QUARTERLY ECONOMIC COMMENTARY

FEBRUARY 1996

The forecasts in this Commentary are based on data available by early February 1996.

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SUMMARY

For the second successive year, the Irish economy grew very rapidly in 1995. Real GNP is estimated to have increased by 6¾ per cent, by far the highest growth rate in the EU. Export volumes again rose strongly, with electronic products booming but most other sectors, including traditional exports to the UK, also contributing significantly to the overall increase. Domestic demand grew by about 4¾ per cent in volume, with a strong rise in investment compensating for a slower increase in consumption. The high, balanced, rate of economic growth was reflected in a substantial rise in employment, with unemployment likely to have declined to a revised rate of just over 12½ per cent. Inflation remained low at 2½ per cent, and the current account of the balance of payments is estimated to have risen to 7¾ per cent of GNP. The public finances were strong, with revenue buoyancy permitting the payment within the year of a large amount of accumulated obligations.

Economic growth is expected to be slightly slower in 1996 than it was in the two preceding years, but at 5 per cent the forecast rate of increase in real GNP is still above the long-term average. Domestic demand is likely to remain strong, encouraged by relatively low interest rates, and the annual increase in total employment is forecast at 31,000. Inflation is projected to stay low at about 2¼ per cent, and only a marginal decline is predicted in the current account surplus. Unless there are unforeseen developments, the public finances should again outperform the Budget targets, with a small current budget surplus and an Exchequer borrowing requirement well below 2 per cent of GNP.

Present indications are that the Irish economy will continue to grow rapidly in the next few years, with substantial progress made towards reducing total unemployment and lowering the debt/GNP ratio. Of course, the Irish economy remains vulnerable to external shocks, and some flexibility in cost determination and a fiscal safety margin need to be maintained to deal with such shocks as may occur. Domestically, the principal danger to prolonged economic expansion lies in the re-emergence of unrealistic expectations of the rate of progress that can be achieved. Given the requirement to further strengthen the public finances in advance of the inevitable reduction in EU transfers after 1999, the rise in living standards will continue to be slower than the increase in real GNP. Attempts to force the rate of increase in average real incomes or total employment significantly above that which is already being attained could undermine the process of steady, but gradual, improvement in the Irish economy.

News of the rescinding of the IRA ceasefire and the London bombing came as this *Commentary* was being prepared for printing. Given the uncertainty as to future developments and the considerable time which could elapse before the situation becomes clearer, we are publishing the *Commentary* as it stood before these tragic events.

It is our belief that the forecasts presented here will remain valid if there is a favourable resolution of the present crisis. Even if there is a serious deterioration in the political and security position, the economic consequences in 1996 are likely to be quite limited, although longer-term growth prospects could be significantly impaired.

FORECAST NATIONAL ACCOUNTS 1995

A. Expenditure on Gross National Product

	1994[1]	1995	Change in 1995				
	Preliminary	Estimated	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	19,438	20,546	1,108	661	5¾	2¼	3½
Public Net Current Expenditure	5,575	5,965	390	195	7	3½	3½
Gross Fixed Capital Formation	5,248	6,038	790	610	15	3	11½
Exports of Goods and Services (X)	25,065	29,079	4,014	3,325	16	2½	13¼
Physical Changes in Stocks	-258	30	288	260			
Final Demand	55,068	61,658	6,590	5,051	12	2½	9¼
less:							
Imports of Goods and Services (M)	20,320	23,393	3,073	2,499	15	2½	12¼
GDP at Market Prices	34,748	38,265	3,517	2,552	10	2½	7¼
less:							
Net Factor Payments (F)	4,134	4,766	632	517	15¼	2½	12½
GNP at Market Prices	30,614	33,499	2,885	2,035	9½	2½	6¾

B: Gross National Product by Origin

	1994[1]	1995	Change in 1995	
	Preliminary	Estimated		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,330	2,447	117	5
Non-Agricultural: Wages, etc.	16,772	17,778	1,006	6
Other:	10,455	12,024	1,569	15
less:				
Adjustments	1,992	1,810	-182	-9¼
Net Factor Payments	4,134	4,766	632	15¼
National Income	23,431	25,673	2,242	9½
Depreciation	3,272	3,501	229	7
GNP at Factor Cost	26,703	29,174	2,471	9¼
Taxes less Subsidies	3,911	4,325	414	10½
GNP at Market Prices	30,614	33,499	2,885	9½

C: Balance of Payments on Current Account

	1994[1]	1995	Change in 1995
	Preliminary	Estimated	
	£m	£m	£m
X - M	4,745	5,686	941
F	-4,134	-4,766	-632
Net Transfers	1,435	1,680	245
Balance on Current Account	2,046	2,600	554
as % of GNP	6¾	7¾	1

[1] Adjusted for Balance of Payments Revisions.

