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The forecasts in this Commentary are based on data available by mid-December 1996.

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SUMMARY

It now seems likely that real GNP in 1996 has grown by about 5¾ per cent. Given the generally weak performance of the European economy this year and the particular problems posed by the BSE crisis, such a growth rate underlines the basic strength of the Irish economy. Compared with 1995, the increase in export volumes has been considerably slower but the rise in domestic demand, particularly personal consumption, has been more rapid. Inflation has remained very low, with the annual increase in the consumer price index only 1.6 per cent, and there has been a further dramatic strengthening of the public finances. The current account surplus on the balance of payments has probably weakened substantially in 1996, but this set-back is likely to prove temporary, and, when capital transfers are taken into account, the effective current balance has remained in comfortable surplus.

Real GNP is forecast to increase by about 5 per cent in 1997 with the growth of domestic demand decelerating but export volumes rising more rapidly. Consumer price inflation is projected at 2 per cent and a modest recovery in the current account surplus is expected. Despite a rather higher than anticipated rise in planned net current expenditure, and after making allowance for significant reductions in effective rates of direct personal taxes, the current budget surplus and the Exchequer Borrowing Requirement seem likely to be of the same order of magnitude in 1997 as in 1996. Thus the Maastricht criteria for inflation, government borrowing and reducing the debt/GDP ratio all appear likely to be securely met in 1997.

The very rapid economic growth since 1993 has rested on the conjunction of several factors. These include the attraction of a high volume of foreign direct investment in fast-growing industries, the resurgence of domestic demand as tight fiscal and monetary constaints have been eased, a perceptible increase in national self-confidence, and a broad consensus on an appropriate economic strategy.

A vital feature of economic growth in 1994 and 1995 was that it was accompanied by a dramatic increase in employment. Further vigorous employment growth is expected in 1996 and 1997, with a modest decline in the underlying rate of unemployment, which is likely to average less than 11 per cent in 1997. When the question is posed as to where the benefits of economic growth have gone, the simple answer is that much of the growth since 1993 has gone into an unprecedented rise in net job creation, combined with a steady but modest improvement in living standards for the majority of the population.

FORECAST NATIONAL ACCOUNTS 1996

A: Expenditure on Gross National Product

	1995	1996	Change in 1996				
	Preliminary	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	22,055	23,875	1,820	1,378	8¼	2	6¼
Public Net Current Expenditure	5,883	6,296	413	176	7	3¾	3
Gross Fixed Capital Formation	6,031	6,838	807	620	13½	3	10¼
Exports of Goods and Services (X)	30,448	33,688	3,240	3,030	10¾	¾	10
Physical Changes in Stocks	94	290	196	180			
Final Demand	64,511	70,987	6,476	5,384	10	1½	8¼
less:							
Imports of Goods and Services (M)	25,764	29,125	3,361	2,939	13	1¼	11½
GDP at Market Prices	38,747	41,862	3,115	2,445	8	1½	6¼
less:							
Net Factor Payments (F)	4,815	5,361	546	506	11¼	¾	10½
GNP at Market Prices	33,932	36,501	2,569	1,939	7½	1¾	5¾

B: Gross National Product by Origin

	1995	1996	Change in 1996	
	Preliminary	Forecast		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,473	2,423	-50	-2
Non-Agricultural: Wages, etc.	17,932	19,187	1,255	7
Other:	12,239	13,597	1,358	11
less:				
Adjustments	1,987	2,007	20	1
Net Factor Payments	4,815	5,361	546	11¼
National Income	25,844	27,839	1,995	7¾
Depreciation	3,671	4,038	367	10
GNP at Factor Cost	29,515	31,877	2,362	8
Taxes less Subsidies	4,417	4,624	207	4¾
GNP at Market Prices	33,932	36,501	2,569	7½

C: Balance of Payments on Current Account

	1995	1996	Change in 1995
	Preliminary [1]	Forecast	
	£m	£m	£m
X - M	4,684	4,563	-121
F	4,815	-5,361	-546
Net Transfers	1,112	979	-133
Balance on Current Account	981	181	-800
as % of GNP	3	½	-2½

[1] Adjusted for Balance of Payments Revisions.

FORECAST NATIONAL ACCOUNTS 1997

A: Expenditure on Gross National Product

	1996 Forecast £m	1997 Forecast £m	Change in 1997 £m Value	Change in 1997 £m Volume	Change in 1997 % Value	Change in 1997 % Price	Change in 1997 % Volume
Private Consumer Expenditure	23,875	25,355	1,480	955	6¼	2	4
Public Net Current Expenditure	6,296	6,737	441	157	7	4½	2½
Gross Fixed Capital Formation	6,838	7,550	712	491	10½	3	7¼
Exports of Goods and Services (X)	33 688	37,771	4,083	3,793	12	¾	11¼
Physical Changes in Stocks	290	220	-70	-60			
Final Demand	70,987	77,633	6,646	5,336	9¼	1¾	7½
less:							
Imports of Goods and Services (M)	29,125	32,654	3,529	2,995	12	1½	10¼
GDP at Market Prices	41,862	44,979	3,117	2,341	7½	1¾	5½
less:							
Net Factor Payments (F)	5,361	5,881	520	482	9¾	¾	9
GNP at Market Prices	36,501	39,098	2,597	1,859	7	2	5

B: Gross National Product by Origin

	1996 Forecast £m	1997 Forecast £m	Change in 1997 £m	Change in 1997 %
Agriculture, Forestry, Fishing	2,423	2,375	-48	-2
Non-Agricultural: Wages, etc.	19,187	20,350	1,163	6
Other:	13,597	15,004	1,407	10¼
less:				
Adjustments	2,007	2,135	128	6½
Net Factor Payments	5,361	5,881	520	9¾
National Income	27,839	29,713	1,874	6¾
Depreciation	4,038	4,381	343	8½
GNP at Factor Cost	31,877	34,094	2,217	7
Taxes less Subsidies	4,624	5,004	380	8¼
GNP at Market Prices	36,501	39,098	2,597	7

C: Balance of Payments on Current Account

	1996 Forecast £m	1997 Forecast £m	Change in 1997 £m
X - M	4,563	5,117	554
F	-5,361	-5,881	-520
Net Transfers	979	1,037	58
Balance on Current Account	181	273	92
as % of GNP	½	¾	¼

The International Economy

General

As forecast in successive *Commentaries*, 1996 has been a year of moderate growth in the world economy. First quarter trends were difficult to interpret, as both the US and several continental European economies were adversely affected by exceptionally bad weather, while the timing of fiscal intervention in Japan resulted in an extraordinarily high first quarter growth rate. Estimates for later quarters indicate that moderate growth continues in the US, the Japanese recovery has become firmly established and that recovery has commenced in most European economies. The annual aggregate growth in OECD countries is forecast at over 2 per cent, significantly faster than in 1995, and virtually all countries will have recorded a positive growth rate. Apart from some rise in crude oil prices, there appears to have been no intensification of inflationary pressures.

Worldwide economic growth is expected to continue in 1997, although its pace is likely to remain moderate at about 2¼ per cent. The scale of the European recovery will be inhibited by tight fiscal policies in most countries, while US growth, in its sixth successive year, is unlikely to accelerate. Despite some residual paranoia in the capital markets, moderate real economic growth is not generally expected to lead to a significant upturn in world price inflation, so that a major rise in international interest rates seems unlikely. In contrast, the modest pace of economic growth can be expected to keep unemployment rates excessively high in Europe and, by their own standards, in Japan, while little change is expected in US unemployment levels.

The US Economy

Preliminary figures show that US economic growth fell back to a sustainable annualised rate of 2.2 per cent in the third quarter of 1996. Taken in conjunction with revised figures for the first two quarters and leading indicators for the final quarter, this suggests that the annual growth in 1996 will be about 2.4 per cent. The unemployment rate appears to have stabilised at just over 5 per cent, but despite this apparently tight labour market there has been no evidence that either wage or price inflation has intensified during 1996. Further significant progress has been made in reducing the fiscal deficit.

Given the results of the presidential and congressional elections, progress in reducing the budget deficit can be expected to continue in 1997. Economic growth is forecast at about 2¼ per cent for 1997, and consumer price increases are projected to remain at under 3 per cent. The pre-emptive rise in short-term interest rates earlier in 1996 appears to have been successful in checking any rise in inflation, and it is uncertain whether further increases will prove necessary in 1997. Some rise still seems likely, but its scale is likely to be quite limited.

However, even the prospect of a rise in interest rates could lead to a continuation of the dollar's rise against the DM, although probably not against the Yen. A slight trade-weighted increase in the value of the dollar would not offset the benefit to US export volumes from expanding world trade, and the US current account is thus likely to improve slightly in 1997.

The European Economy

The consensus among European forecasting institutes is that growth in most European countries has been very subdued in 1996, but should recover moderately in 1997. Growth in 1996 has been rather less than was anticipated at the beginning of the year, as the expected upturn occurred later than expected. In normal circumstances the cyclical recovery, which has now clearly commenced, would be expected to gather pace in 1997. However, because of the role of 1997 budgetary and inflation results in determining qualification for EMU participation, most continental EU member governments will be operating very tight fiscal policies next year. This is likely to restrict the rate of economic recovery, although it seems most unlikely to actually reverse it. In compensation for the fiscal squeeze it is possible that German short-term interest rates will be further reduced in the course of 1997, especially if economic growth in Germany proves slower than currently anticipated. The course of short-term interest rates in other continental countries is likely to reflect market perceptions of the probability of EMU proceeding as planned and of the prospects of individual countries qualifying for entry, as such perceptions will determine the movements of differentials over German rates.

In Germany itself third quarter growth was unexpectedly strong after a disappointing first half of 1996. It now seems likely that real GDP growth will have been closer to 1½ per cent than the previously expected 1 per cent. Nevertheless, as recent figures have shown, such a rate of growth is not sufficient to prevent unemployment rising. The average unemployment rate in 1996 will exceed 10½ per cent. GDP growth of about 2 per cent is expected in 1997, with exports, personal consumption and fixed capital formation all likely to contribute modestly. Unemployment will remain high, at over 10 per cent, and inflation is forecast to be close to the 1996 rate of about 1½ per cent. Most commentators expect Germany to meet the Maastricht fiscal criterion of a general government deficit of under 3 per cent of GDP, but with very little safety margin.

