed capital formation is projected to rise by 11½ per cent in volume and 14½ per cent in value.

Consumption

The retail sales index increased by almost 8 per cent in value and 5½ per cent in volume in 1994. Total personal consumption is estimated to have increased at a similar rate, making 1994 by far the most buoyant year for consumption since 1989. A feature of this consumption rise was the recovery in car sales, with total registrations of private cars, new and second-hand, increasing by 33 per cent. When garages and filling stations are excluded, the retail sales volume index rose by only 3½ per cent.

One consequence of this dominance of car sales was the unusual time path of consumer spending through the year. The peak in the seasonally corrected retail sales index occurred in the first quarter, when most car sales take place, with a significant decline in the second quarter only partially reversed in the second half of the year.

TABLE 5: Consumption Indicators

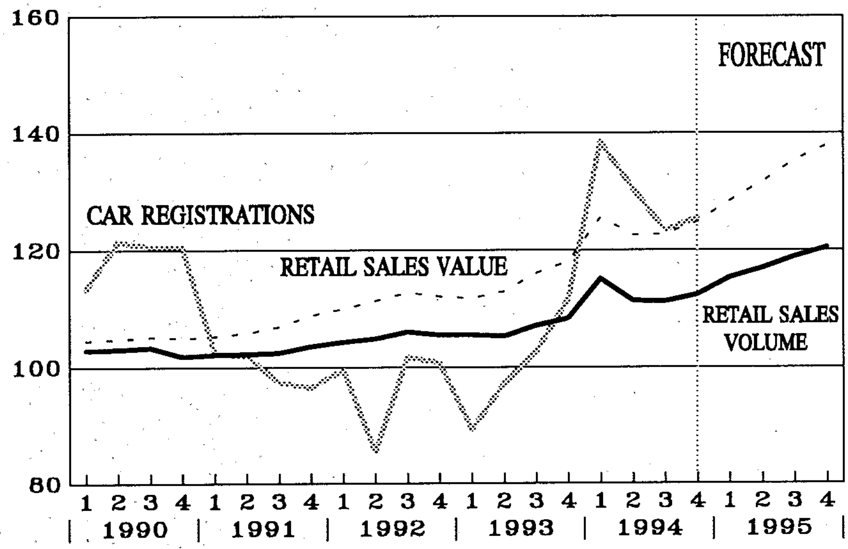
	Annual Percentage Change						
	1990	1991	1992	1993	1994 Estimate	1995 To date	1995 Forecast
Consumption Value							
NIE 1993, Personal Consumption	2.7	5.1	5.8	2.8	8.0		7.8
Retail Sales Index, Value	4.8	1.8	4.3	3	7.9	2.1	7.6
Divergence	-2.1	3.3	1.5	-0.2	0.1		0.2
Consumption Volume							
NIE 1993, Personal Consumption	1.3	2.6	2.9	1.2	5.5		4.9
Retail Sales Index, Volume	2.7	-0.1	2.3	1.4	5.5	2.0	4.7
Divergence	-1.4	2.7	0.6	-0.2	0		0.2
Consumer Prices							
NIE 1993, Personal Consumption Deflator	1.4	2.4	2.8	1.6	2.4		2.7
Retail Sales Index Deflator	2	1.9	2	1.6	2.3	2.1	2.7
Consumer Price Index	3.4	3.2	3	1.5	2.4	2.6	2.8

The time pattern of consumption is likely to be quite different in 1995. In the first place, car sales are likely to be a much less dominant component in the total increase. In the second place, car sales themselves might be less seasonally concentrated if the Budget scheme for a scrapping grant which starts in July is effective. Finally, real disposable income is likely to grow faster in the second half of the year than the first, partly because of equality arrears payments.

Thus the very low annual increase of just over 2 per cent in the retail sales value index in the first quarter is most unlikely to be representative of the year as whole. Annual rises of 4¾ per cent in volume and just over 7½ per cent in value appear more probable. As shown in Table 5, these could convert to increases of almost 5 per cent in the volume and about 7¾ per cent in the value of total personal consumption. Such a value increase would be compatible with a virtually unchanged personal savings ratio.

Net expenditure by public authorities on current goods and services, or government consumption, is estimated to have increased by about 3 per cent in volume and 8 per cent in value in 1994. On the basis of the revised Budget estimates, a volume increase of about 3½ per cent is likely in 1995. The public consumption price deflator, at about 4 per cent, is expected to be low in comparison with most recent years. Thus the value of public consumption is forecast to increase by about 7½ per cent. As in 1994, public consumption is projected to rise by slightly less than personal consumption in value terms, and by considerably less in volume terms.

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



Final Demand

Following upward revisions to the volume rise in exports and investment, our estimate of the volume growth in final demand in 1994 is now 9 per cent. With an increase of almost 2½ per cent in the price deflator, the estimated rise in the value of final demand is 11½ per cent. Although exports of goods and services are estimated to be responsible for two-thirds of the rise in the volume of final demand, the contribution of domestic demand, which increased by over 5½ per cent, was also very substantial. The import intensity of final demand was fairly high, although, on the new assumption of a minor fall in non-agricultural stock-building, marginally lower than in our previous forecast.

Another large and well-balanced increase in final demand is forecast for 1995. The volume increase in domestic demand is projected to be slightly faster than in 1994, at almost 6 per cent, but the reduced rate of increase forecast for the value of exports leaves the rise in total final demand slightly below the 1994 estimate, at 8¼ per cent in volume and 11 per cent in value. With personal consumption, especially of durables, investment in machinery and equipment, and, to a lesser extent, non-agricultural stock-building all expected to be buoyant, the import intensity of final demand is likely to increase from its already high 1994 value.

Imports

Trade statistics for the first eleven months of 1994 show the value of visible imports some 14 per cent higher than in the same period of the previous year. Given that the value of imports in December 1993 was high in relation to preceding months, it is reasonable to estimate that the value of visible imports for 1994 as a whole also rose by about 14 per cent. According to the unit price indices, average import prices in 1994 rose significantly faster than export prices, possibly by almost 3 per cent. Much of this increase was accounted for by sharp rises in the price of certain basic commodities, with the price of most manufactured imports rising much more modestly. An average import price rise approaching 3 per cent implies that the volume of visible imports increased by about 11 per cent, a surprisingly low proportion given the apparent strength of final demand.