FORECAST NATIONAL ACCOUNTS 1996

A. Expenditure on Gross National Product

	1995	1996	Change in 1996				
	Estimated	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	20,546	21,881	1,335	863	6½	2¼	4¼
Public Net Current Expenditure	5,965	6,281	316	89	5¼	3¾	1½
Gross Fixed Capital Formation	6,038	6,709	671	492	11	2½	8¼
Exports of Goods and Services (X)	29,079	32,453	3,374	2,917	11½	1½	10
Physical Changes in Stocks	30	150	120	110			
Final Demand	61,658	67,474	5,816	4,471	9½	2	7¼
less:							
Imports of Goods and Services (M)	23,393	26,200	2,807	2,231	12	2¼	9½
GDP at Market Prices	38,265	41,274	3,009	2,240	7¾	2	5¾
less:							
Net Factor Payments (F)	4,766	5,388	622	545	13	1½	11½
GNP at Market Prices	33,499	35,886	2,387	1,695	7¼	2	5

B: Gross National Product by Origin

	1995	1996	Change in 1996	
	Estimated	Forecast		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,447	2,496	49	2
Non-Agricultural: Wages, etc.	17,778	18,845	1,067	6
Other:	12,024	13,385	1,361	11¼
less:				
Adjustments	1,810	1,848	38	2
Net Factor Payments	4,766	5,388	622	13
National Income	25,673	27,490	1,817	7
Depreciation	3,501	3,746	245	7
GNP at Factor Cost	29,174	31,236	2,062	7
Taxes less Subsidies	4,325	4,650	325	7½
GNP at Market Prices	33,499	35,886	2,387	7¼

C: Balance of Payments on Current Account

	1995	1996	Change in 1996
	Estimated	Forecast	
	£m	£m	£m
X - M	5,686	6,253	567
F	-4,766	-5,388	-622
Net Transfers	1,680	1,700	20
Balance on Current Account	2,600	2,565	-35
as % of GNP	7¾	7¼	-½

The International Economy

General

World economic growth in 1995 was significantly slower than expected. In the first half of the year there was a pause in the expansion of the US economy, mainly as a lagged reaction to the substantial rise in interest rates in the previous year. Moderate economic growth resumed in America in the second half of the year, but by then there was an even more pronounced interruption to growth in several European economies. The causes of this were less clear-cut than in the American case. Contributory factors included an adjustment in stock levels, the tight fiscal stance adopted in most countries in an attempt to meet the Maastricht budgetary criteria, uncertainties engendered by currency volatility, doubts concerning progress toward EMU, and a degree of overvaluation of the core European currencies. The combination of these factors appears to have been sufficient to counterbalance the positive effects of falling interest rates.

Most forecasts of world economic growth in 1996 have been revised downwards, principally because the carryover from 1995 is much smaller than had been anticipated. Nevertheless there is an almost universal expectation that 1996 will be a year of moderate growth rather than of stagnation or recession. Renewed growth appears to be firmly established in the USA, while within Europe the influence of lower interest rates should outweigh the negative factors, which themselves are likely to ease. Even in Japan, where the economy stagnated for most 1995, there are signs that the recovery has begun.

The US Economy

Growth in GDP recovered strongly in the third quarter of 1995 to an annualised rate of over 4 per cent. A more modest increase in the fourth quarter is thought to have taken the annual rise in real GDP to about 3¼ per cent in 1995. With a relatively modest carryover from last year, and steady rather than dramatic expansion likely in the course of the year, an annual growth rate in real GDP of about 2½ per cent is generally predicted for 1996. Such a rate of economic growth can be expected to lead to a marginal rise in total employment and to the continuation of a low unemployment rate of under 6 per cent.

Despite the apparently tight labour market, there have been few signs of significant inflationary pressure on either pay settlements or prices. Consumer prices increased by 2¾ per cent in 1995 and are forecast to rise by about 3 per cent in 1996. The current account balance of payments deficit appears to have stabilised in the course of 1995 and could show a significant reduction in 1996. The budget deficit was reduced further in 1995 and is likely to fall again in 1996, irrespective of the political dispute concerning its long-term elimination. The prolonged political deadlock is probably the major factor delaying the expected appreciation of the US dollar against the yen and DM, but some rise in the value of the US dollar still seems likely in the course of 1996. There seems no strong case for a significant change in US short-term interest rates, but it is possible that they would be reduced slightly if the international trend to lower short-term rates continues.