The performance of the French economy has been very similar to the German, and the outlook is also similar. Fourth quarter output may have been adversely affected by the recent truckers' action, which could have held the volume of GDP growth in 1996 to about 1 per cent. The pace of recovery in 1997 is likely to be moderate, with higher exports and investment, encouraged by interest rates which have converged almost to the German level, partly offset by the effect of fiscal restraint on consumer spending. Unemployment seems certain to remain very high and inflation low. The course of interest rates and of economic growth in the second half of 1997 may be influenced by indications of whether or not France appears to be on course to meet the EMU fiscal criterion.

Between late 1992 and 1995, the volume of output in the Italian economy benefited from the depreciation of the lira, although at the cost of an inflation rate and interest rates well above the European norm. This situation has changed radically in the past eighteen months. The lira has appreciated fairly steadily against the DM, rising by about 17 per cent since March 1995, and culminating in its recent re-entry to the ERM at a central rate of 990 to the DM. Largely in consequence, Italian interest rates have been substantially reduced, with short-term rates some 2 per cent lower than at the start of the year, while consumer price inflation has fallen sharply to around 3 per cent by the end of 1996. Not surprisingly, the appreciation of the lira has checked the volume rise in Italian exports, and economic growth in 1996 is believed to have been well under 1 per cent. Growth is again likely to be below the EU average in 1997, at about 1½ per cent, with the benefits of lower interest rates largely countered by harsh fiscal consolidation and the effects of a relatively strong exchange rate. It is by no means beyond the bounds of possibility that Italy will meet the borrowing and inflation criteria for EMU in 1997, but, given the very high debt ratio and the relatively short period over which apparent convergence has been achieved, it remains very uncertain whether Italy will be accepted as an initial member of EMU.

Similar doubts attach to the prospects of the Iberian countries, although their debt burdens are not a major issue, but continuing efforts to meet the borrowing and inflation criteria are likely to restrain the rate of economic growth in both Spain and Portugal during 1997.

Most other continental EU countries appear likely to meet the borrowing and inflation targets in 1997, provided that the moderate rates of economic growth anticipated throughout Europe do, in fact, materialise. However, debt levels could cause problems of interpretation, especially with regard to Belgium, while, at present, it seems unlikely that either Denmark or Sweden would choose to participate in initial entry to EMU, even if both qualify.

The UK Economy

The UK economy has been growing fairly steadily in 1996, and the annual increase in real GDP is likely to be about 2.3 per cent. Both export volumes and personal consumption have contributed to this growth, although investment, especially in manufacturing, has remained relatively weak. Much of the rise in output has been in the service sector, while manufacturing production, hampered by excessive stock levels at the beginning of the year, was virtually stagnant for much of the year before a slight up-turn in the closing months. Inflation, although higher than in core continental countries, remains fairly subdued. Unemployment has fallen significantly in 1996, although this reflects a reduction in the labour force as much as an increase in employment.

Following a Budget which was generally perceived as only marginally contractionary, personal consumption is likely to continue its rapid expansion in 1997. However, UK trade has proved quite sensitive to exchange rate movements in the past, and if the current strength of sterling were to persist, the volume of net exports could deteriorate significantly in 1997. In this case the official forecast of a 3½ per cent rise in real GDP would appear to be unobtainable. Conversely, if there were to be a renewed depreciation of sterling, inflation targets would probably be exceeded. On balance it appears most likely that there will be a modest depreciation of sterling in the course of 1997, that real GDP growth will be close to 3 per cent, still well above the EU average, and that inflation will similarly be above the EU average at just under 3 per cent. It is unclear whether there will be further increases in short-term interest rates, although it is probable that the differential between UK and German rates will widen slightly.

If it is of any relevance, it seems unlikely that the UK will meet the EMU criteria on borrowing or inflation in 1997 without further action which would, in itself, risk reducing the rate of economic growth.

The Rest of the World

Despite an expected fall in the second quarter from the exceptionally high first quarter out-turn, economic recovery in Japan now appears to be firmly established. Real GDP growth in 1996 is expected to be about 3.5 per cent, aided by very low interest rates, a large fiscal stimulus and a fairly steady depreciation of the Yen against the dollar. Interest rates are expected to remain relatively low in 1997, despite the probability of a small increase, the Yen seems likely to stabilise against the dollar, and fiscal policy is likely to be neutral. Thus growth is forecast to be slower than this year, at around 2 per cent, with inflation remaining low and the trade surplus expanding again after falling to its lowest level for six years during 1996.

Although still growing strongly, the other Asian economies have tended to suffer from a slowdown in export growth, especially in electronic products, in 1996. This relative pause now appears to be ending and, aided by a continuing heavy flow of foreign investment, rapid economic growth in most Asian countries is forecast for 1997.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
UK	2¼	3	2¾	2¾	3¾	4¼	7¾	7	-1¼	-3
Germany	1¼	2	1½	1½	2½	3	10¼	10	-1	0
France	1¼	2¼	1¾	1¾	2½	2¾	12½	12¼	1	1
Italy	¾	1½	4¼	3	4	4½	12½	12¼	2½	2
Total EC	1½	2¼	2½	2½	3	3¼	11¼	11¼	½	½
USA	2½	2¼	2½	3	3¼	3½	5½	5½	-2	-1¾
Japan	3½	2	¼	1¼	1	1¼	3½	3½	1¼	1½
Total (OECD)	2¼	2½	2¼	2½	2¾	3	7¾	7½	-¼	-¼
Ireland	5¾	5	1¾	2	3	3½	11½	11	½	¾

Crude oil prices rose significantly in 1996, with demand boosted by unusually cold weather in the early part of the year in both Europe and North America, and supply uncertainties exacerbated by the delay in agreeing the partial resumption of Iraqi oil exports. With this latter problem at least temporarily resolved and the demand for oil products likely to increase modestly rather than dramatically, crude oil prices are expected to remain fairly stable at around $20 per barrel in 1997. Other commodity prices have been relatively subdued in 1996 and little change is forecast for 1997.

The Context for Ireland

The international economic environment for Ireland in 1996 has been mixed. Although world output and trade growth has been moderately positive, the increase in import demand in continental Europe, Ireland's major market, has been very slow. Moreover the markets for cattle and beef have been seriously disrupted by the BSE crisis, while there appears to have been a worldwide slowing down in the growth of demand for some electronic products. On the other hand, British consumer spending has been buoyant, and, more vitally, the volume of internationally mobile productive investment has remained high.

World trade growth is expected to be only marginally stronger in 1997, but the European market is likely to increase more rapidly than this year in spite of continuing fiscal consolidation. There are clear signs of recovery in the beef market, and the temporary lull in demand for electronic products appears to have ended. UK demand is forecast to strengthen further, and the level of international investment is expected to remain high. Thus the background for Irish exports should be more favourable in 1997 than in 1996, while that for attracting foreign direct investment should again be positive.

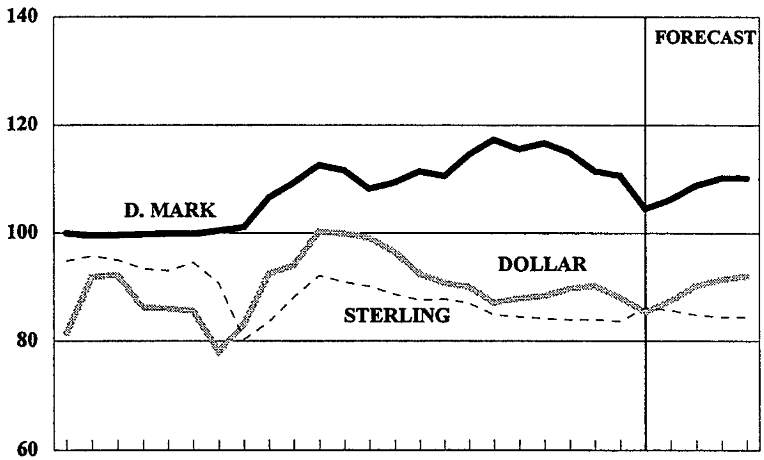
The response of the Irish economy to these general economic conditions will be influenced by exchange rate movements. The unexpected strong rise in the value of sterling in the later months of 1996, with the consequent appreciation of the Irish pound against most other currencies, has significantly altered the balance of operating margins between exporting to different markets. At current exchange rates, exporting to the UK is significantly more profitable than in the past two or three years, while margins on exporting to most continental European countries are significantly reduced. Although many of the major exporters to Europe operate on such wide margins that the reduction would be of little immediate concern, some firms could face an uncomfortable squeeze, if the current strength of the Irish pound against continental currencies were to continue. Similarly, further re-valuations of the green pound could have a substantial impact on the Irish pound value of some agricultural exports and on agricultural incomes. Longer-term, if current exchange rates were to persist, they could have some impact on the location of international productive investment, with Ireland gaining competitiveness compared with the UK, but losing competitiveness against potential continental competitors.

In any case, it is probably unrealistic to expect current exchange rate patterns to persist through 1997. The rise in sterling was in response to a combination of relatively benign forecasts of UK economic performance and actual and anticipated increases in UK interest rates. If sterling were to maintain its present value, the benign economic forecasts would be invalidated and the further expected interest rate increases would fail to materialise. When the likelihood of a period of electoral uncertainty is also taken into account, there seems a strong probability that there will be a moderate depreciation of sterling in the course of 1997.

Among other currencies, it seems likely that the dollar and Yen will appreciate slightly further against the DM and that there will be only minor movements among continental European currencies in 1997. In Irish pound terms, the forecasts in this *Commentary* are based on annual average rates in 1997 of about £1.02 sterling, $1.57 and DM 2.45.

Figure 1: Exchange Rates

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



Long-term interest rates have declined significantly in 1996 in most countries. With inflation remaining low, fiscal deficits being reduced and world output growth expected to be moderate, there seems no reason to anticipate a major reversal of this trend in 1997. The annual average of international long-term interest rates is thus likely to be lower than in 1996. Short-term interest rates tend to be more volatile and to vary more widely between countries. Short-term rates are likely to rise slightly in Japan, and could also rise in the US and UK. German short-term rates seem likely to remain unchanged or decline modestly. The major uncertainty relates to short-term rates in other European countries, where the differential over German rates will be influenced by market perceptions of progress towards EMU. For most of the year current differentials could well persist, but, as the year draws to a close, greater clarity concerning which countries, if any, will lock their currencies irrevocably at the beginning of 1999 could lead to significant changes in interest-rate differentials.