TABLE 6: Imports of Goods and Services

	1993	% Change		1994	% Change		1995
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	1,820	10	12¼	2,043	14	16½	2,380
Consumer Goods	4,020	8½	11¼	4,472	8	10½	4,942
Intermediate Goods:							
Agriculture	490	6	7¾	528	4	6	560
Other	7,918	13	16½	9,217	12½	14½	10,553
Other Goods	500	11	14	570	11¼	13½	647
Total Visible	16,748	11	14	16,830	11¼	13½	19,082
Adjustments	-127			-125			-130
Merchandise Imports	14,621	11¼	14¼	16,705	11¼	14	18,952
Tourism	836	25½	28¼	1,073	10	13	1,212
Other Services	2,051	8	10½	2,266	8	11	2,515
Imports of Goods and Services	17,508	11½	14½	20,044	10¾	13¼	22,679

Preliminary tourism estimates show an extremely large rise of over 28 per cent in the value of tourist spending abroad. Other service imports also grew quite rapidly, on the basis of the September balance of payments estimates. Thus, as shown in Table 6, total imports of goods and services in 1994 are estimated to have increased by 11½ per cent in volume and 14½ per cent in value.

Allowing for some increase in relevant stock-building, the volume of visible imports is projected to grow marginally faster in 1995, in spite of the expected slight slowdown in the growth of final demand. Partly because of currency movements, the rise in import prices seems likely to be slightly lower in 1995, with a 2 per cent rise appearing to be a reasonable prediction. Thus the value of visible imports is projected to increase by about 13½ per cent.

Tourist spending overseas is expected to increase again this year, although not at the exceptional rate seen in 1994. Projecting the volume increase in other service imports at the same rate as last year, total imports of goods and services in 1995 are forecast to rise by 10¾ per cent in volume and 13¼ per cent in value. As in the case of exports, it will be several months before a realistic assessment of whether trends are conforming to this projected pattern can be made.

Balance of Payments

For the third year in succession, the visible trade surplus appears to have risen by over £1,000 million in 1994. This is a much larger increase than was forecast in the Winter *Commentary*, and is accounted for partly by revisions to trade data and partly by the surge in exports in the later months of the year. After allowing for adjustments for balance of payments purposes and for an unusually large increase in the deficit in service trade, the surplus on trade in goods and services in 1994 is estimated to have risen by 17½ per cent to £5,144 million.

Provisional balance of payments estimates for the first three-quarters of 1994 show that profit outflows increased by just over 9½ per cent compared with the same period of 1993. This is a surprisingly small increase, given that multinational exports have been rising strongly since mid-1993. Allowing for a much more rapid rise in the final quarter, profit outflows for 1994 as a whole are estimated to have risen by 13 per cent. National debt interest paid abroad rose substantially in the early months of the year but tended to decline as the year progressed. An annual rise in the region of 9 per cent is estimated. With other debit flows likely to have recorded a marginal decline, gross factor outflows are estimated to have increased by just under 10 per cent. On the evidence of figures for the first three-quarters, credit flows appear to have risen quite strongly, so that net factor outflows are estimated to have increased by a relatively modest 8½ per cent. It must be stressed, however, that most categories of factor flow are volatile, and that initial official estimates are quite often revised, so that our estimate must be regarded as tentative.

There was a substantial fall in net transfers, mainly from the EU, in 1994, probably of the order of 22 per cent. Thus the total current account surplus on the balance of payments is estimated to have risen marginally in absolute terms, but to have fallen from 8¾ per cent to 8 per cent as a proportion of GNP.

On the trade projections already discussed, the balance of visible trade is forecast to grow more slowly in 1995, although still likely to increase by over £500 million. Taking account of adjustments and of a further rise in the service trade deficit, the surplus on trade in goods and services is forecast to increase by just over 9 per cent, as shown in Table 7.

On the assumption that profit outflows renew their normal relationship with multinational export values, an increase of 19 per cent is projected for 1995. A small increase in national debt interest paid abroad is forecast, with unfavourable currency movements offsetting a reduction in average overseas debt. Assuming that credit flows continue to grow faster than other debit flows, reflecting the considerable build-up of Irish ownership of foreign assets, net factor outflows in 1995 are forecast to increase by 16¼ per cent, to about £4,800 million.

TABLE 7: Balance of Payments

	1993 £m	Change %	1994 £m	Change %	1995 £m
Visible Trade Balance	4,894	21¾	5,955	9½	6,518
Adjustments	-65		-115		-120
Merchandise Trade Balance	4,829	21	5,845	9½	6,398
Service Trade Balance	-453	54¾	-701	11½	-782
Trade Balance in Goods and Services	4,376	17½	5,144	9¼	5,616
Factor Flows:					
Profits etc.	-3,426	13	-3,871	19	-4,606
National Debt Interest	-1,021	9	-1,113	4	-1,178
Other Debit Flows	-983	-½	-978	4	-1,017
Total Debit Flows	-5,430	9¾	5,962	14	6,801
Credit Flows	1,626	13	1,837	9	2,002
Net Factor Flows	-3,804	8½	-4,125	16¼	-4,799
Net Transfers	1,890	-22	1,474	20	1,769
Balance on Current Account	2,462	1¼	2,493	3¾	2,586

Net transfers are expected to recover most of last year's decline in 1995, although the timing of EU funding is always difficult to predict exactly. On this basis, the current account surplus is projected to increase by about £100 million in absolute terms but to decline slightly to 7½ per cent as a proportion of GNP.

Gross National Product

Due mainly to a major upward revision to our estimate of export growth, based on official trade statistics to November, our estimate of real GDP growth in 1994 has been revised upwards by 1 per cent to 7½ per cent. Given that the strength of high technology exports was not reflected in profit outflows in the first nine months of the year, it appears unlikely that the increase in net factor outflows for the year as a whole can have exceeded the rate of growth in real GDP. Thus real GNP, the usual measure of economic growth in Ireland, is also estimated to have increased at the very high rate of 7½ per cent.