The European Economy

Near stagnation in the later months of the year means that initial estimates of economic growth in 1995 in the core continental countries have been lower than had been expected. German real GDP is provisionally estimated to have increased by just under 2 per cent in 1995. Although the annual growth rate in France is likely to have been higher than in Germany, at about 2¼ per cent, fourth quarter growth was probably negative, under the impact of severe industrial unrest.

However, while economic growth tended to stagnate in most of the core, hard-currency, economies in the second half of 1995, it continued at a moderate pace in many of the more peripheral EU countries, especially those whose currencies had depreciated over the previous twelve months. Thus GDP growth in the EU as a whole is believed to have been in the region of 2½ per cent in 1995, a rate sufficient to have allowed a slight fall in average unemployment.

The prospects for 1996 are for a gradual resumption of expansion in the core countries and continued moderate growth in the more peripheral countries. In Germany, which remains the key economy, a combination of the lagged effects of substantial interest-rate reductions since mid-1995 and a slight reduction in some tax rates should encourage some upturn in personal consumption, which has remained relatively weak since the recession. Construction activity is likely to decline from its recent high level, with the virtual completion of re-housing migrants from East to West Germany and with a fiscally-induced cut-back in state construction projects in the former East Germany. However, investment in machinery and equipment should continue to rise and the process of stock reduction should be reversed. Exports could benefit from the continued increase in world trade and, it is hoped, from some depreciation of the DM. With a very small carryover from 1995, real GDP growth in Germany in 1996 seems unlikely to exceed 1½ per cent, which would imply a moderate up-turn in the course of the year. If the start of this recovery is delayed, it seems probably that a further reduction in interest rates would be authorised, bringing the growth rate back towards the expected level.

The outlook for the French economy in 1996 is more uncertain. The fiscal imbalance is more deep-rooted than Germany's, while the potential difficulties in resolving it were illustrated by the socio-economic unrest in the closing weeks of 1995. It is not yet clear whether the industrial disputes have themselves weakened consumer and business confidence and thus damaged prospects for a return to growth in 1996. On balance, and allowing for the influence of lower interest rates, some recovery seems likely, but the annual rate of growth could well be as low as that in Germany.

Given the slow growth expected in their major markets, only moderate expansion can be expected in those countries most closely linked to the German and French economies. Most of the more peripheral countries should continue to gain some benefit from past currency depreciations, and thus grow rather faster in 1996 than the core EU economies. However, specific fiscal or political problems might continue to inhibit the recovery in such countries as Sweden and Greece, although Italy could once more demonstrate its ability to grow faster than the other large European economies in spite of its chronic political problems. In total, the continental EU area will probably see a moderate upturn in its rate of economic growth in the course of 1996, although, because of the lower carryover, its annual rate of growth is likely to be slightly below that in 1995.

The UK Economy

The UK entered 1995 with a high carryover of real GDP growth from the rapid expansion during 1994. Growth throughout 1995 itself was very modest, although it remained positive, but, with the benefit of high carryover, the annual growth rate was in the region of 2.6 per cent, on the basis of preliminary estimates. It is not surprising that the growth in domestic demand was sluggish in 1995, given the significant tightening of both fiscal and monetary policy in the course of 1994 and the early months of 1995. The seasonally-corrected volume of personal consumption continued to edge upwards, but the volume of gross fixed capital formation, especially in building and construction, tended to fall in the course of the year.

The adverse trend in net exports was more unexpected, in view of the continued competitive advantage which should have been conferred by the persistent weakness of sterling. Between the third quarter of 1994 and the third quarter of 1995, the volume of exports of goods and services rose by 5.2 per cent, while the volume of imports increased by 8.3 per cent. Given that the volume of domestic demand rose by only 2.4 per cent over the same period, considerable doubts must be raised about the true competitive advantage of the UK economy. The relative weakness of productive investment during the earlier stage of recovery could have left significant sectors of the UK economy with insufficient capacity to respond to the improved competitiveness engendered by sterling depreciation.

With the easing of monetary and, to a lesser extent, fiscal policy since mid-1995, some acceleration in the rate of growth of domestic demand can be expected in the course of 1996. The expected moderate revival of European demand in the course of the year should result in renewed export growth, but the extent of this must be in some doubt after the disappointing export performance in 1995. Increased import penetration might also accompany the up-turn in domestic demand. On balance, it is difficult to foresee the annual growth in real GDP exceeding 2½ per cent in 1996.