General

The publication of the *Labour Force Survey* for April 1996 confirmed the conclusions of the preliminary estimates of economic growth last year shown in *National Income and Expenditure 1995.* Not only was 1995 another year of exceptionally rapid economic growth, with real GNP rising by over 7 per cent, but, as in 1994, this growth was reflected in a substantial increase in employment. The total numbers at work rose by 45,000 or 3.6 per cent in the year to April 1996, following a 4.8 per cent rise in the previous twelve months. This broad concurrence between the growth in GNP and employment, when due allowance is made for higher productivity, indicates the balanced nature of economic growth in recent years. In contrast to some earlier periods, rapid export growth has been accompanied by a strong expansion in the more labour-intensive sectors supplying domestic demand.

Exports

The value of visible exports in the first half of 1996 is provisionally estimated to have been almost £15 million, some 12.7 per cent higher than in the first half of 1995. The frequency and scale of subsequent revisions to initial trade data since the new system of compilation was introduced in 1993 suggest that this estimate too might be revised. It also renders it difficult to obtain a breakdown of exports by sector of origin fully compatible with the latest estimate of total visible exports for past years. Thus the sectoral breakdown of exports in 1995 shown in Table 2 must be regarded as indicative rather than authoritative, but it should be sufficiently accurate to serve as a basis for discussing trends in 1996 and 1997.

TABLE 2: Exports of Goods and Services

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	3,180	-5	-9	2,894	-2	-4	2,778
Manufactured	20,100	12¾	14	22,914	14	15	26,351
Other Industrial	3,380	8¼	9	3,684	8	9	4,016
Other	1,101	8½	9	1,200	8	9½	1,314
Total Visible	27,761	10	10½	30,692	11½	12	34,459
Adjustments	-317			-317			-320
Merchandise	27,444	10¼	10¾	30,375	11¾	12½	34,139
Tourism	1,677	12½	14½	1,920	10	12¼	2,155
Other Services	1,327	3	5	1,393	4	6	1,477
Exports of Goods and services	30,448	10	10¾	33,688	11¼	12	37,771

The provisional half-year figures indicate a substantial fall in the value of exports of live animals, meat and dairy products. BSE has adversely affected the value of live cattle exports and prices of both cattle and beef exports, despite some recent recovery in beef prices. Dairy exports have also been affected by falling prices and a virtual end to sales out of intervention stocks. Thus for 1996 as a whole there is likely to be a substantial decline in both the volume and value of agricultural exports.

First-half exports of manufactured goods, especially from the high-technology sectors, were well above their value for the first half of 1995. However, on a seasonally-corrected basis they were slightly lower than the exceptional value they achieved in the final quarter of 1995. Renewed growth in manufactured exports is believed to have taken place in the second half of the year, so that the annual rise in value is forecast at about 14 per cent.

With moderate increases taking place in other industrial and miscellaneous exports, total visible exports in 1996 are forecast to have risen by about 10 per cent in volume and 10½ per cent in value. No dramatic changes are likely to have taken place in the Balance of Payments adjustment, so the forecast increases in merchandise exports are similar.

A further strong rise appears to have occurred in earnings from tourism, although on the basis of Balance of Payments estimates for the first half of the year the increase in other service exports has been surprisingly modest. Total exports of goods and services in 1996 are thus forecast to have risen by 10 per cent in volume and 10¾ per cent in value.

It is possible that there could be some recovery in the volume of agricultural exports in 1997, but at the time of writing it appears more likely that there will be a further small decline in both the volume and price of agricultural exports. With the European economy expected to show a moderate upturn in 1997, and with additional productive capacity becoming available, manufactured exports are forecast to achieve a slightly higher rate of volume increase in 1997 than in 1996, despite a smaller carryover of growth from the previous year. With the other export categories projected to maintain their steady expansion, total visible exports in 1997 are forecast to increase by 11½ per cent in volume and 12¼ per cent in value.

Projecting a further substantial, but slightly slower, rise in tourism and a modest increase in other service exports, total exports of goods and services in 1997 are forecast to increase by about 11¼ per cent in volume and 12 per cent in value. These forecasts are marginally below the annual average achieved since 1990, but would still represent a strong performance within the context of a fairly hesitant European economy.

Stocks

On the evidence of the latest official estimates, agricultural stocks seem likely to show a moderate increase in 1996, with a rise in cattle numbers more than offsetting a reduction in the number of sheep. With adverse price and income trends it seems probable that the increase in agricultural stock-building will come to an end in 1997.

TABLE 3: Stock Changes

	1995	Change in Rate	1996	Change in Rate	1997
	£m	£m	£m	£m	£m
Farm Stocks	79	-9	70	-80	-10
Irish Intervention Stocks	-372	392	20	-	20
Other Non-agricultural Stocks	386	-186	200	10	210
Total	94		290	-70	220

Even at this late stage of the year it is difficult to produce a confident forecast of the likely change in intervention stocks in 1996. It is clear that there has been a reversal of the previous running down of stocks of dairy produce, although the scale of the expected build-up is likely to be quite small compared with movements in or out of stock in previous years. Similarly the BSE related increase in the volume of beef stocks has been rather smaller than anticipated. What remains uncertain in National Accounts terms is the degree to which the value of new stocks will be written down within 1996. For forecasting purposes it is assumed that there will be a heavy initial depreciation of new intervention stocks, so that the increase in the value of intervention stocks will be very small, at about £20 million. However, when this is compared with the fall of £372 million in 1995, when falling volumes were accompanied by heavy losses on sales, it represents a substantial change in the impact of intervention stockbuilding on GDP growth. This pattern of volume increases being offset by early depreciation of the value of the stocks is projected to continue in 1997.

Non-agricultural stocks, other than intervention products, tend to be very volatile, with no short-term indicators of their movement. After a large increase in 1995, continuing economic growth is assumed likely to be accompanied by slightly slower, but still substantial increases in such stock-building in 1996 and 1997. Thus, as shown in Table 3, the total value of physical changes in stocks is tentatively forecast at £290 million in 1996 and £220 million in 1997. To the extent that these projections prove erroneous they are likely to be offset by corresponding errors in the forecasts of exports or imports, so that the effect on GDP growth rates should be quite small.

Investment

Most available indicators show that investment in building and construction has continued to rise strongly in 1996. With the possible exception of agriculture, where lower farm incomes may have reduced investment in new or extended buildings or structures, virtually all categories of investment in building and construction are buoyant. Because the base is higher, the percentage growth may be lower than in 1995, but the absolute volume of increase in 1996 is expected to have been of the same order of magnitude as last year.

The increase in investment in machinery and equipment was smaller than anticipated in 1995. A faster rate of increase is likely to have taken place in 1996. Thus total gross fixed capital formation in 1996 is forecast to have risen by 10¼ per cent in volume and 13½ per cent in value, as shown in Table 4.

TABLE 4: Gross Fixed Capital Formation

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	3,823	11	14½	4,377	7	10½	4,837
Machinery and Equipment	2,207	9	11½	2,461	7½	10¼	2,713
Total	6,030	10¼	13½	6,838	7¼	10½	7,550

Continued economic expansion, coupled with interest rates remaining relatively low, no significant net emigration and a high rate of new household formation, should ensure that demand for investment in dwellings and most other forms of building and construction remains high in 1997. A further volume increase of 7 per cent appears a reasonable projection. Given the economic conditions a volume rise of about 7½ per cent in investment in machinery and equipment is forecast, implying a volume increase of 7¼ per cent in total gross fixed capital formation.

Consumption

The retail sales index shows that personal consumption is increasing very rapidly in 1996. For the first nine months of the year the value of retail sales was 8.2 per cent higher than in the corresponding period of 1995, while the volume rise in the first 8 months was 6.7 per cent. A considerable portion of the increase was due to a boom in car sales, which accounts also for most of the apparent levelling off in retail sales since May, as the seasonal pattern of car sales differs from the seasonality of the total index. However, even when sales through garages and filling stations are excluded, the remainder of the index shows strong growth, with a volume increase of 4.8 per cent in the first 8 months of the year.

For 1996 as a whole, it seems likely that the retail sales index will rise by about 7.8 per cent in value and 5.9 per cent in volume. Total personal consumption generally increases rather faster than the retail sales index, so annual increases in personal consumption of 8.2 per cent in value and 6.2 per cent in volume are forecast for 1996, as shown in Table 5.

Such an increase in the value of personal consumption implies a significant fall in the personal savings ratio, partly through a substantial rise in personal borrowing. It seems unlikely that the fall in personal savings will be repeated in 1997, even with retail interest rates remaining relatively low. We have therefore projected the value of personal consumption in 1997 as rising roughly in line with the expected increase in personal disposable income, giving a value rise of 6.2 per cent and a volume increase of about 4 per cent.

Government net expenditure on current goods and services is believed to have increased by about 7 per cent in 1996 at current prices, implying a volume

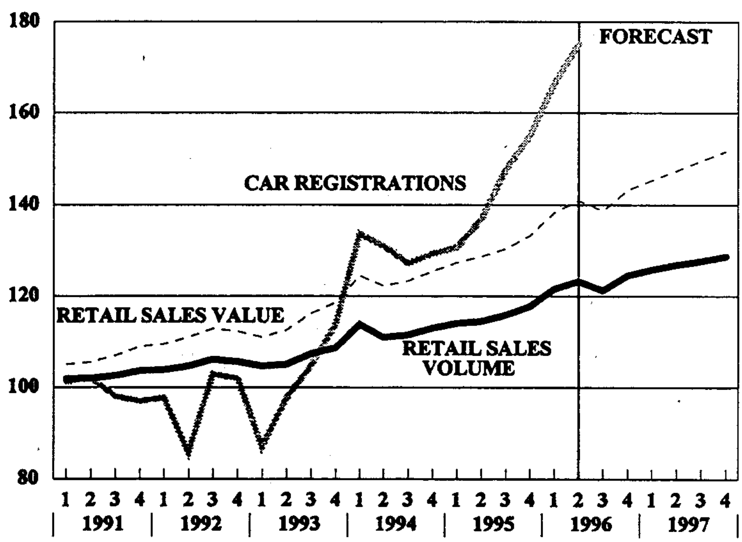
TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1992	1993	1994	1995	1996 To Date	1996 Forecast	1997 Forecast
Consumption Value							
NIE 1995, Personal Consumption	7.1	3.6	9.6	5.8		8.2	6.2
Retail Sales Index, Value	4.3	3.0	7.9	4.8	8.2	7.8	5.8
Divergence	2.8	0.6	1.7	1.0		0.4	0.4
Consumption Volume							
NIE 1995, Personal Consumption	4.4	1.7	6.8	3.7		6.2	4.0
Retail Sales Index, Volume	2.3	1.4	5.5	2.8	6.7	5.9	3.7
Divergence	2.1	0.3	1.3	0.9		0.3	0.3
Consumer Prices							
NIE 1995, Personal Consumption Deflator	2.6	1.9	2.6	2.0		1.9	2.1
Retail Sales Index Deflator	2.0	1.6	2.3	1.9	1.8	1.8	2.0
Consumer Price Index	3.0	1.5	2.4	2.5	1.6	1.6	2.0

increase of about 3 per cent. On the basis of the Public Service Estimates it seems likely that the rise in current price government consumption will again be held to about 7 per cent in 1997. As the public consumption deflator could be higher than this year, such a value increase implies that the increase in the volume of public consumption would be restricted to about 2½ per cent.