Largely because of a stronger than expected carryover from 1994, our forecast rate of growth in real GDP in 1995 has been revised upwards by ½ per cent to 7 per cent. On the assumption that net factor outflows belatedly reflect the export boom, the 1995 rise in real GNP is forecast at 6 per cent, an upward revision of ¼ per cent on our previous forecast. Taken together, our estimate for 1996 and forecast for 1995 show real GNP rising by almost 14 per cent over the two years, some 2 per cent higher than was forecast in the 1994 *Medium-Term Review.*

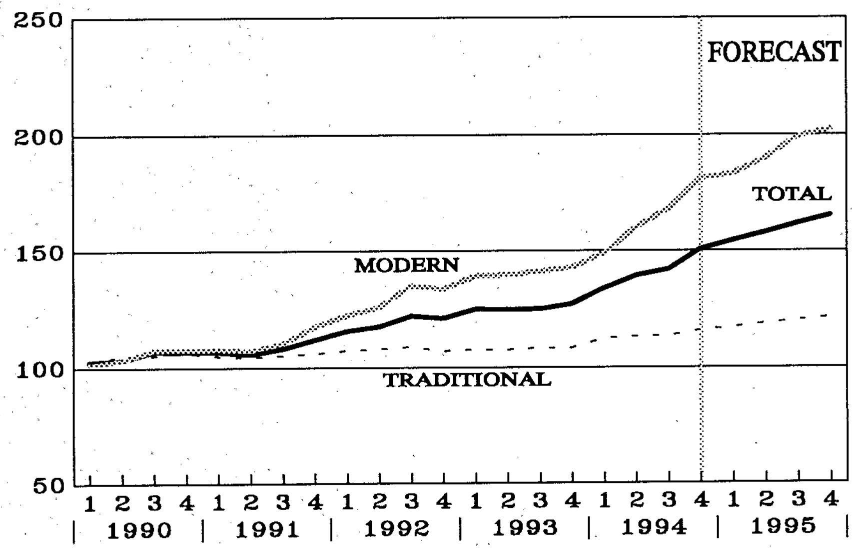
Agriculture

Gross agricultural product is estimated to have fallen by about 6½ per cent in volume in 1994, implying a volume decline of about 5 per cent in the net output of the broad agricultural sector.

Although obviously still subject to weather conditions, it is reasonable to expect some recovery in gross agricultural product in 1995, consisting of a slight rise in gross output and a small decline in the volume of inputs. Thus a rise of just over 3 per cent in the volume of net output of the broad agricultural sector is projected for 1995.

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



Industry

The volume of production index showed a rise of 12.8 per cent in the output of manufacturing industry in 1994. The increase was spread over almost all industries, although, as usual, the high technology sectors showed the fastest rate of growth. On a seasonally-corrected basis, manufacturing production grew strongly and fairly steadily throughout the year, so that there is a substantial growth carryover into 1995.

With official statistics and surveys both indicating a continuation of growth in the early months of 1995, it seems probable that the annual increase in the index for manufacturing industry will again be in the region of 13 per cent, with the fastest growth continuing to come from the high technology sectors.

Building activity was buoyant in 1994 and likely to be even more so in 1995. Thus net output in the broad industry sector is estimated to have risen by about 11 per cent in 1994 and is forecast to grow by about 12 per cent in 1995.

Services

With relatively few indicators of service sector output, estimates tend to be derived as a residual, tempered by adherence to general relationships derived from the National Accounts for earlier years. On this basis it seems probable that the volume of net output in the service sector as a whole grew by about 5 per cent in 1994.

A broadly similar volume growth is projected for 1995, as many private service activities continue to benefit from the rapid increase in domestic demand. As in 1994, the rate of expansion in private services is expected to be rather faster than in public services.

Employment

Despite the upward revision to the growth rate of real GDP in 1994, we have made no change to our estimates of employment. This is principally because the additional growth came mainly from the high technology sector of exports, in which the marginal direct labour content is relatively low.

The underlying increase in non-agricultural employment is likely to remain rapid, with surveys indicating a significant rise in manufacturing employment, and continued expansion in the labour intensive building and private service sectors. However, the average numbers employed in schemes now seems likely to be somewhat lower than anticipated, so we have made minor downward adjustments of 2,000 to our forecasts for service and total employment in 1995, as shown in Table 8.

The fact that the trend of unemployment shown in the Live Register in the first five months of 1995 has been less favourable than had been expected can probably be attributed in large part to the modification in the numbers employed on schemes. It might also reflect either lower net emigration or a greater rise in the participation rate than was assumed in our Winter *Commentary*. Almost certainly it does not result from any slowing down in the rate of expansion of normal job levels, full-time or part-time. Despite some well publicised job losses, the underlying trend in employment remains firmly upwards.

Incomes

Due mainly to an increase in net subsidies, the preliminary estimate of income arising in agriculture was of an increase of 5.8 per cent. With relative price movements less favourable in 1995, an increase of 4½ per cent in incomes in the broad agricultural sector seems compatible with the small rise forecast in the volume of net output.

Average non-agricultural earnings are estimated to have increased by a little over 4 per cent in 1994, with a high carryover from 1993 in public sector earnings and increased hours worked and an element of wage drift in the private sector accounting for the slight margin over the basic PCW phased increase for the year. The number of full-time equivalent jobs rose by just over 2½ per cent, so the increase in aggregate non-agricultural earnings in 1994 is estimated at 7 per cent.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000	1992	1993	1994	1995	1996
Agriculture	153	144	140	137	135
Industry	318	312	328	342	354
Services	668	690	708	727	749
Total at Work	1,139	1,146	1,176	1,206	1,238
Unemployed	221	230	221	212	202
Labour Force	1,360	1,375	1,397	1,418	1,440
Unemployment Rate %[1]	15.3	15.8	14.9	14.4	13.7
Live Register	281	295	285	276	266

B: Annual Averages '000	1992	1993	1994	1995
Agriculture	49	142	138	136
Industry	316	318	334	350
Services	680	698	720	740
Total at Work	1,145	1,158	1,192	1,226
Unemployed	225	227	215	205
Labour Force	1,370	1,385	1,407	1,431
Unemployed Rate %[1]	15.5	15.8	14.8	14.1
Live Register	283	294	282	272

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

With public service earnings likely to move in line with the private sector, and with moderation ensured by the terms of the PCW, average non-agricultural earnings in 1995 are projected to increase by about 3¾ per cent, after allowing for a continued element of pay drift. Effective employment levels are expected to again rise by about 2½ per cent, and aggregate earnings are thus forecast to increase by 6½ per cent.

Other non-agricultural income is estimated to have increased by 6 per cent in 1994 in conditions of very rapid economic growth, and is projected to rise by 5 per cent in 1995. Total personal income received from economic activity is thus estimated to have risen by 6¾ per cent in 1994 and is forecast to rise by 6 per cent in 1995, as shown in Table 9.