At this rate of growth, total employment seems likely to continue the slow increase it showed in 1995, while the standardised unemployment rate could fall slightly from the level of 8.6 per cent at which it stood in the closing months of 1995. Pay settlements remained moderate in 1995, and average earnings in manufacturing industry will probably continue to increase at an underlying rate of about 4½ per cent. Consumer price inflation could accelerate slightly from an annual average of 3½ per cent in 1995 to about 3¾ per cent in 1996. The steady deterioration in the current account balance of payments seems likely to continue in 1996, but the deficit is unlikely to exceed 1½ per cent of GDP, rather below the average from 1991 to 1993. Despite the disappointing trend in the public sector borrowing requirement in 1995, a moderate improvement is probable in 1996 as the rate of growth of domestic demand increases.

Although some structural weaknesses thus appear to be persisting in the UK economy, these are probably adequately discounted in the present exchange rate. However, the political situation suggests that sterling could periodically come under renewed pressure in the course of 1996, either as a precautionary reaction to the prospect of an early general election, or as a response to undue relaxation in fiscal or monetary policy.

The Rest of the World

For most of 1995 the Japanese economy was virtually stagnant at the bottom of its economic cycle. The appreciation of the yen in the first half of the year, political uncertainties and liquidity problems in some major financial institutions counterbalanced the expansionary and effects of extremely low interest rates and attempted fiscal stimulation. By the end of the year, however, there were clear signs that the long awaited recovery had finally started.

International trade and domestic investment were beginning to respond to the depreciation of the yen since the middle of the year, a strong rise in share prices was easing some of the financial liquidity problems, political stability appeared to have improved, and business and consumer confidence were increasing. Thus some economic recovery in 1996 seems assured, although its pace is likely to remain very moderate by past Japanese standards. Taking the very low carryover into account, real GDP growth seems unlikely to exceed 1½ per cent, with unemployment remaining high, in Japanese terms, at 3¼ per cent and price and pay inflation low. After the substantial reduction in the trade surplus in 1995, a more modest fall seems probable in 1996.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
UK	2½	2½	3½	3¾	4¼	4¼	8¾	8½	-1	-1½
Germany	2	1½	2	2	3½	3½	8¼	8½	-½	-½
France	2¼	1½	2	2¼	2½	3	11½	11½	1½	1½
Italy	3	2¾	5¼	4½	4¼	4½	12¼	12	1¾	2¼
Total EC	2½	2¼	3	3¼	3¼	3½	11	11	½	½
USA	3¼	2½	2¾	3	3	3¼	5½	5¾	-2½	-2
Japan	½	1½	0	½	2	2¼	3¼	3¼	2½	2¼
Total (OECD)	2¼	2¼	4	4¼	3	3¼	7½	7½	-¼	-¼
Ireland	6¾	5	2½	2¼	2¾	3¼	12½	11¾	7¾	7¼

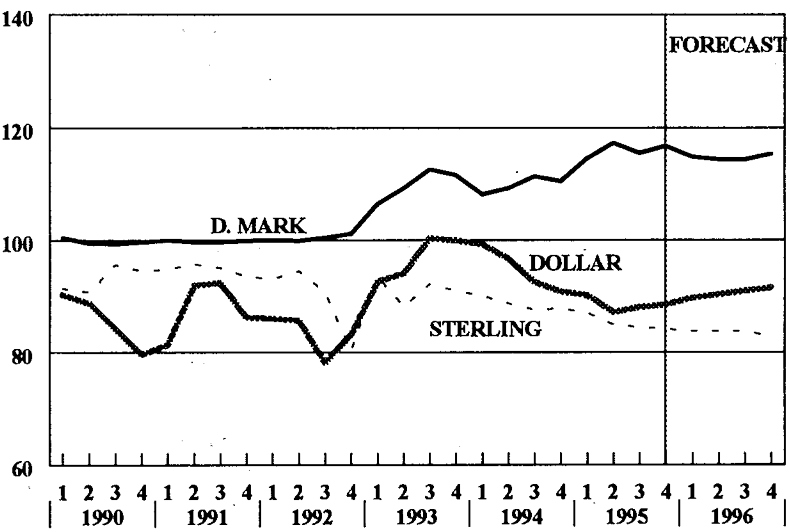
Most of the other Asian industrial or industrialising economies are continuing to expand rapidly, although their rate of growth in 1996, as in 1995, may be rather lower than in the earlier years of the decade. The other mature industrial countries are expected to follow the US pattern of moderate growth. Much of Latin America is still suffering from the aftermath of the Mexican financial crisis, and while some recovery is likely in 1996 it will probably be uneven. Most other primary producers, including OPEC countries should experience a continuation of moderate output growth in 1996, but no great changes are expected in the majority of commodity prices.