Figure 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



Final Demand

Final demand in 1996 is forecast to have increased by 10 per cent in value and 8¼ per cent in volume. Although high by international or historical standards, this represents a significant reduction in the rate of growth compared with 1995, when final demand rose by 13¼ per cent in value and 11 per cent in volume. This reduction in the rate of increase is entirely due to a slackening in the rate of growth of export volumes, from 17 per cent in 1995 to 10¼ per cent in 1996. Domestic demand (excluding stocks) is forecast to have accelerated from a volume increase of 4¾ per cent in 1995 to almost 6½ per cent in 1996. The import intensity of final demand is likely to have been slightly lower than in 1997.

The growth of final demand is forecast to be slightly slower in 1997, at 9¼ per cent in value and 7½ per cent in volume, due largely to a smaller carryover of growth from the previous year. The increase in the volume of exports is projected to be slightly faster than this year, at 11¼ per cent, but domestic demand (excluding stocks) is forecast to increase significantly more slowly at just over 4¼ per cent in volume terms. The composition of final demand is likely to be of similar import intensity as in 1996.

Imports

According to the provisional trade statistics, the value of visible imports in the first half of 1996 was 12.1 per cent higher than in the corresponding period of 1995. The comments made in relation to exports, that frequent revisions render the initial estimates only an approximate guide to trends and make it difficult to establish a firm base for categorising trade, apply also to imports.

TABLE 6: Imports of Goods and Services

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	3,630	12	14	4,138	9	11½	4,614
Consumer Goods	4,140	11	12¾	4,668	7	9	5,088
Intermediate Goods:							
Agriculture	560	1	4	582	0	2	594
Other	10,620	12	13¼	12,027	12½	13¾	13,681
Other Goods	1,535	5	6¼	1,631	6	7½	1,753
Total Visible	20,485	11	12½	23,046	10	11¾	25730
Adjustments	-380			-372			-380
Merchandise Imports	20,105	11¼	12¾	22,674	10¼	11¾	25,350
Tourism	1,266	12	14	1,443	10	12¼	1,620
Other Services	4,393	12	14	5,008	11	13½	5,684
Imports of Goods and Services	25,764	11½	13	29,125	10¼	12	32,654

However, the pattern of economic growth in 1996 makes it certain that there will be steep rises in imports of capital and consumer goods. Imports of intermediate goods are likely to increase less rapidly than in 1995, reflecting the slowing down in industrial production. In total, visible imports in 1996 are likely to have risen by about 11 per cent in volume and 12½ per cent in value.

Both tourist spending overseas and other service imports (including royalties) are forecast to have increased rather faster than visible imports, at about 12 per cent in volume and 14 per cent in value. Thus total imports of goods and services are forecast to have risen by 11½ per cent in volume and 13 per cent in value, as shown in Table 6. As expected, these rates of increase, especially in value, are slower than those recorded in 1995, although still above the long-term annual average.

With domestic demand projected to decelerate in 1997, imports of both capital and consumer goods should increase more slowly. Allowing for a small rise in the rate of growth of intermediate goods imports, total visible imports in 1997 are forecast to increase by 10 per cent in volume and 11¾ per cent in value. Service imports are projected to increase slightly less rapidly than in 1996, in keeping with the reduced rate of growth of final demand. Thus total imports of goods and services are forecast to rise by 10¼ per cent in volume and 12 per cent in value.

Balance of Payments

Official estimates of the current account balance of payments surplus in 1995 have been revised upwards from £850 million, shown in *National Income and Expenditure 1995,* to £981 million in the June 1996 Balance of Payments Estimates. The revisions occurred in the estimates of merchandise trade, and reflect revisions to estimates of visible exports and imports as shown in the Trade Statistics.

On the basis of our forecasts for exports and imports, the visible trade surplus is likely to increase by only 5 per cent in 1996, a much smaller rise than usual. This has been due to an interruption to the growth of the value of agricultural and electronic exports in the first half of 1996, while buoyant domestic demand has ensured a continuing rise in import values. With export growth recovering, a more normal increase of over 14 per cent in the visible trade surplus is projected for 1997. Similar increases are forecast for the surplus on merchandise trade, as no major changes are foreseen in the balance of payments adjustments to the trade data.

Since the inclusion of royalties and related payments in service exports and imports, the deficit on service trade has become much larger. It is also liable to grow more rapidly than before, as royalty and licence payments by the high-technology sectors of industry tend to increase faster than most other forms of service trade. The June Balance of Payments Estimates showed that the total service trade deficit increased sharply in the first half of 1996, and annual increases in this deficit are accordingly forecast at 18¼ per cent in 1996 and 17 per cent in 1997.

Thus, as shown in Table 7, the surplus on trade in goods and services is forecast to decline by 2½ per cent in 1996, the first reduction for many years, and to increase by 12¼ per cent in 1997.

Because data on factor flows on the new classification basis are available for only a few years, it is not yet possible to establish clear relationships between the different categories and other economic indicators. Thus our forecasts for factor

TABLE 7: Balance of Payments

	1995 £m	Change %	1996 £m	Change %	1997 £m
Visible Trade Balance	7,276	5	7,646	14¼	8,729
Adjustments	64		55		60
Merchandise Trade Balance	7,340	5	7,701	14¼	8,789
Service Trade Balance	-2,656	18¼	-3,138	17	-3,672
Trade Balance in Goods and Services	4,684	-2½	4,563	12¼	5,117
Factor Flows:					
Remuneration of Employees	-49	2	-50	2	-51
Distributed Profits etc.	-4,052	18	-4,781	14	-5,450
Reinvested Earnings	-1,383	-5	-1,314	5	-1,380
National Debt Interest	-1,015	-6	-944	-4	-906
Other Debit Flows	-1,496	10	-1,646	6	-1,745
Total Debit Flows	-7,995	9¼	-8,735	9¾	-9,532
Credit Flows:					
Remuneration of Employees	230	1	232	2	237
Direct Investment Income	556	0	556	7	595
Other Credit Flows	2,394	8	2,586	9	2,819
Total Credit Flows	3,180	6	3,374	8¼	3,651
Net Factor Flows	-4,815	11¼	-5,361	9¾	-5,881
Net Current Transfers	1,112	-12	979	6	1,037
Balance on Current Account	981	-81½	181	50¾	273
Capital Transfers	511	5¾	540	1¾	550
Effective Current Balance	1,492	-51¾	721	14¼	823

flows in 1996 rely heavily on trends in the first half of the year, while the 1997 projections show a reversion towards the average annual pattern since 1990. Of course, the forecasts also take into account such factors as the likely performance of multinational high-margin companies and the impact of international interest rates and currency movements on national debt interest payments abroad. On this basis, net factor outflows are forecast, somewhat tentatively, to increase by 11¼ per cent in 1996 and 9¾ per cent in 1997.

Net current transfers from abroad are forecast to decline significantly in 1996, largely because of a steep rise in gross transfers from Ireland to the EU. A moderate recovery in net current transfer receipts is forecast for 1997.

If our trade, factor flow and transfer forecasts are broadly correct, there is likely to be a sharp fall in the current account surplus in 1996, to less than £200 million, followed by a modest recovery in 1997. On the more meaningful effective current balance, when net capital transfers are added, surpluses of £721 million in

1996 and £823 million in 1997 are projected, amounting to roughly 2 per cent of GNP in each year.

Gross National Product

To maintain consistency with the balance of payments revisions, we have amended the absolute level of GNP and its components for 1995. These relatively minor revisions do not affect the estimated growth rate for 1995, but are necessary to provide a coherent base for forecasts for 1996 and 1997.

It now seems likely that the volume of GDP will rise by about 6¼ per cent in 1996, and the volume of GNP by about 5¾ per cent. These are slight downward revisions on our previous forecasts for the year, but still represent very strong growth in a European context, especially as they follow two years when real GNP increased by over 7 per cent. Gross national disposable income, adjusted for the terms of trade (GNDI), is forecast to increase by about 4¾ per cent, slightly faster than in 1995 because the deterioration in the terms of trade is likely to be much smaller.

For 1997, the projections are for real GDP to grow by 5½ per cent, real GNP by 5 per cent and real GNDI by about 4 per cent. These are only marginally different from our September forecasts, and indicate our expectation that Ireland can sustain annual growth rates of around 5 per cent in the medium term.

Agriculture

Despite the obvious problems faced by agriculture this year, the official Advance Estimate indicates that there has been a substantial increase in the volume of gross agricultural output. Both livestock numbers and crop acreage were considerably higher than in 1995, and crop yields have been very high. With a small volume rise in agricultural inputs and continued expansion in forestry and fishing output, the volume of gross domestic product in the broad agricultural sector is forecast to have increased by about 4 per cent in 1996.

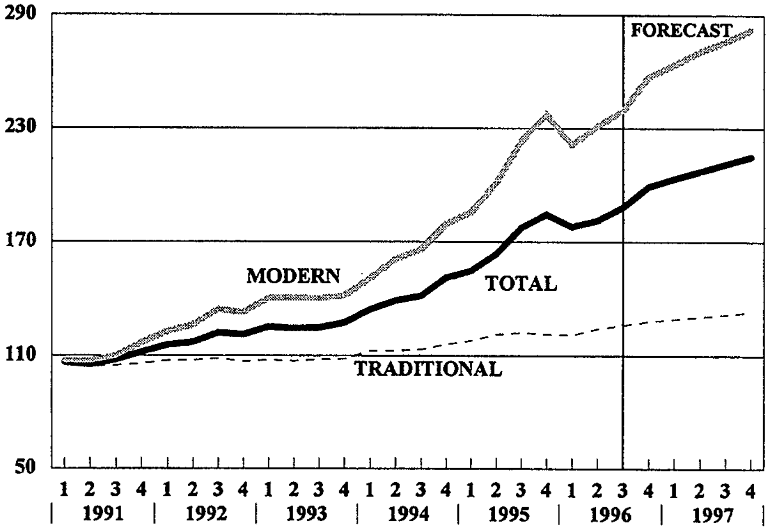
It is not yet clear whether any European schemes to restore balance in the cattle market will have an impact on gross agricultural output in 1997. More crucially, there is considerable uncertainty as to the effect on production volumes of relatively low prices, especially for milk. Taking into account also the technical assumption that "average" weather conditions will result in some reduction in average crop yields, the most reasonable projection for 1997 is that there will be a slight fall in the volume of gross agricultural output. Input volumes could also be lower, so, assuming a further moderate increase in forestry and fishing output, gross domestic product in the broad agriculture sector is forecast to remain roughly unchanged.