Current transfers are estimated to have increased by 6¼ per cent in 1994. Allowing for some residual uncertainty over the timing and amount of equality backlog payments, an increase of 5½ per cent in total transfers to personal income is projected for 1995, a significant upward revision to our previous forecast. Thus gross personal income is forecast to increase by 6 per cent in 1995,

TABLE 9: Personal Disposable Income

	1993	Change		1994	Change		1995
	£m	%	£m	£m	%	£m	£m
Agriculture, etc.	2,193	5¾	128	2,321	4½	104	2,425
Non-Agricultural Wages, etc.	15,886	7	1,112	16,998	6½	1,105	18,103
Other Non-Agricultural Income	3,480	6	213	3,693	5	185	3,878
Total Income Received	21,559	6¾	1,453	23,012	6	1,394	24,406
Current Transfers	5,167	6¼	317	5,484	5½	302	5,786
Gross Personal Income	26,726	6½	1,770	28,496	6	1,696	30,192
Direct Personal Taxes	5,869	7½	447	6,316	-¾	-47	6,269
Personal Disposable Income	20,857	6¼	1,323	22,180	7¾	1,743	23,923
Consumption	18,065	8	1,445	19,510	7¾	1,513	21,023
Personal Savings	2,792	-4¼	-122	2,670	8½	230	2,900
Savings Ratio	13.4			12.0			12.1

compared with just over 6½ per cent last year.

Largely because of the amnesty, direct personal taxation rose sharply in 1994. With no amnesty receipts this year, and with reductions in effective average tax rates and PRSI contributions, a marginal fall in aggregate direct personal taxation seems likely. In consequence, personal disposable income is forecast to increase by 7¾ per cent in 1995, against an amnesty-affected 6¼ per cent in 1994.

The steep fall in the estimated personal savings ratio estimated for 1994 was somewhat distorted by the tax amnesty. The underlying fall in the ratio was more modest, although still significant. Allowing for a continuation of this modest underlying fall in 1995, a personal savings ratio of just over 12 per cent is forecast, marginally higher than the estimated actual ratio last year. This would permit an increase of about 7¾ per cent in the value of personal consumption in 1995, fractionally less than the estimated value increase in 1994.

Consumer Prices

The annual increase of 2.4 per cent in the consumer price index in 1994 concealed the fact that a rise of 3 per cent in non-housing prices was offset by a 5 per cent fall in housing costs, dominated by mortgage interest rates.

This pattern will not be repeated in 1995, as the annual average of housing costs, including mortgage interest, will increase more rapidly than other prices. On the other hand, the impact of the 1993 devaluation on the general price index will no longer be a factor, as it was in the first half of 1994.

It now seems probable that non-housing prices will increase by about 2.5 per cent in 1995, roughly the same as the annual rate during last winter, but significantly below the annual average for 1994. Higher housing costs are forecast to take the annual increase in the total consumer price index to 2.8 per

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend							Annual		
	1993	1994				1995		1993	1994	1995
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May			
Index Nov. 1989 = 100										
Housing	111.0	110.6	111.4	111.8	112.2	113.0	119.3	117.4	111.5	118.1
Other	110.5	111.2	112.2	113.1	113.2	114.1	114.9	109.2	112.5	115.3
Total CPI	110.5	111.2	112.1	113.0	113.1	114.0	115.2	109.8	112.4	115.5
Annual % Change										
Housing	-15.9	-17.0	-3.8	1.9	1.1	2.2	7.1	-4.2	-5.0	5.9
Other	3.2	3.5	3.3	2.6	2.4	2.6	2.4	1.9	3.0	2.5
Total CPI	1.5	1.7	2.7	2.5	2.4	2.5	2.8	1.5	2.4	2.8
Quarterly % Change										
Housing	1.2	-0.4	0.7	0.4	0.4	0.7	5.6			
Other	0.3	0.6	0.9	0.8	0.1	0.8	0.7			
Total CPI	0.3	0.6	0.8	0.8	0.1	0.8	1.1			

cent, as shown in Table 10. This implies that by the second half of the year the index will be rising at a twelve-monthly rate of about 2.9 per cent.

Public Finances

Helped considerably by such factors as amnesty receipts of £238 million, and an unexpectedly large increase in revenue-intensive new car sales, the public finances in 1994 were unusually strong, with a small current budget surplus and an Exchequer borrowing requirement of under 2.2 per cent of GNP. The long-term prospects for the public finances also appear favourable, due to the likelihood of sustained economic growth, especially in domestic demand, and to the overhaul of the public service arbitration system, which should prevent the re-emergence of the de-stabilising special awards of the late 1980s and early 1990s. Provided that economic growth is maintained and that Exchequer borrowing is kept firmly within the Maastricht guidelines, the position should be further improved by the steady reduction of the debt burden in relation to potential revenue flows.

This benign long-term prospect should be kept in mind when attempting to monitor trends in the public finances in 1995 and 1996. With regard to 1995, it still seems likely that tax revenue will exceed its Budget target by a small amount. However, the time path of revenue receipts will differ from 1994. Quite apart from the absence of amnesty receipts, a smaller proportion of indirect taxes will accrue in the early months of the year, and a correspondingly greater proportion in the second half. This follows from the changed pattern of consumption, and in particular the absence of a first quarter surge of new car sales in 1995. Assuming that non-tax revenue is close to target, total current revenue is forecast at about £11,600, an increase of 3½ per cent on the actual 1994 outcome, or 5¾ per cent if 1994 amnesty receipts are omitted.

There is no clear evidence that current spending in 1995 will exceed its target level. Central fund expenditure, mainly the service of the national debt, could still be slightly below the Budget estimate, although the depreciation of the Irish pound against the DM and other strong currencies, in which a high proportion of the external debt is denominated, probably has extinguished hopes of a significant saving. Spending on ongoing supply service programmes is expected to be kept close to target, as it has been in most recent years.

The main short-term problem with public spending lies with the contingencies which have arisen or which have been deliberately brought forward into 1995, such as the EU penalties for former irregularities in beef intervention, compensation for victims of contaminated blood, and the backdated equality payments of social welfare. It is far from clear what outlay will be made within 1995 under any of these heads, as even the actual amount paid in social welfare equality payments, for which off-Budget financial arrangements have been made, will depend on the scale and timing of applications made, which at present are not known.

Although the actual cost of these contingencies within 1995 may well be lower than some of the fears currently being expressed, their existence emphasises the lack of a wide safety margin which could have been built into the 1995 Budget. The planned increase of 6 per cent in gross current spending, excluding the bulk of the social welfare back payments, left little leeway for unexpected outlays or for a flexible response to such possible exigencies as a further significant depreciation of sterling.

With regard to perceptions of the trend of public expenditure, it is unfortunate that conventional Budgetary presentation focuses on net rather than gross spending. Thus the reduction in effective rates of PRSI contributions, which in practice is a cut in employment taxes of almost £100 million, is presented as an increase of 1 per cent in net expenditure!