The Context for Ireland

World output growth in 1995 was less than 2½ per cent, rather slower than had been anticipated, while the volume increase in world trade, at about 8½ per cent, was slightly below that in the proceeding year. Broadly similar annual growth rates in output and trade are likely in 1996, but this will conceal a slight improvement in the rate of increase in the course of the year. Within this global context, the major markets for Irish products are expected to continue their expansion, although the exceptional growth in the market for some electronic products in 1995 seems likely to abate significantly in 1996.

With world output growing, international levels of productive investment are likely to remain quite high, even if the reduction in the forecast European growth rate could lead to some scaling back of investment plans in Europe. So far as Ireland's prospects of attracting a substantial share of available investment are concerned, comparative economic factors remain reasonably favourable, but renewed political momentum in both the peace process and in movement towards EMU would be helpful.

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



Inflation seems certain to be very moderate, especially within Europe, with slow growth and high unemployment holding back both price and pay increases. The same factors are also likely to exert some downward pressure on interest rates. Increases in the general international level of either long-term or short-term interest rates in 1996 seem unlikely, and a slight further reduction in both seems more probable. Within Europe, there is some danger that renewed currency instability could force temporary interest rate increases in some countries. Given the nature of currency and money markets, it is virtually impossible to predict whether, when or where this might happen. However, with the narrow band ERM no longer officially operating, the degree of interest reactions to any currency fluctuations which might occur is likely to be fairly muted. In any case, the annual average level of interest rates will be significantly lower than in 1995.

On a world basis, it remains probable that the US dollar will continue its recent modest appreciation against the DM and yen, although, as usual, the process will be neither smooth nor continuous. Within Europe, there seem to be no compelling economic reasons for significant movements in exchange rates, beyond a slight depreciation of the currencies of high-inflation Mediterranean countries. However, political factors in a number of countries, including the UK, could undoubtedly influence market perceptions of their currencies in the course of 1996. For the purpose of the forecasts in this *Commentary* it is assumed that the dollar will appreciate slightly further against the DM, and that there will be little change in the relative value of the major continental European currencies. Sterling is assumed to remain relatively stable in relation to the DM for most of the year, but to depreciate modestly in the closing months of 1996.

The Domestic Economy

General

Data for some important and volatile components of Gross National Product, such as stock-building and factor flows, are not yet available for 1995 as a whole. Thus it is not possible to estimate the precise rate of growth for the year, as swings in such variables can easily account for over 1 per cent of GNP. Nevertheless, whatever the exact figures turn out to be, it is absolutely clear that 1995, like 1994, was a year of very rapid growth in the Irish economy. Despite slower expansion in the world and European economies and the depreciation of sterling, the volume of Irish exports increased sharply, while a steady rise in domestic demand kept the pattern of growth well balanced.

As already discussed, the international economic environment in 1996 should remain reasonably favourable, with moderate growth, low inflation and relatively low interest rates. Domestically, the momentum of expansion in consumption and investment over the past two years should ensure continued growth, reinforced by rising employment and moderate interest rates. Fiscal policy is likely to prove mildly restrictive, but not to a degree that will significantly impede the rise in domestic demand. For forecasting purposes, it is assumed that Budget targets will be undershot, resulting in a small current budget surplus and an Exchequer Borrowing Requirement of a little over 1½ per cent of GNP.

Exports

Even allowing for some slowing in the later months of the year, for which trade statistics are not yet available, it is apparent that 1995 was another year of very rapid export growth. The value of visible exports is likely to have risen by about 16½ per cent, implying a volume rise of about 13¾ per cent. On the basis of provisional trade statistics for the first eight months of the year, the rise in exports was spread over most categories, although electrical machinery, including office and data processing machines, showed the fastest growth at over 40 per cent in value. According to both Irish and UK trade statistics, total visible exports from Ireland to the UK grew strongly in the first three-quarters of 1995, suggesting that the impact of sterling depreciation was either less dramatic or slower in its effects than had been feared.

Receipts from tourism increased substantially in 1995, although not as fast as the total number of visitors, and other service exports, which exclude the activities of the Financial Services Centre, are likely to have risen modestly. Thus total exports of goods and services in 1995 are estimated to have increased by about 16 per cent in value and 13¼ per cent in volume, as shown in Table 2. The estimated volume growth is marginally below that achieved in 1994, although well above the average for the past ten years.