Industry

The volume of production index for manufacturing industry for the first 7 months of 1996 was 12.3 per cent higher than in the corresponding period of 1995. However, this apparently strong growth is somewhat misleading, as, on a seasonally corrected basis, production in the first half of 1996 was about 2½ per cent lower than in the first quarter of 1995. Most of this reduction was concentrated in the electronics and electrical engineering sectors in the first four

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



months of the year. The May to July period showed a moderate recovery in these sectors, and stronger growth is expected to have resumed in the later months of the year. For manufacturing industry in general, survey data suggests renewed growth during the summer and autumn, and it is almost certain that the volume of production index in the second half of the year will be substantially higher than in the first half. However, comparison will be with the exceptionally buoyant second half of 1995, so that annual rates of increase will be lower than in the January to July period. For 1996 as a whole, the volume of production in manufacturing industry is forecast to have been roughly 10 per cent above its 1995 average. When depreciation and the buoyant state of building output are taken into account, the volume of gross domestic product in the broad industry sector is forecast to have risen by almost 10 per cent.

With major markets likely to be more favourable and additional capacity becoming available, the volume of manufacturing production is projected to increase by about 12 per cent in 1997. With some reduction in the rate of growth of building output and a slightly smaller rise in depreciation, the volume of GDP in the broad industry sector is forecast to grow by about 9 per cent in 1997.

Services

The output of the service sector in National Accounts terms is influenced by the treatment of intervention stock storage as part of the output of the distribution sector. Over the past decade or so, this factor has led to a degree of volatility in the recorded output of the distribution sector and the service sector as a whole. As already discussed in relation to stocks, there is some uncertainty as to exactly how the resumption of intervention stock-building in 1996 will be treated in the

National Accounts. If we are correct in assuming that intervention purchase prices will be heavily discounted in valuing end-year intervention stocks, then the reversal of stock trends might have a fairly limited effect on estimates of service output.

On this basis it seems likely that the volume of GDP in the services sector, after making the usual adjustment for financial services, will have increased by about 4 per cent in 1996. With domestic demand expected to grow less rapidly in 1997, an increase of about 3½ per cent is projected for total service output.

Employment

As expected, the *Labour Force Survey* for April 1996 contained minor revisions to estimates of the pattern of employment in 1994 and 1995. The Survey also confirmed that the very strong trend of employment growth of the two previous years continued in the 12 months to April 1996. Since April 1991, the total number at work has increased by 150,000, or 13.2 per cent, with 136,000 of that increase taking place since April 1993, and 45,000 in the year to April 1996.

Indeed the increase in underlying employment in the most recent year is somewhat understated by the Survey, as the week in which it was undertaken coincided with the temporary closure of many meat plants due to BSE-related problems. As a result, the Survey records an increase of only 1,000 in manufacturing employment in the year, while quarterly data show an increase of 11,000 between March 1995 and March 1996.

While showing the official Survey estimate for April 1996 in Table 8, we have taken this temporary shortfall in industrial employment into account in projecting employment trends forward and in calculating the annual average for both 1995 and 1996. On this basis, it is forecast that the annual average total at work in 1996 will have been 1,312,000, an increase of 52,000 or 4.1 per cent. The proportion of part-time work in the most recent Survey is not yet available, but assuming a continuation of the trend towards part-time working, it seems likely that the increase in full-time equivalent employment has been at least 3½ per cent in 1996.

With economic growth expected to be slightly slower, and with the rise in domestic demand, which impacts directly on service employment, projected to be considerably slower, the increase in total employment in 1997 is forecast to be smaller than in the two previous years, at 33,000, or about 2½ per cent.

While the total at work has grown very strongly in the past three years, so also has the labour force, as its natural demographic increase has been reinforced by changing migration patterns and higher female participation rates. Thus unemployment has fallen by only a fraction of the rise in employment over the past six years, and in the twelve months to April 1996, affected by the temporary laying-off of meat workers already described, unemployment fell by only 1,000. On an annual average basis, unemployment is forecast to fall by about 8,000 in 1996 and 4000 in 1997, on the assumptions that female labour force participation will continue to increase, and that modest net immigration in 1996 will be followed by no net migration in 1997. At this stage it is impossible to project Live Register totals with any confidence as they will depend primarily on the effectiveness of measures to tighten eligibility procedures. A large reduction in the

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000	1994	1995	1996	1997	1998
Agriculture	142	142	136	134	132
Industry	331	346	350	369	380
Services	710	751	798	825	848
Total at Work	1,182	1,239	1,284	1,328	1,360
Unemployed	218	191	190	178	174
Labour Force	1,400	1,430	1,474	1,506	1,534
Unemployment Rate %[1]	14.7	12.2	11.9	11.1	10.7
Live Register	285	276	281	262	255

B: Annual Averages '000	1994	1995	1996	1997
Agriculture	142	139	135	133
Industry	339	350	363	375
Services	731	771	814	837
Total at Work	1,212	1,260	1,312	1,345
Unemployed	206	188	180	176
Labour Force	1,418	1,448	1,492	1,521
Unemployed Rate %[1]	14.1	12.2	11.6	10.9
Live Register	282	278	279	258

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

annual average number on the Live Register in 1997 compared with 1996 does, however, seem certain.

Incomes

Despite the forecast increase in the volume of gross agricultural product, some reduction in farm incomes seems probable in 1996, due to adverse price trends, including a lower valuation on changes in livestock numbers. A further small reduction in farm incomes seems probable in 1997, with lower average milk prices likely to outweigh a recovery in average cattle prices. On our currency assumptions, the annual average value of the green pound is due to be slightly higher than the 1996 average, although its effect on farm incomes is projected to be quite limited.

Per capita non-agricultural wages salaries and pensions are now believed to have risen by about 3 per cent in 1996. Having revised upwards the forecast of effective average non-agricultural employment to about 3¾ per cent, we now forecast aggregate non-agricultural earnings to have risen by about 7 per cent in 1996. The annual average of non-agricultural earnings seems likely to increase by about 3¼ per cent in 1997 whether or not the current negotiations on a new National Agreement prove successful and are ratified. With a smaller rise predicted in effective employment levels, this is forecast to translate into a 6 per cent increase in aggregate earnings.

A relatively strong rise in other non-agricultural incomes seems likely in both 1996 and 1997, although we have revised our forecast downwards slightly for both years. Thus our forecasts of total income received from economic activity are little changed from those in the September *Commentary*, with increases of 6¼ per cent in 1996 and 5½ per cent in 1997, as shown in Table 9.

TABLE 9: Personal Disposable Income

	1995	Change		1996	Change		1997
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,473	-2	-50	2,423	-2	-48	2,375
Non-Agricultural Wages, etc.	17,932	7	1,255	19,187	6	1,163	20,350
Other Non-Agricultural Income	5,047	7	354	5,401	7	378	5,779
Total Income Received	25,452	6¼	1,559	27,011	5½	1,493	28,504
Current Transfers	5,870	6½	381	6,251	5¼	329	6,580
Gross Personal Income	31,322	6¼	1,940	33,262	5½	1,822	35,084
Direct Personal Taxes	6,387	6¼	401	6,788	2¾	186	6,974
Personal Disposable Income	24,935	6¼	1,539	26,474	6¼	1,636	28,043
Consumption	22,055	8¼	1,820	23,875	6¼	1,480	25,355
Personal Savings	2,880	-9¾	-281	2,599	6	156	2,755
Savings Ratio	11.6			9.8			9.8

With the impact of obligations arising from past events still influencing the level of transfer payments, these are forecast to have risen by 6½ per cent in 1996 and to increase by 5¼ per cent in 1997 despite the projected reduction in the numbers drawing unemployment assistance. Thus gross personal income is forecast to have increased by 6¼ per cent in 1996 and is projected to rise by 5½ per cent in 1997.

On the evidence of the revenue returns, direct personal taxation appears to have risen by a surprisingly large 6¼ per cent in 1996. With slower employment growth and the probability of significant cuts in effective tax rates, direct personal taxation is projected to increase at the much slower rate of 2¾ per cent in 1997.

Thus personal disposable income is forecast to have risen by about 6¼ per cent in 1996, and seems likely to increase at a similar rate in 1997. Personal consumption appears to have grown substantially faster than disposable income in 1996, with a corresponding fall of almost 2 per cent in the personal savings ratio. It seems unlikely that there could be a further significant reduction in the savings ratio in 1997, but, with interest rates expected to remain relatively low, there seems no obvious reason why the ratio should increase. Thus we project a virtually unchanged personal savings ratio of 9¾ per cent for 1997, implying that the value of personal consumption will increase at the same rate as personal disposable income.

Consumer Prices

At 1.6 per cent, the annual average increase in the Consumer Price index in 1996 has been among the lowest since the 1950's and also among the lowest in Europe. Part of the explanation lies in a marginal annual reduction in the housing index, due to lower mortgage interest rates, but even when housing is excluded the annual rise in the remainder of the index was only 1.8 per cent. At first sight such a low rate of price inflation, after three years of very rapid economic growth, might appear surprising. The explanation lies in the extreme openness of the Irish economy, which dictates that most Irish prices are heavily influenced by external trends. With international inflation low, and the Irish pound appreciating on an annual basis, a relatively small rise in the consumer price index was to be expected.