On balance, it still seems probable that, excluding the additional, separately funded, social welfare arrears, the current Budget target deficit of £310 million will be met or slightly under-shot. If borrowing for capital purposes is close to target, the Exchequer borrowing requirement for 1995 will probably be in the region of £800 million, or a little under 2.4 per cent of GNP. Even allowing for the revaluation of most foreign denominated debt, and for the effect of the off-Budget financing of some social welfare commitments, this should allow a substantial reduction in the debt GNP ratio in 1995.

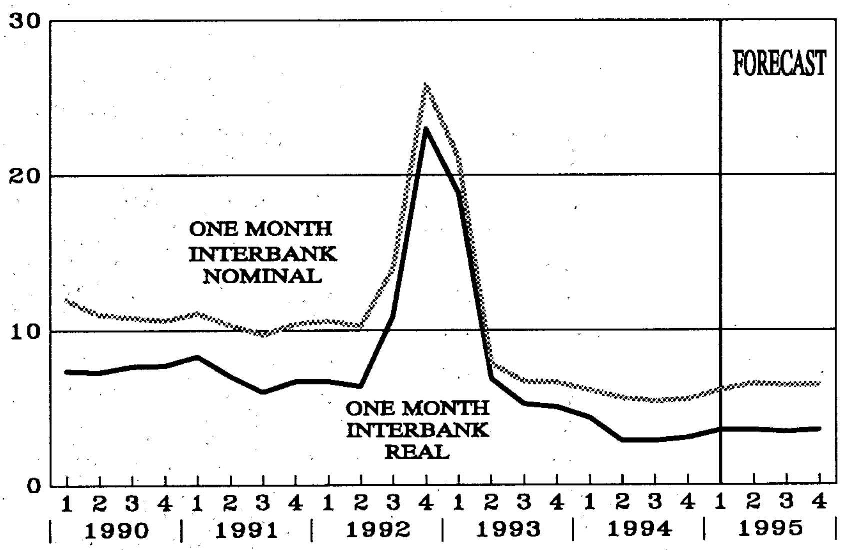
The presence of the contingencies related to past events could cause problems in the framing of the 1996 Budget. The adoption of a firmer stance in advance of the annual round of setting departmental estimates suggests that these potential problems are recognised, and that space should be created to deal with them within the framework of the policy commitment to a 2 per cent rise in real gross current spending in 1996.

Interest Rates

For at least the past year, we have been arguing in our *Commentaries* that the wholesale money markets have been exaggerating the likely rise in Irish short-term interest rates. Last summer, for instance, the one-year interbank rate was 7½ per cent, implying that, over the succeeding year, average rates would rise by 2 per cent. This did not happen, and, at the time of writing, the one-month rate is under 6½ per cent, a rise of less than 1 per cent since the second quarter of 1994. Moreover, the money market itself is signalling that it now believes that the rise in short-term rates has been completed, as one-year rates are currently only marginally higher than the one-month rate. It thus seems reasonable to base our forecasts for the remainder of 1995 on the assumption that there will be no further change in short-term interest rates or in the associated retail and mortgage rates.

Figure 4: Interest Rates

Per cent per annum, Quarterly Averages



Long-term interest rates, which are more closely tied to international trends, appear to have peaked in the second half of 1994, and have since declined by about ½ per cent. Little further change is assumed for the remainder of the year, although, if there is movement it is more likely to be downwards than upwards.

General Assessment

Unless there are very unusual results for the few components of GNP for which no indicators are yet available, or unless the CSO revises some of the data which it has already published, the growth in real GNP in 1994 is likely to have rivalled that in 1968 and 1990, the only two years in which growth exceeded 7 per cent. As in both those years, the very high apparent growth rate of 7½ per cent in 1994 reflects the fact that export growth was not fully matched within the year by either the volume of imports or the flow of profit expatriation by the multinational companies responsible for much of the export boom.

However, although our estimate of real GNP growth in 1994, even if confirmed by official CSO estimates later this year, might somewhat overstate the underlying rate of expansion in the economy, it remains undeniable that it was a year of rapid and balanced growth. Strong increases in personal consumption, fixed investment and, of course, exports were met by increased output in industry, construction and most service activities. In consequence, employment rose substantially, unemployment fell, and underlying government revenue increased sharply despite some reduction in effective tax rates. Inflation remained low, and there appears to have been no significant pressure on domestic costs, including pay rates.

This strong and balanced growth appears to be continuing in 1995, although the timing of profit expatriations is likely to reduce the rate of real GNP growth to a less extreme 6 per cent. Employment is rising in most sectors of the economy, the Programme for Competitiveness and Work is preventing upward pressure on pay rates, and price inflation remains moderate.

Of the threats which seemed to endanger progress earlier in the year, the fear of a significant increase in interest rates has receded, while most companies appear capable of coping successfully with the current pattern of exchange rates, although a few are undoubtedly experiencing some reduction in margins on their UK trade.

Present worries concerning the trend of public expenditure similarly seem to be exaggerated. The underlying increase in gross expenditure contained in the 1995 Budget was about 6¼ per cent, when both non-recurring amnesty-related spending in 1994 and social welfare equality arrears in 1995 are excluded. There is no evidence that this target is being significantly overshot. The accounting convention by which PRSI contributions are treated as negative expenditure rather than as revenue complicates the picture, as it results in reductions in contributions, a broadly welcomed measure to stimulate job creation, appearing in the Budget accounts as an increase in net government expenditure. In 1995, this adds almost £100 million, or about 1 per cent, to the apparent rise in net spending.

More serious, because they represent real expenditure obligations on the Exchequer, are the contingencies which have arisen within the past twelve months as a result of occurrences in previous years. The principal criticism which can be levelled at the 1995 Budget is that it did not contain sufficient margin to accommodate known or impending contingencies. Thus only a portion of the likely equality backlog was included in the current Budget, with the balance surprisingly brought forward later, to be met by a form of capital financing, which could be regarded as either asset disposal or additional public sector borrowing. The other foreseeable contingencies, such as EU penalties for intervention irregularities and compensation for victims of contaminated blood, were simply not addressed in the Budget.

It is not yet clear what the net cost of these and other possible contingencies will be either within 1995 or in total. The outlay within 1995 is likely to be substantial, but will almost certainly be well below the current estimates of total potential cost. In this case, the outlay should be able to be accommodated within the present targets for the budget deficit and asset disposals. The potential net liability for 1996 could again be quite substantial, and raises questions as to the appropriate method of financing it.