TABLE 2: Exports of Goods and Services

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	2,790	2½	7	2,985	0	3	3,075
Manufactured	16,180	17	19½	19,335	13	14¼	22,090
Other Industrial	2,603	12	14¾	2,988	7½	9	3,257
Other	1,268	0	2½	1,300	0	1½	1,320
Total Visible	22,841	13¾	16½	26,608	10¼	11¾	29,742
Adjustments	-406			-395			-405
Merchandise	22,435	14	16¾	26,213	10½	12	29,337
Tourism	1,497	10¾	13½	1,699	9	11½	1,893
Other Services	1,133	1½	3	1,167	2½	4¾	1,223
Exports of Goods and Services	25,065	13¼	16	29,079	10	11½	32,453

It seems unlikely that export growth will be quite as rapid in 1996. With intervention stocks almost exhausted, supply constraints will prevent any significant rise in the volume of agricultural exports. Manufacturing and other industrial exports will show further substantial growth, against a background of increased capacity and resumed expansion in most European markets. However the electronics sector is not expected to match the exceptional rate of growth it achieved last year, while some traditional manufacturing sectors might suffer some reaction to the narrowing of margins in 1995 as a result of sterling depreciation, and could also be adversely affected if there is renewed instability in the sterling exchange rate in the course of 1996.

Nevertheless total manufactured exports are projected to increase by about 13 per cent in volume in 1996, and total visible exports by just over 10 per cent. Export prices seem likely to rise more slowly than in 1995, with an average increase of about 1½ per cent being projected, implying an increase of about 11¾ per cent in the value of total visible exports.

A further substantial increase in earnings from tourism seems likely in 1996, on the assumption that there is no return to violence in Northern Ireland, but, as in the case of visible exports, the rate of growth might be rather slower than in 1995. Assuming a moderate rise in other service exports, total exports of goods and services in 1996 are forecast to increase by 10 per cent in volume and about 11½ per cent in value. These projections imply that export growth in 1996 will be close to the average rate achieved since 1984.

Stocks

The rate of change of stock-building is one of the principal uncertainties in estimating GDP growth for the previous year before the publication of the provisional national accounts. This is because there are no short-term indicators of non-agricultural, non-intervention stock building, with the eventual estimate being based on an annual survey, the results of which are not known in the early months of the succeeding year.

Bearing this proviso in mind, it seems probable that in 1995 total stock changes ceased to have the significant downward effect on the level of GDP that they had in the three preceding years. This is mainly because the combined effect of physical stock reductions and losses on sales in intervention stocks was much lower than in 1994, as such stocks approached exhaustion. Assuming a small increase in farm stocks, and tentatively allowing for a moderate rise in other stocks, in line with the expansion of the economy, the total rise in the value of physical changes in stocks in 1995 is estimated at £30 million, as shown in Table 3.

TABLE 3: Stock Changes

	1994	Change in Rate	1995	Change in Rate	1996
	£m	£m	£m	£m	£m
Livestock on Farms	57	-22	35	-10	25
Irish Intervention Stocks	-451	296	-155	105	-50
Other Stocks	136	14	150	25	175
Total	-258	288	30	120	150

Another small increase in the level of farm stocks is projected for 1996. With the starting level of intervention stocks extremely low, the fall in their value in 1996 will be smaller than in 1995, even if they are totally phased out in the course of the year. Given continued economic growth, a further moderate increase in the value of other stocks is assumed. Thus the value of total stockbuilding in 1996 is projected at about £150 million, rather less than ½ per cent of forecast GNP.

Investment

Most categories of fixed capital investment grew strongly in 1995. On the evidence of housing statistics for the first three quarters, the volume of residential construction is likely to have increased by about 12 per cent in 1995 as a whole. The quantity surveyors survey for the same period suggests that non-residential building increased considerably more rapidly, with industrial and office building particularly strong. Allowing for a more moderate rate of growth in the volume of infrastructural construction, the total volume increase in building and construction in 1995 is estimated at 12 per cent. Imports of capital goods rose strongly in the first half of the year, and the annual volume increase in investment in machinery and equipment was probably in the region of 11 per cent. Thus total gross fixed capital formation in 1995 is estimated to have increased by 11½ per cent in volume and 15 per cent in value, as shown in Table 4.

TABLE 4: Gross Fixed Capital Formation

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	3,235	12	16	3,752	7	10¼	4,137
Machinery and Equipment	2,014	11	13½	2,286	10	12½	2,572
Total	5,248	11½	15	6,038	8¼	11	6,709

Starting from a much higher base, the rate of increase in the volume of building and construction in 1996 is unlikely to match that in 1995. Despite relatively low interest rates, the current boom in residential construction must be nearing its peak, although there are reasonable grounds for hoping that house-building can be sustained at a high level for a considerable period. Substantial further increases in the volume of industrial and commercial building appear likely, but the rate of growth in these sectors seems unlikely to equal the exceptional experience of 1995. With the Public Capital Programme indicating a substantial rise in the volume of infrastructural investment, the volume of gross fixed capital investment in building and construction is projected to increase by 7 per cent in 1996.