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend								Annual		
	1995				1996				1995	1996	1997
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.			
Index Nov. 1989 = 100											
Housing	113.0	119.3	120.8	118.8	116.7	117.1	117.6	120.0	118.0	117.9	121.6
Other	114.1	114.9	115.3	115.6	116.3	116.8	117.4	117.9	115.0	117.1	119.3
Total CPI	114.0	115.2	115.7	115.8	116.3	116.8	117.4	118.0	115.2	117.1	119.5
Annual % Change											
Housing	2.2	7.1	8.1	5.9	3.2	-1.8	-2.5	1.0	5.8	-0.1	3.2
Other	2.6	2.4	2.0	2.1	1.9	1.7	1.8	2.0	2.2	1.8	1.9
Total CPI	2.5	2.8	2.4	2.4	2.0	1.4	1.5	1.9	2.5	1.6	2.0
Quarterly % Change											
Housing	0.7	5.6	1.3	-1.7	1.8	0.3	0.4	2.0			
Other	0.8	0.7	0.3	0.3	0.6	0.4	0.5	0.4			
Total CPI	0.8	1.1	0.4	0.1	0.4	0.4	0.5	0.5			

International inflation rates are expected to remain low in 1997. Currency movements are harder to predict, but, as discussed in the International section of this Commentary, it is likely that the present strength of sterling will prove temporary. It seems probable that the annual average of both the effective exchange rate index and the Irish pound/sterling exchange rate will be much the same in 1997 as in 1996. Even if sterling were unexpectedly to retain its strength through 1997, its influence would be largely offset by the resulting strength of the Irish pound against other currencies, including the dollar. Given the fairly long time-lags in inflation adjusting to currency changes, there is still some downward influence on Irish prices to be obtained from the appreciation of the Irish pound over the past two years.

Thus it is unlikely that there will be serious upward pressure on the consumer price index from external sources. Some downward influence is likely to be exerted by falling agricultural prices, which could be accentuated if the Irish pound remains strong enough to trigger a further sustained revaluation of the green pound. On balance, it seems probable that non-housing prices will increase only marginally faster than this year, with an annual average rise of about 1.9 per cent, as shown in Table 10.

On the other hand, the consumer price index of housing costs is likely to rise more rapidly, even in the expected absence of significant changes in interest rates. Thus the annual average of the total consumer price index is forecast to rise by about 2 per cent in 1997.

Public Finances

As has been clear for several months, 1996 will have been an exceptionally strong year for the public finances. When the easing of advance payments of VAT in December by some companies is taken into account, it still seems likely that total current revenue will be in the region of £400 million above the Budget target, an increase of about 10 per cent on the 1995 level. Both direct and indirect tax receipts have been very buoyant, the former reflecting higher employment levels and an upturn in corporate profits and the latter the very rapid rise in personal consumption, especially on tax-intensive items such as cars.

The underlying rise in net current expenditure seems likely to have been of the order of £50 million above the Budget target, with significant savings on debt service offset by above target expenditure on several other items, much of it due to unforeseen contingencies. Of course, there is likely to be the usual end-of-year juggling with the timing of spending and receipts, so that the declared level of net spending could diverge significantly from the underlying level.

Thus, the underlying current budget surplus should be in the region of £300 million, although the declared surplus could be lower. If borrowing for capital purposes is close to the budgeted level, then the Exchequer Borrowing Requirement (EBR), could be about £350 million, less than half the Budget target. The general government borrowing level, the key Maastricht criterion, is usually somewhat higher than the EBR, but even so it seems unlikely to exceed 1½ per cent of GDP for 1996.

The extremely buoyant revenue performance in 1996 is unlikely to be repeated in 1997. Employment growth is likely to be slower, with an impact on direct tax receipts, while indirect tax receipts will be affected by the smaller rise in consumer spending, particularly on cars, although the annual change in VAT receipts will be somewhat boosted in comparison with this year's concession-reduced total. On unchanged real tax rates, total revenue would probably increase by over 7½ per cent in 1997, compared with 10 per cent in 1996. However, when expected reductions in real effective income tax rates are taken into account, together with an expected downturn in non-tax revenue, the rise in total revenue in 1997 seems likely to be about 5½ per cent.

On an accruals basis, as used in the National Accounts and EU calculations of the general government deficit, there could well be a further significant reduction in national debt interest payments in 1997. However, on a Budget basis, the 1996 total of interest payments was reduced by the treatment of savings made in the previous year. Thus there could be an apparent increase in national debt interest payments on a Budget basis in 1997, resulting in a moderate rise in Central Fund expenditure. On the basis of the unexpectedly high Estimates for 1997, and allowing for Budget related changes and some unexpected contingencies in the course of the year, net current Supply Service expenditure can be expected to increase by some 6 per cent in 1997 over the likely 1996 out-turn.

If these forecasts are broadly correct, and are not invalidated by budgetary decisions yet to be finalised, the outturn for 1997 could see a current budget surplus in the region of £300 million, and, given some increase in borrowing for capital purposes, an EBR of the order of £400 million. Such an outcome would be rather weaker than would be desired at this stage of the economic cycle in view of the need to continue progress towards being able to absorb a more rapid reduction in EU funding after 1999. However, it would be sufficient to safeguard Ireland's meeting of the fiscal criteria for EMU and would be broadly neutral in its macro-economic impact.

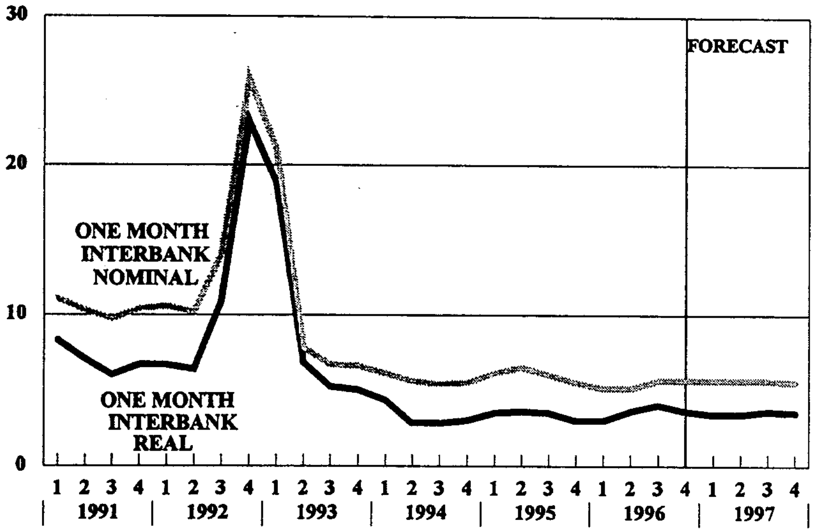
Interest Rates

Since their rise of ½ per cent in the summer, Irish short-term interest rates have remained virtually steady, with one month interbank rates at just under 5¾ per cent. Meanwhile, long-term rates have fallen sharply, following international trends, to reach levels of little over 6½ per cent, last seen for a brief period at the end of 1993.

The course of interest rates, both short and long term, in 1997 depends mainly on external factors. In particular, Irish rates will be largely determined by market perceptions of the likelihood of EMU proceeding on its planned time scale. Provided that developments in France and Germany as the year progresses confirm the current expectation that EMU will be introduced on time, then interest rate differentials over Germany in countries, such as Ireland, which are clear candidates for initial entry should continue to narrow. Given that little change is expected in German interest rates, this suggests that interest rates in Ireland could be lower on average in 1997 than in 1996. If, on the other hand, continental economic indicators cast serious doubt on the feasibility of EMU adhering to its time-table, then differentials in Ireland and the other non-German potential entrants would tend to widen, with a significant rise in Irish rates. On balance, it seems most likely that some uncertainty will remain for most of the year, before it finally becomes clear that EMU will proceed on schedule. On this assumption little change is forecast in Irish interest rates, short or long term, in 1997.

Figure 4: Interest Rates

Per Cent Per Annum, Quarterly Averages



General Assessment

Against a background of economic uncertainty in Europe and the specific problem of BSE, the Irish economy has performed well in 1996 to achieve a growth rate of about 5¾ per cent combined with low inflation and a significant further improvement in the public finances. Compared with most recent years the pattern of growth has been unusual, with personal consumption and fixed capital investment contributing a higher than normal proportion of the growth. The relatively subdued performance of exports, with much of the 10 per cent volume increase representing a carryover from last year's growth, is likely to have been reflected in a sharp fall in the current account balance of payments surplus.

Although, as always, some uncertainties remain, it seems highly probable that in 1997 Ireland will again record a growth rate which is far above the European norm. Our present forecast is for an increase of about 5 per cent in real GNP, accompanied by a rise in consumer prices of around 2 per cent, approximate stability in the Exchequer Borrowing Requirement and a modest recovery in the current account balance of payments surplus. A slowing down of the rate of expansion in domestic demand is likely to be offset by an acceleration in the growth of export volumes.

If our forecasts for 1996 and 1997 are broadly correct, then two years of real GNP growth in excess of 7 per cent will have been followed by two years in excess of 5 per cent, with the rate of inflation throughout the period remaining close to that in the slow-growing major economies of continental Europe. Such a performance is so outstanding in a European context that questions are increasingly being asked, both in Ireland and abroad, as to whether the figures are accurate, and, if they are, how has such an outcome been possible.

While periodic revisions to the National Accounts, trade statistics and many other economic indicators will undoubtedly continue, so that no particular estimate of economic progress can ever be regarded as completely definitive, let alone absolutely accurate, there is no reason to doubt that National Accounts estimates provide a broadly true picture of economic growth in Ireland. Especially since most factor flows have been placed on an accruals basis in the latest issue of *National Income and Expenditure,* trends in the various major elements of the economy fit together in a generally coherent manner. Thus estimates of export growth tend to be supported by separately derived estimates of industrial production and turnover, which in turn are supported by surveys of employment. Similarly, several separate surveys of prices and earnings all point to the sustained low level of inflation in recent years.

Thus, while there will be some revisions to official estimates for 1994 and 1995, and our own forecasts for 1996 and 1997 will not prove correct in every detail, the overall picture of rapid, low inflation, growth over the period will not change significantly.

The causes of the sustained rapid growth are complex, and include the successful attraction of direct foreign investment in fast growing industries through the favourable corporate tax regime, the professional targeting of relevant companies by state development agencies and the availability of a suitably qualified labour force; the easing of fiscal and monetary constraints on domestic demand as the public finances have improved; a growing national self confidence in economic as well as other spheres of activity; and a general consensus on economic strategy, formalised in a succession of national agreements which have permitted a mixture of a strong currency policy, fiscal consolidation and moderate pay increases to be obtained with a minimum of industrial relations friction.

There is little mystery as to how rapid growth has proved compatible with low rates of inflation. The extreme openness of the Irish economy, re-inforced by its small-country industrial structure whereby the domestic market is of minor importance to most large exporting firms while domestic consumption is primarily met by imported goods, means that Irish price inflation is overwhelmingly determined by external factors. The low inflation environment of the rest of the world, and especially of Europe, has simply been transmitted to Ireland through the maintenance of a reasonably strong exchange rate policy. Thus it is only in the prices of fixed domestic assets, such as property and land, and to a limited extent in building costs, that domestic inflationary pressures have become apparent. Wage pressures have been contained by continued high, although falling, unemployment and by the foreign competitive realities facing most companies trading on either the export or domestic markets. The existence of national agreements, and the relatively long time-horizon adopted by most Union leaders, have undoubtedly smoothed the process, but, provided that there had been a similar reduction in the tax wedge, the evolution of pay would probably not have been very different in the absence of the agreements.