Any one, or any combination, of several approaches might be taken to meet these pressing, but non-recurring, obligations. The first would be to increase borrowing by the full amount of the temporary costs, on the grounds that the underlying relationship between recurring costs and revenue remains healthy and would reassert itself once the extraordinary liabilities have been met. While there would be considerable logic in such an approach, provided that there are no other "unexpected" contingencies waiting to emerge, there are also severe drawbacks. Such fiscal stimulus would appear inappropriate during a period of rapid economic growth. Secondly the additional borrowing would generate an ongoing interest charge for future years. Even more important, the financial markets might interpret such an approach as an undue softening of the long-term fiscal stance, and impose higher interest rates as a penalty, even though the additional borrowing would not take the total General Government Deficit beyond the Maastricht guidelines.

A related approach, which has been followed to a considerable extent in dealing with the equality arrears, would be to finance the temporary costs through the effective privatisation of public assets. This has no implications with regard to the Maastricht criteria, and, because it does not impinge on the basic fiscal balances, appears to be less unacceptable to the markets than an increase in borrowing. However, it does have adverse consequences for future revenue flows, and, like extra borrowing, could be regarded as too expansionary during a period of rapid economic growth.

The opposite approach would be to accommodate the temporary obligations entirely through an equivalent reduction in other public expenditure. This would be the preferred option of the financial markets, but has obvious drawbacks. On the reasonable assumption that easily eradicable waste in public spending is already kept to its lowest feasible level, this approach would involve cutting into ongoing services which have been deemed to be socially desirable. Most such services are not amenable to substantial annual adjustments in either the volume or value of their provision.

The converse to imposing temporary expenditure cuts would be to temporarily raise tax rates above the level that would otherwise obtain. Economically, such an approach would offer some advantages. The general fiscal balance could be maintained at the level believed appropriate to the stage of the economic cycle, within the long-term strategy of reducing the debt ratio. Many individual taxes are capable of being raised or lowered on an annual basis without causing any significant administrative difficulty or economic disruption. In any case, in present circumstances, a tax-based approach could involve the delaying of tax-cuts rather than an actual increase in tax rates. The primary objections are more political than economic. The political consensus favours the maximum feasible reduction in effective rates of direct personal taxation, and this consensus is further institutionalised in the PCW. Even a single year's interruption to the process of reducing direct taxation could thus be politically damaging and might also run some risk of alienating the financial markets.

Given the drawbacks inherent in relying on any one of these possible approaches exclusively, the most sensible policy is to combine them, so that the impact of each is kept to a minimum. Such a combination of approaches to the temporary problem would amount to no more than a minor short-term modification to the basic long-term fiscal strategy. However, it is vitally important that such a temporary modification is accompanied by a restatement, backed by appropriate action, of the fundamental elements of the strategy.

Thus the commitment to restrain the growth of recurrent government spending must continue to be firmly demonstrated. This involves not merely the rigorous appraisal of proposed new programmes, but also an incisive examination of existing programmes, especially where demographic change suggests that resources could be released without adversely affecting the quality of service supplied.

The process of adjustment to the tax code so as to relieve both poverty traps and obstacles to employment should be reaffirmed. Even if the scale of net tax reductions in 1996 might be smaller than had been hoped, the pattern of adjustments should conform to the long-term aim.

Target fiscal balances must continue to be set in the context of Ireland's need to reduce the debt GDP ratio. Advantage should be taken of years of relative economic buoyancy to achieve a substantial part of the necessary reduction in the ratio. Despite the temporary problems, the target borrowing requirement in 1996 should thus be well within the Maastricht requirement. Moreover, in 1996 and in future years, fiscal targets should be set after making allowance for further possible contingencies. At present it is impossible to foresee what these will be, but in the nature of things problems tend to arise, and the flexibility to deal with them expeditiously should be a valued part of a successful long-term strategy.

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
1987	113.6	132.7	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	161.9	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	188.9	112.3	13640	18068	187.0	45.4	141.7
1990	149.2	197.9	117.6	14325	19539	191.8	48.4	143.4
1991	153.9	208.6	118.0	14990	19652	192.7	50.4	142.3
1992	169.6	243.6	121.0	15682	22464	192.1	51.9	140.2
1993	178.8	265.7	121.3	16161	21391	192.2	54.5	137.7
1994	201.6	309.9	127.7	16844				

Quarterly Averages or Totals

	1	2	3	4	5	6	7	8
1992 I	167.6	245.9	113.2	4187	4372	190.3	51.2	139.1
II	173.4	245.6	122.5	3644	5920	191.4	50.9	140.5
III	161.0	227.5	113.9	3602	6284	193.7	51.9	141.7
IV	176.8	248.9	122.2	4249	5888	193.0	53.5	139.6
1993 I	182.0	280.2	113.7	4239	4004	189.8	53.4	136.3
II	184.1	272.6	122.2	3810	5051	191.5	53.6	138.0
III	164.4	237.6	113.5	3726	5764	193.3	55.0	138.3
IV	185.2	266.1	123.5	4386	6572	194.3	56.0	138.3
1994 I	195.2	299.8	118.8	4484	4692	193.0	55.6	137.1
II	206.1	312.2	128.6	4016	5889	194.9	56.2	138.7
III	186.2	282.5	118.9	3874		197.2	57.6	139.8
IV	219.5	337.7	132.1	4470				
1995 I								
II								
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

	1	2	3	4	5	6	7	8
1992 I	164.8	229.8	117.5	3883	No Seasonal Pattern	192.5	51.7	140.6
II	167.4	236.2	118.2	3869		192.1	51.6	140.6
III	174.2	253.7	119.2	3935		191.9	51.6	140.5
IV	172.6	250.7	117.2	3990		191.8	52.7	139.1
1993 I	178.2	261.5	117.8	3935		192.0	53.8	137.8
II	177.7	262.3	117.8	4042		192.2	54.3	138.1
III	178.3	265.2	118.7	4070		191.6	54.8	137.2
IV	181.2	268.0	118.6	4119		193.1	55.1	137.8
1994 I	190.8	279.7	123.0	4164		195.3	56.0	138.7
II	198.8	300.4	124.0	4260		195.7	56.9	138.8
III	202.6	315.4	124.3	4230		195.4	57.4	138.6
IV	214.7	340.0	127.0	4198				
1995 I								
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	
116.4	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.6	111.7	96.1	100.0	169.7	71.7	241.4	1988
142.5	164.0	116.9	100.0	100.0	160.0	71.6	231.6	1989
145.4	161.0	121.1	103.9	100.5	152.1	72.6	224.7	1990
149.3	163.0	122.4	108.4	101.7	170.5	83.5	253.9	1991
165.0	184.9	127.3	112.8	102.6	187.2	96.0	283.1	1992
173.9	192.0	129.9	118.8	106.6	193.8	100.5	294.3	1993
					184.4	98.0	282.4	1994