Given the number of projects already under way, the generally buoyant economic outlook and relatively low interest rates, investment in plant and machinery should continue to grow strongly in 1996. A volume rise of about 10 per cent, only slightly below the estimated increase in 1995, is forecast for 1996. Total gross fixed capital formation is thus projected to increase by over 8 per cent in 1996, far in excess of the annual average for the last decade.

Consumption

In view of the large increase believed to have taken place in personal disposable income in 1995, the growth in retail sales was surprisingly modest. In the eleven months to November, the value index of retail sales was only 4.7 per cent above its level in the corresponding period of 1994. Even allowing for a high level of sales in December, the annual increase in the retail sales index is unlikely to have been above 5 per cent in value terms and 2.9 per cent in volume. In contrast to the surprising negative divergence between retail sales and estimates of personal consumption in the 1994 national accounts, it seems probable that in 1995 total personal consumption grew more rapidly than the retail sales index. However, even the estimated growth of 5.7 per cent in the value of personal consumption in 1995, shown in Table 5, is significantly below the estimated increase in disposable income, implying a considerable rise in the personal savings ratio.

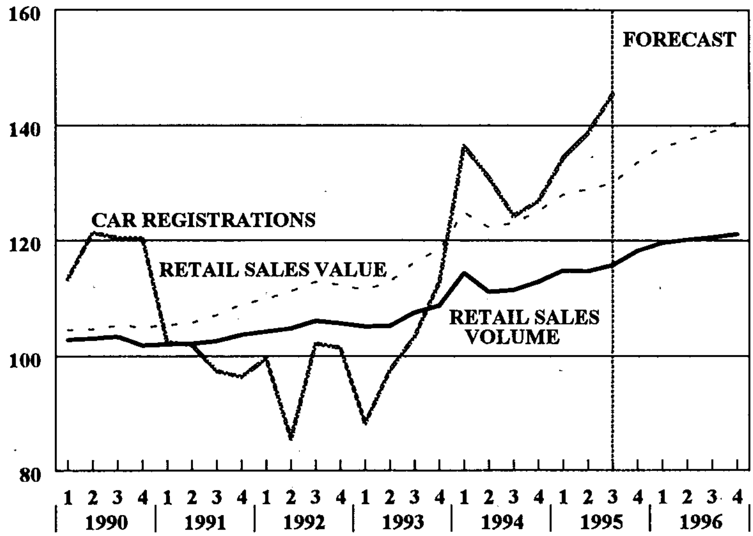
TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1991	1992	1993	1994	1995 To Date	1995 Forecast	1996 Forecast
Consumption Value							
NIE 1994, Personal Consumption	4.9	5.5	3.1	7.2		5.7	6.5
Retail Sales Index, Value	1.8	4.3	3.0	7.9	4.7	5.0	6.3
Divergence	3.3	1.2	0.1	-0.7		0.7	0.2
Consumption Volume							
NIE 1994, Personal Consumption	2.0	2.9	1.4	4.3		3.4	4.2
Retail Sales Index, Volume	-0.1	2.3	1.4	5.5	2.5	2.9	4.0
Divergence	2.1	0.6	0	-1.2		0.5	0.2
Consumer Prices							
NIE 1994, Personal Consumption Deflator	2.8	2.5	1.7	2.8		2.2	2.2
Retail Sales Index Deflator	1.9	2.0	1.6	2.3	1.9	2.0	2.2
Consumer Price Index	3.2	3.0	1.5	2.4	2.5	2.5	2.2

With total employment continuing to increase, and with interest rates significantly lower than in the first quarter of 1995, consumer confidence is likely to ensure that there is at least a modest decline in the savings ratio in 1996, so that the expected increase in disposable income will be more than fully reflected in the value of personal consumption. Thus personal consumption is forecast to increase by about 6½ per cent in value and 4¼ per cent in volume in 1996. Aided by a much larger carryover than in 1995, the retail sales index seems likely to reflect this increase in consumption.

The volume of public authorities' net expenditure on current goods and services is believed to have increased by about 3½ per cent in 1995. With a lower carryover from the previous year and a tighter stance on public service employment, the volume increase in government consumption is forecast at about 1½ per cent in 1996. The price deflator for public consumption, which is heavily influenced by average pay increases, is likely to remain well below the

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



high rates which characterised the early '90s. Thus the value of government consumption is estimated to have risen by 7 per cent in 1995, and is forecast to increase by 5¼ per cent in 1996, the lowest rise since 1989.