The other major question asked domestically is, who has received the benefits of this period of very rapid growth? The answer to this question is also quite complex.

In the first place, the growth of real GNP somewhat overstates the rise in real income available to Irish residents. Over the period there has been a tendency for export prices to increase more slowly than import prices. This deterioration in the terms of trade means that a portion of the growth in the volume of exports is absorbed simply in paying for a constant volume of imports. In the same period, net current transfers from the EU have fallen steadily in real terms, so that in 1995 they stood at less than two-thirds of their peak 1991 level. When both net transfers and the terms of trade are taken into account, real gross national disposable income increased at an annual average rate of about 4½ per cent between 1993 and 1996, with a 4 per cent rise projected for 1997.

However, although less dramatic than the surge in real GNP, a sustained annual growth rate of over 4 per cent in GNDI represents a very rapid increase in potential living standards in comparison with other European countries or with historical Irish data.

Returning to a consideration of real GNP, a considerable proportion of the increase since 1993 has gone into further consolidation of the public finances and a consequent reduction in the debt/GNP ratio. Tax revenue as a proportion of GNP has remained roughly constant at about 38½ per cent, apart from a temporary rise in 1994 as a result of the tax amnesty. Over the same period, however, the share of government current spending in GNP has tended to fall, partly because of the very fast growth in nominal GNP and partly because of a significant reduction in the cost of servicing the national debt. This improvement in the public finances has been necessary to reduce both the burden and the dangers of future debt servicing, to ensure meeting the criteria for EMU entry, and to create the conditions where the faster running down of EU transfers after 1999 can be accommodated without undue difficulty. From the point of view of the individual citizen this absorption of part of the growth by lower government dis-saving can be regarded as an investment in protecting and enhancing future living standards.

A relatively small portion of the growth in real GNP has accrued to increased profits. The share of profits in GDP has risen more sharply, but has then been excluded from GNP growth because it formed the profit outflow from foreign multinational companies. This profit rise can also be regarded as contributing to future job creation, as it has undoubtedly been a factor in encouraging both the continued inflow of foreign productive investment into Ireland, and some capacity expansion by domestic firms.

Apart from the shift of resources towards higher corporate profits and a reduction in government dis-saving, the relationship between economic growth and personal incomes has also been affected, in the opposite direction, by changes in the composition of tax revenues. The substantial increase in receipts of corporation tax, and, to a lesser extent, more effective tax collection, have enabled successive governments to reduce average rates of direct personal taxation. When these disparate factors are all taken into account, it appears that real personal disposable income has been rising at an annual average rate of just over 4 per cent since 1993, quite similar to the rate of growth of real GNDI.

For those who have remained in employment throughout the period, there has been a steady, but not dramatic, increase in real living standards. Since the late eighties, the real take home pay of a worker on average industrial earnings, and with only standard tax allowances, has risen by about 2 per cent per year, with just over half of the improvement coming from lower effective tax rates. The position is more complicated for those with other allowances, especially mortgage interest relief. The limitations on such relief, through non-indexation of the ceiling, the progressive move towards relief being at the standard rate of tax and above all through the reduction in average interest rates, has meant that the tax liabilities of some households could have increased over the period. However, the scale of the reduction in mortgage interest rates, and the introduction of tax relief on rental expenditure, means that for the majority of households there has been a moderate annual increase in real disposable income after meeting tax and housing costs.

The main beneficiaries of economic growth in recent years are those who have obtained the new jobs that growth has created. The preliminary *Labour Force Survey* for April 1996 shows that the total number at work has risen by 150,000 since April 1990 and by 136,000 since April 1993. Given that the 1996 figures are probably understated by about 6,000 due to an accident of timing, net job creation has averaged over 47,000 in the past three years. Even when allowance is made for the growing proportion of part-time jobs in the total, the increase in full-time equivalent employment in the three years to April 1996 averaged about 40,000. Of course, not all this rise in employment was reflected in a fall of unemployment. The annual natural increase in the labour force is over 20,000 per year, while there is a long-term trend towards greater female labour force participation. However, since April 1993 there has been a reduction of 40,000 in unemployment as measured by the Labour Force Survey, which, when allowance is made for the distortion of the 1996 figures, represents an annual average reduction of almost 15,000. At the same time net migration was virtually zero, with a significant level of net immigration in the last year.

Thus, while almost everyone in the country has gained a little from the rapid economic growth of recent years, it is fair to say that those who have gained most are those who have obtained jobs in Ireland who would previously have had to emigrate, remain in home duties, or have become unemployed. In Ireland's circumstances, employment growth is probably the truest measure of economic progress, and there is a very strong case for retaining the economic strategy and the discipline which have led to such a vigorous rate of net job creation.

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
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	191.9	48.4	143.5
1991	153.9	208.6	118.0	14990	19652	193.9	50.7	143.4
1992	169.6	243.6	121.0	15682	22464	194.0	52.1	141.9
1993	178.8	265.7	121.3	16161	21391	194.0	54.5	139.6
1994	201.6	309.9	127.7	16844	26863	199.3	58.2	141.1
1995	242.1	398.9	135.5	17598	30575	211.5	66.5	145.0

Quarterly Averages or Totals

1993 I	182.0	280.2	113.7	4239	4004	191.3	53.5	137.8
II	184.1	272.6	122.2	3810	5051	193.0	53.2	139.9
III	164.4	237.6	113.5	3726	5764	195.7	55.1	140.9
IV	185.2	266.1	123.5	4386	6572	195.9	56.2	139.8
1994 I	195.2	299.8	118.8	4484	4692	194.6	55.9	138.4
II	206.1	312.2	128.6	4016	5889	197.7	56.9	141.0
III	186.2	282.5	118.9	3874	7799	200.7	58.6	142.1
IV	219.5	337.7	132.1	4470	8483	204.2	61.2	143.0
1995 I	224.7	368.7	124.1	4674	6296	204.9	62.0	142.7
II	242.4	390.6	138.6	4151	7156	210.6	64.7	146.1
III	233.3	379.5	127.9	4080	7684	213.8	68.2	145.5
IV	268.7	446.7	138.0	4693	9439	216.7	71.1	145.6
1996 I	257.4	438.8	127.2	5084	7216	215.9	72.4	143.7
II	268.8	449.2	142.3	4455	7931	220.2	72.6	147.5
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1993 I	178.6	263.4	118.2	3932	No Seasonal Pattern	193.4	54.1	139.4
II	177.3	263.6	117.5	4031		193.8	53.7	139.6
III	177.8	262.9	118.6	4070		194.0	54.8	139.8
IV	181.7	266.0	118.7	4135		194.7	55.4	139.5
1994 I	191.3	282.7	123.5	4162		196.8	56.4	140.1
II	198.2	302.0	123.4	4240		198.3	57.4	140.5
III	201.8	311.8	124.2	4231		199.1	58.4	141.1
IV	215.3	337.1	127.2	4220		203.2	60.4	142.8
1995 I	220.6	348.7	129.1	4341		207.1	62.5	144.5
II	233.2	377.6	132.8	4372		210.9	65.3	145.5
III	253.0	418.5	133.8	4458		212.3	67.9	144.5
IV	263.2	445.6	132.9	4434		215.6	70.2	145.4
1996 I	254.0	415.7	132.4	4723		218.1	72.9	145.6
II	258.7	434.0	136.1	4687		220.6	73.3	146.8
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	
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
145.3	160.9	121.0	103.9	100.5	152.1	72.6	224.7	1990
148.3	162.1	121.5	108.4	101.7	170.5	83.5	253.9	1991
163.5	184.2	125.8	112.8	102.6	187.2	96.0	283.1	1992
172.3	192.0	128.1	118.8	106.6	193.8	100.5	294.3	1993
189.1	209.8	133.5	122.3	107.2	184.4	98.0	282.4	1994
214.0	236.2	137.9	125.0	106.9	178.5	99.3	277.8	1995
Quarterly Averages								
177.8	206.2	121.7	115.5	104.0	197.9	101.7	299.6	1993 I
178.3	201.8	128.9	117.1	105.7	193.7	98.9	292.6	II
157.0	169.8	118.8	119.7	106.9	192.9	102.1	294.9	III
176.7	186.5	130.3	123.0	109.6	190.5	99.5	290.0	IV
187.5	211.2	126.6	121.0	107.1	194.1	99.6	293.7	1994 I
194.9	216.0	134.5	122.1	107.2	183.7	96.3	280.0	II
173.4	189.8	123.4	121.3	105.7	181.6	99.5	281.1	III
200.9	217.3	136.3	124.9	108.7	178.2	96.7	274.9	IV
205.0	234.2	128.3	123.3	106.5	181.8	97.8	279.6	1995 I
215.2	237.7	140.0	124.7	106.6	176.9	96.8	273.7	II
204.0	219.1	129.7	125.2	106.6	177.7	101.5	279.2	III
231.8	247.4	139.8	126.7	107.7	177.7	100.9	278.6	IV
222.9	238.6	130.6	125.5	106.3	182.0	103.3	285.3	1996 I
228.2	243.6	142.3	127.9	107.8	176.9	102.8	279.7	II
					177.0	107.9	284.9	III
								IV

Quarterly Averages (Seasonally Corrected)

172.6	192.1	124.9	117.0	104.9	193.4	101.3	294.6	1993 I
172.3	192.9	124.0	117.1	105.7	195.3	100.3	295.5	II
171.4	189.2	125.0	120.0	107.3	193.8	99.8	293.5	III
173.3	189.1	125.8	121.7	108.3	192.5	100.7	293.2	IV
182.1	197.5	130.0	122.0	107.9	189.7	99.1	288.8	1994 I
188.4	206.8	129.4	122.1	107.3	185.1	97.8	283.0	II
189.2	210.8	129.7	121.7	106.1	182.5	97.3	279.8	III
196.9	219.9	131.7	123.5	107.4	180.2	97.8	278.0	IV
199.3	219.7	131.7	124.3	107.3	177.5	97.4	274.8	1995 I
208.0	227.6	134.5	124.8	106.8	178.3	98.4	276.8	II
222.5	243.0	136.4	125.7	107.0	178.6	99.4	277.9	III
227.0	250.1	135.2	125.3	106.4	179.5	101.9	281.5	IV
216.9	224.2	134.1	126.5	107.0	177.8	102.8	280.6	1996 I
220.6	233.3	136.7	127.9	108.0	178.3	104.4	282.8	II
					177.9	105.8	283.7	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	1990=100	1990=100	1990=100	1990=100	Jan 1988=1000
1988	94.6	104.5	102.4	107.4	98.9	103.6	104.8	1294.6
1989	98.5	109.5	108.1	113.6	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	97.3	102.3	99.3	97.0	1382.4
1992	108.3	110.5	107.3	98.4	100.2	96.6	96.4	1311.1
1993	109.8	115.6	112.4	103.9	105.4	103.9	98.6	1576.0
1994	112.4	116.9	113.5	106.8	108.1	103.8	96.0	1853.4
1995	115.2	119.8	115.9	108.4	112.7	105.6	93.7	1992.9