Quarterly Averages

164.6	189.1	120.0	109.6	100.6	186.7	91.4	278.1	1992 I
169.3	190.0	128.7	112.5	102.5	183.9	93.1	277.0	II
155.4	172.6	118.6	113.2	102.5	188.5	101.8	290.2	III
171.2	183.2	129.1	115.7	104.6	189.5	97.6	287.2	IV
179.2	206.6	123.0	115.5	104.0	197.9	101.7	299.6	1993 I
179.7	200.2	130.6	117.1	105.7	193.7	98.9	292.6	II
159.0	170.1	121.0	119.7	106.9	192.9	102.1	294.9	III
178.2	187.1	131.8	123.0	109.6	190.5	99.5	290.0	IV
189.1	212.3	127.8	121.0	107.1	194.1	99.6	293.7	1994 I
197.7	218.7	136.8	123.1	108.1	183.7	96.3	280.0	II
176.5	193.1	125.4			181.6	99.5	281.1	III
					178.2	96.7	274.9	IV
					181.8	97.8	279.6	1995 I
								II
								III
								IV

Quarterly Averages (Seasonally Corrected)

159.8	175.3	123.2	110.9	101.6	181.9	91.1	273.0	1992 I
163.4	181.1	124.2	112.4	102.4	185.5	94.4	279.9	II
169.5	192.3	125.0	113.2	102.6	189.5	99.1	288.6	III
168.6	188.1	124.2	114.6	103.6	191.7	99.3	291.0	IV
173.6	191.5	126.0	116.8	105.1	193.2	101.4	294.6	1993 I
173.5	191.1	126.1	116.9	105.6	195.2	100.2	295.5	II
173.4	188.9	127.5	119.7	107.0	193.8	99.3	293.1	III
175.6	192.3	126.9	121.8	108.5	192.8	101.1	293.8	IV
183.0	196.9	130.8	122.4	108.2	189.4	99.3	288.7	1994 I
190.9	208.7	132.1	122.9	108.0	185.2	97.8	282.9	II
192.5	214.2	132.1			182.5	96.7	279.2	III
					180.5	98.3	278.8	IV
					177.1	97.6	274.7	1995 I
								II
								III
								IV

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural Output Price Index	Import Unit Value	Export Unit Value	Terms of Trade	Price of Stocks + Shares (ISEQ)
	Nov. 1989 = 100	1985= 100	1985= 100	1985= 100	1990= 100	1990= 100	1990= 100	Jan 1988 = 1000
1987	92.6	100.4	98.4	97.2	92.8	96.7	104.2	1326.2
1988	94.6	104.5	102.4	107.4	98.9	103.6	104.8	1294.6
1989	98.5	109.5	108.1	112.8	105.3	110.5	104.9	1633.6
1990	101.7	107.8	105.1	100.0	100.0	100.0	100.0	1562.2
1991	105.0	108.7	106.4	96.4	102.3	99.3	97.0	1382.4
1992	108.3	110.5	107.3	97.8	100.2	96.6	96.4	1311.1
1993	109.8	115.6	112.4	104.2	105.4	103.9	98.6	1576.0
1994	112.4	116.9		105.7				1853.4

Quarterly Averages

	17	18	19	20	21	22	23	24
1992 I	107.3	110.2	107.8	98.8	102.1	99.3	97.2	1426.9
II	108.1	111.3	108.3	100.8	101.4	102.2	100.7	1389.8
III	108.7	110.6	107.2	97.9	99.1	97.5	98.4	1263.1
IV	108.9	109.8	106.0	95.9	96.6	93.8	97.1	1164.5
1993 I	109.3	112.9	109.9	100.2	103.1	97.9	95.0	1313.5
II	109.1	115.2	111.9	106.3	104.4	100.7	96.5	1532.2
III	110.2	117.2	114.0	105.1	106.2	101.6	95.6	1685.6
IV	110.5	116.9	113.8	104.2	106.6	102.0	95.7	1772.6
1994 I	111.2	117.0	113.5	108.5	108.2	103.4	95.6	1966.3
II	112.1	117.1	113.9	111.2	109.4	105.4	96.5	1806.3
III	113.0	116.6		104.6	109.0	106.6	97.8	1817.7
IV	113.1	116.8		103.0				1823.1
1995 I	114.0	118.3						1863.6
II								
III								
IV								

Quarterly Averages (Seasonally Corrected)

	17	18	19	20	21	22	23	24
1992 I	107.3	110.5	108.1	98.3	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	108.2	110.8	108.0	98.2				
III	108.5	110.3	106.9	98.8				
IV	109.0	110.3	106.3	98.2				
1993 I	109.3	113.1	110.2	99.7				
II	109.2	114.7	111.5	103.4				
III	110.0	117.0	113.7	105.9				
IV	110.6	117.5	114.2	106.7				
1994 I	111.2	117.1	113.8	108.1				
II	112.2	116.6	113.4	108.1				
III	112.8	116.4		105.4				
IV	113.2	117.4		105.7				
1995 I	114.0	118.5						
II								
III								
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New + S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Currrent Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990=100	1990=100	£m	£m	£m	Per cent per annum	Per cent per annum	
59231	NA	NA	7151	8331	1180	10.8	11.3	1987
68126	NA	NA	7690	8006	317	7.8	9.5	1988
88452	NA	NA	7756	8019	263	9.6	8.9	1989
105849	100.0	100.0	8269	8421	152	11.1	10.1	1990
89589	101.8	99.9	8776	9076	300	10.4	9.3	1991
85492	106.2	102.2	9360	9806	446	15.2	9.1	1992
87352	109.4	103.6	10140	10519	379	10.6	7.8	1993
116636			11203	11188	-15	5.7	8.2	1994