Quarterly Averages

	17	18	19	20	21	22	23	24
1993 I	109.3	112.9	109.9	100.1	103.4	101.2	97.9	1313.5
II	109.1	115.2	111.9	106.3	104.7	104.0	99.4	1532.2
III	110.2	117.2	114.0	105.1	106.5	105.0	98.5	1685.6
IV	110.5	116.9	113.9	104.2	106.9	105.4	98.7	1772.6
1994 I	111.2	117.0	113.5	108.5	107.3	102.4	95.5	1966.3
II	112.1	117.1	113.9	111.2	108.7	104.5	96.1	1806.3
III	113.0	116.6	113.2	104.6	108.1	105.6	97.7	1817.7
IV	113.1	116.8	113.4	103.1	108.3	102.7	94.8	1823.1
1995 I	114.0	118.3	115.4	107.8	111.7	104.0	93.2	1863.6
II	115.2	119.5	116.6	110.5	113.7	107.4	94.4	1893.2
III	115.7	120.2	115.3	106.9	112.2	105.6	94.1	2055.7
IV	115.8	121.3	116.3	108.3	113.2	105.5	93.2	2159.2
1996 I	116.3	121.3	117.7	110.9	114.4	106.7	93.3	2304.7
II	116.8	121.2	117.1	109.1	113.1	105.6	93.3	2496.1
III	117.4	120.3		101.1				2511.0
IV	118.0							

Quarterly Averages (Seasonally Corrected)

	17	18	19	20	21	22	23	24
1993 I	109.4	113.0	110.1	99.5	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	109.1	114.8	111.5	103.3				
III	110.0	117.1	113.9	106.0				
IV	110.6	117.4	114.4	107.1				
1994 I	111.3	117.0	113.6	107.9				
II	112.1	116.7	113.4	107.8				
III	112.8	116.5	113.2	105.5				
IV	113.3	117.2	113.9	106.0				
1995 I	114.1	118.3	115.4	107.3				
II	115.2	119.2	116.1	107.1				
III	115.4	120.1	115.3	107.8				
IV	116.0	121.7	116.9	111.5				
1996 I	116.4	121.3	117.6	110.3				
II	116.8	120.9	116.6	105.8				
III	117.1	121.0		101.9				
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New+S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990=100	1990=100	£m	£m	£m	Per cent per annum	Per cent per annum	
68126	87.0	92.6	7690	8007	317	7.8	9.5	1988
88452	95.1	97.0	7756	8019	263	9.6	8.9	1989
105849	100.0	100.0	8269	8421	152	11.1	10.1	1990
89589	101.5	99.5	8776	9076	300	10.4	9.3	1991
85492	105.9	102.0	9360	9806	446	15.2	9.1	1992
87352	109.0	103.4	10140	10519	379	10.6	7.8	1993
116636	117.7	109.0	11203	11188	-15	5.7	8.2	1994
124595	123.5	112.2	11667	12029	362	6.1	8.3	1995

Quarterly Averages or Totals

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
39283	116.0	106.3	2537	2771	234	6.1	8.7	1995 I
37934	121.1	109.9	3156	2956	-200	6.5	8.4	II
29536	123.9	112.4	2914	2827	-87	6.0	8.3	III
17842	132.9	120.1	3060	3475	415	5.5	7.8	IV
50295	126.1	113.3	2678	3118	440	5.1	7.8	1996 I
48571	132.6	118.2	3298	3063	-235	5.1	7.7	II
			3607	2892	-715	5.6	7.5	III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

19435	105.6	101.7	2393	2611	218	No Seasonal Pattern	No Seasonal Pattern	1993 I
21821	107.1	102.0	2355	2481	126			II
23420	110.5	104.2	2781	2783	2			III
25462	112.7	105.5	2604	2623	18			IV
29861	118.3	110.5	2986	2836	-151			1994 I
29247	116.1	107.7	2991	2730	-261			II
28402	117.2	108.3	2593	2806	212			III
28892	119.2	109.7	2672	2792	119			IV
29198	121.0	110.7	2794	2681	-113			1995 I
30573	122.2	111.1	3072	3039	-33			II
33018	123.8	112.4	2873	2996	123			III
34636	126.6	114.3	2922	3297	375			IV
37200	131.4	117.9	2946	3034	88			1996 I
39144	134.0	119.6	3191	3141	-50			II
			3575	3067	-508			III
								IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
		Licensed Banks Domestic Credit						
	Money Supply M3	Gov.	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£
1988	10001.1	2636.4	10853.4	3189.8	65.09	0.8568	1.5257	2.6740
1989	10537.5	2417.7	12538.3	2670.8	64.42	0.8671	1.4191	2.6647
1990	11690.7	2506.0	13855.9	2996.1	68.33	0.9305	1.6588	2.6729
1991	12579.9	2502.2	13553.2	3328.0	67.35	0.9133	1.6162	2.6708
1992	13141.2	2946.7	14410.7	2923.4	69.48	0.9695	1.7062	2.6561
1993	16287.1	2829.5	14910.5	3928.5	66.01	0.9771	1.4682	2.4241
1994	17970.1	3285.7	16655.2	4288.4	66.16	0.9777	1.4984	2.4263
1995	20027.1	3332.1	19916.6	4781.4	67.12	1.0168	1.6038	2.2971
	End-Period Totals				Quarterly Averages			
1993 I	15230.7	2463.4	14509.0	2829.9	68.91	1.0360	1.5323	2.5017
II	16062.2	2601.0	14643.3	4213.8	66.41	0.9817	1.5073	2.4390
III	16726.4	2683.0	14574.9	4425.6	63.99	0.9390	1.4133	2.3677
IV	17129.1	2829.5	14910.5	4244.9	64.73	0.9517	1.4197	2.3880
1994 I	17328.3	2723.7	15249.3	4175.7	65.51	0.9607	1.4300	2.4640
II	17540.1	2901.6	15759.5	4362.7	65.93	0.9763	1.4687	2.4380
III	18187.1	3230.6	16067.8	4442.8	66.39	0.9880	1.5327	2.3920
IV	18824.9	3285.7	16655.2	4172.6	66.81	0.9857	1.5623	2.4113
1995 I	19212.0	3031.4	17454.4	4192.0	66.58	0.9943	1.5733	2.3263
II	19333.2	2939.9	18383.8	4366.6	67.05	1.0197	1.6270	2.2717
III	20207.0	3279.6	19036.5	5213.2	67.42	1.0247	1.6117	2.3067
IV	21356.3	3332.1	19916.6	5353.6	67.43	1.0283	1.6033	2.2837
1996 I	22088.2	3790.3	20591.8	5394.9	67.60	1.0317	1.5797	2.3193
II	22669.5	3572.2	21595.3	5113.2	68.07	1.0307	1.5703	2.3913
III	23853.7	3019.0	22218.0	5249.0	68.78	1.0347	1.6090	2.4090
IV								
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1993 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								
1994 I								
II								
III								
IV								
1995 I								
II								
III								
IV								
1996 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	
10213.1	12300.7	2087.6	82.7	82.8	NA	NA	1988
12287.8	14596.9	2309.1	93.6	92.2	NA	NA	1989
12475.5	14342.4	1866.9	100.0	100.0	-2921	-224	1990
12850.8	15018.9	2168.1	100.8	105.4	-2796	209	1991
13194.8	16743.8	3549.1	105.7	121.2	-3209	320	1992
14884.9	19829.7	4945.0	112.9	133.3	-3521	1248	1993
17251.2	22753.7	5502.6	127.6	153.2	-3575	954	1994
20484.8	27760.9	7275.9	145.3	183.6	-4815	981	1995

Av. Monthly Totals — Quarterly Averages or Totals

1213.7	1524.2	310.5	112.5	126.2	-1108	-279	1993 I
1168.9	1631.5	462.6	107.2	131.5	-945	260	II
1241.9	1605.6	363.8	111.8	128.2	-741	480	III
1337.2	1848.6	511.4	120.0	147.0	-727	787	IV
1419.4	1773.8	354.4	127.0	145.1	-1192	-390	1994 I
1415.0	1868.3	453.3	124.9	149.9	-994	141	II
1345.0	1827.3	482.3	119.4	145.0	-687	550	III
1571.0	2115.2	544.1	139.2	172.8	-702	653	IV
1656.8	2154.8	498.0	142.3	173.6	-1228	-54	1995 I
1649.9	2280.9	631.1	139.2	178.2	-1268	314	II
1582.5	2235.4	652.9	135.3	177.4	-1129	422	III
1939.1	2582.5	643.3	164.4	205.4	-1190	299	IV
1885.9	2522.7	636.9	158.1	198.3	-1415	-20	1996 I
1821.5	2475.3	653.9	154.4	196.6	-1368	103	II
							III
							IV

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

1184.6	1530.9	346.3	110.1	125.4	No Seasonal Pattern	No Seasonal Pattern	1993 I
1161.2	1590.5	429.3	107.2	129.8			II
1304.2	1683.6	379.4	117.4	136.1			III
1315.1	1798.6	483.6	116.9	141.3			IV
1382.7	1788.3	405.7	123.7	144.7			1994 I
1408.1	1824.7	416.6	125.5	148.6			II
1416.7	1918.2	501.4	125.9	153.5			III
1557.8	2035.6	477.8	136.3	164.6			IV
1597.2	2188.3	591.2	137.6	173.9			1995 I
1643.6	2230.6	587.0	140.1	176.8			II
1684.9	2335.8	651.0	143.9	187.1			III
1923.1	2508.5	585.5	161.0	197.5			IV
1812.2	2526.9	714.7	152.3	195.5			1996 I
1815.9	2421.2	605.3	155.6	195.2			II
							III
							IV