Quarterly Averages or Totals

28411	99.0	95.8		2538	483	10.6	8.7	1992 I
23950	104.7	100.7		2374	75	10.2	8.8	II
21112	107.5	103.1		2307	-166	14.0	9.3	III
12019	112.5	108.3	2533	2587	54	25.8	9.6	IV
25583	100.7	96.9	2170	2763	593	21.1	9.0	1993 I
27135	106.0	100.8	2363	2408	45	7.8	8.1	II
21329	110.7	104.3	2842	2622	-220	6.7	7.4	III
13305	118.7	111.3	2764	2725	-39	6.6	6.6	IV
39741	113.1	105.8	2709	2962	253	6.1	6.9	1994 I
36317	115.0	106.5	3041	2651	-390	5.6	8.4	II
25637	117.2	108.2	2642	2646	4	5.4	8.7	III
14941	125.3	115.4	2811	2929	118	5.5	8.7	IV
						6.1	8.7	1995 I
								II
								III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

22231	104.4	101.2	2264	2365	102	No Seasonal Pattern	No Seasonal Pattern	1992 I
19066	105.7	101.7	2363	2422	59			II
22703	107.1	102.8	2414	2465	51			III
22480	106.4	102.3	2321	2559	238			IV
19934	106.1	102.3	2390	2568	178			1993 I
21688	107.3	102.1	2413	2469	55			II
22924	110.2	103.9	2777	2802	24			III
24898	112.1	105.0	2541	2690	148			IV
30892	119.3	111.6	2983	2751	-232			1994 I
29100	116.5	107.9	3097	2723	-373			II
27526	116.6	107.8	2582	2825	243			III
28002	118.4	109.0	2591	2890	299			IV
								1995 I
								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£
1987	9799.5	2754.9	9494.5	2821.4	66.16	0.9091	1.4884	2.6715
1988	10421.0	2636.4	10853.4	3161.0	65.09	0.8568	1.5258	2.6742
1989	10945.0	2417.7	12538.3	2521.0	64.42	0.8671	1.4192	2.6647
1990	12540.7	2506.0	13855.9	2891.7	68.32	0.9304	1.6588	2.6728
1991	13024.6	2502.2	13553.2	3256.0	67.34	0.9133	1.6162	2.6708
1992	14203.3	2946.7	14410.7	2112.8	69.48	0.9695	1.7061	2.6561
1993	17510.9	2829.5	14910.5	4277.9	66.01	0.9771	1.4680	2.4240
1994	19211.3	3285.7	16655.2		66.16	0.9776	1.4982	2.4262

	End-Period Totals				Quarterly Averages			
1992 I	12555.4	2399.4	13614.2	3495.8	67.97	0.9303	1.6479	2.6663
II	12960.9	2449.1	13685.4	3223.6	67.63	0.9156	1.6555	2.6691
III	12998.8	2792.2	14010.9	2130.2	69.81	0.9538	1.8160	2.6528
IV	14203.3	2946.7	14410.7	2112.8	72.50	1.0783	1.7048	2.6363
1993 I	15741.2	2463.4	14509.0	3571.0	68.91	1.0361	1.5320	2.5018
II	16177.9	2601.0	14643.3	4255.9	66.41	0.9818	1.5073	2.4386
III	17095.2	2683.0	14574.9	4315.6	63.99	0.9390	1.4129	2.3674
IV	17510.9	2829.5	14910.5	4277.9	64.73	0.9516	1.4197	2.3881
1994 I	17312.8	2723.7	15249.3	4422.2	65.51	0.9606	1.4299	2.4636
II	17553.2	2901.6	15759.5	4477.1	65.93	0.9762	1.4685	2.4382
III	18470.8	3230.6	16067.8	4391.8	66.39	0.9879	1.5325	2.3916
IV	19211.3	3285.7	16655.2	4041.3	66.81	0.9858	1.5620	2.4112
1995 I	18896.8	3031.4	17454.4	4030.5	66.58	0.9943	1.5734	2.3263
II								
III								
IV								

	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1992 I	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II								
III								
IV								
1993 I								
II								
III								
IV								
1994 I								
II								
III								
IV								
1995 I								
II								
III								
IV								

Visible Trade Indicators					Balance of Payments		
41	42	43	44	45	46	47	
Imports (Value)	Exports (Value)	Trade Surplus (Value)	Imports (Volume)	Exports (Volume)	Net Factor Flows	Current Account	
£m	£m	£m	1990=100	1990=100	£m	£m	
9158.4	10727.0	1568.5	79.1	77.4	-2113	-60	1987
10213.1	12300.7	2087.6	82.8	82.9	-2663	62	1988
12287.8	14596.9	2309.1	93.6	92.2	-3233	-348	1989
12475.5	14342.5	1866.9	100.0	100.0	-3131	37	1990
12850.8	15018.9	2168.1	100.8	105.6	-2864	924	1991
13194.8	16628.8	3434.1	105.6	120.1	-3294	1432	1992
14798.1	19656.1	4857.6	112.3	132.3	-3804	2461	1993
							1994

Av. Monthly Totals   Quarterly Averages or Totals

1107.8	1346.6	238.8	104.5	113.6	-847	297	1992 I
1108.3	1453.4	345.1	105.1	119.0	-808	374	II
1060.2	1338.6	278.4	103.0	114.9	-840	458	III
1122.0	1404.4	282.4	111.8	125.3	-799	303	IV
1213.7	1524.2	310.5	112.8	130.5	-839	589	1993 I
1185.5	1636.2	450.7	109.0	136.4	-997	684	II
1225.3	1583.6	358.2	110.7	130.7	-865	582	III
1308.3	1808.1	499.8	117.8	148.7	-1103	606	IV
1410.4	1786.9	376.6	125.1	144.8	-920	371	1994 I
1391.1	1905.2	514.1	122.0	151.4	-985	668	II
1302.4	1848.0	545.6	114.6	145.3	-931	824	III
							IV
							1995 I
							II
							III
							IV

Av. Monthly Totals (S.C.)   Quarterly Averages or Totals (S.C.)

1080.6	1355.4	274.8	102.0	114.0	No Seasonal Pattern	No Seasonal Pattern	1992 I
1101.3	1404.6	303.3	104.3	115.3			II
1101.1	1381.4	280.3	107.4	119.5			III
1107.0	1387.6	280.6	109.8	123.0			IV
1196.0	1539.3	343.3	111.5	131.4			1993 I
1177.3	1583.0	405.7	108.3	132.4			II
1271.0	1645.1	374.1	115.1	137.1			III
1293.9	1789.7	495.8	115.9	145.9			IV
1391.5	1807.1	415.6	123.4	146.3			1994 I
1382.2	1842.8	460.7	121.4	147.0			II
1350.3	1923.0	572.7	119.3	152.3			III
							IV
							1995 I
							II
							III
							IV