Final Demand

Final demand in 1995 is estimated to have increased by 12 per cent in value and by 9¼ per cent in volume. If correct, these estimates suggest that final demand grew slightly faster than in 1994. The increase appears to have been well balanced, with export volumes rising by 13¼ per cent and domestic demand, excluding stocks, by 4¾ per cent. The pattern of demand in 1995 was fairly import-intensive, with investment in machinery and equipment, industrial exports and non-agricultural stocks all contributing strongly to the total rise in demand.

Expenditure forecasts for 1996 indicate that the growth of final demand is likely to be less rapid, although projections of a 9½ per cent value and 7¼ per cent volume increase still represent a robust rate of growth. Most of the reduction is accounted for by exports, which are projected to increase by 10 per cent in volume, while the volume increase in domestic demand is forecast to be only slightly slower than in 1995, at 4½ per cent. The projected pattern of final demand will remain quite import-extensive.

Imports

Trade statistics for the first eight months of 1995 confirm that imports rose strongly in response to the growth of final demand. For the year as a whole, it seems likely that visible imports increased by about 15¼ per cent in value and

12¼ per cent in volume. Tourist expenditure abroad rose very sharply, probably by about 20 per cent in value, and, on the evidence of first-half balance of payments estimates, other service imports also increased rapidly. Thus total imports of goods and services in 1995 are estimated to have risen by over 15 per cent in value and 12½ per cent in volume, as shown in Table 6.

TABLE 6: Imports of Goods and Services

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	2,753	12¾	15½	3,180	12	14½	3,641
Consumer Goods	3,855	8½	10¾	4,270	9	11½	4,757
Intermediate Goods:							
Agriculture	528	5	8	570	2½	5	598
Other	8,590	16¾	19¾	10,284	11¾	14¼	11,739
Other Goods	1,508	0	2½	1,535	0	2¼	1,570
Total Visible	17,234	12½	15¼	19,839	10	12½	22,305
Adjustments	-330			-310			-320
Merchandise Imports	16,904	12¾	15½	19,529	10	12½	21,985
Tourism	1,072	17	20	1,286	8	10½	1,420
Other Services	2,344	7	10	2,578	6	8½	2,795
Imports of Goods and Services	20,320	12¼	15	23,393	9½	12	26,200

Imports of capital goods are expected to increase substantially again in 1996, as investment in machinery and equipment remains buoyant. Imports of consumer goods are also likely to continue their strong growth. However with industrial production projected to increase considerably less rapidly in 1996, the rise in imports of raw materials and intermediate goods is likely to be significantly lower than in 1995. Thus total visible imports in 1996 are forecast to increase by about 10 per cent in volume and 12½ per cent in value.

Tourist spending overseas is again likely to increase substantially, although the exceptional rates of increase seen in 1994 and 1995 will probably not be repeated. There may be a slight decline in the rate of growth of other service imports, reflecting the slower expansion expected in industrial output.

Thus total imports of goods and services are projected to increase by roughly 9½ per cent in volume and 12 per cent in value in 1996. This is a slower rate of increase than in 1994 and 1995, in line with the reduced growth forecast for final demand, but it remains well above the average for the past ten years.

Balance of Payments

On the basis of our revised estimates of export and import values, it now seems likely that the visible trade surplus in 1995 increased by over 20 per cent to £6,769 million or roughly 20 per cent of estimated GNP. The deficit on trade in services is also believed to have increased sharply, so that the rise in the surplus of trade in goods and services is estimated to have been just under 20 per cent.

At the time of writing, no official estimates of factor flows are available for the second half of 1995. In view of the strong rise in multinational company's exports in 1994 and 1995, a large increase in profit expatriations in 1995 as a whole seems probable. There is likely to have been a modest reduction in interest payments abroad on the national debt in 1995, while, on the evidence of first-half figures, there were large annual increases in both other debit flows and credit flows. Thus net factor outflows for 1995 are estimated to have increased by about 15¼ per cent, although this estimate must be regarded as tentative until more data on the second half of the year are published.

It still seems likely that net transfers increased by about 17 per cent in 1995, following their temporary fall in 1994. Thus the total surplus on the current account of balance of payments in 1995 is tentatively estimated at £2,600 million, or roughly 7¾ per cent of GNP, as shown in Table 7.

TABLE 7: Balance of Payments

	1994 £m	Change %	1995 £m	Change %	1996 £m
Visible Trade Balance	5,608	20½	6,769	9¾	7,437
Adjustments	-77		-85		-85
Merchandise Trade Balance	5,531	20¾	6,684	10	7,352
Service Trade Balance	-786	27	-998	10	-1,099
Trade Balance in Goods and Services	4,745	19¾	5,686	10	6,253
Factor Flows:					
Profits etc.	-4,001	21	-4,841	17	5,664
National Debt Interest	-1,081	-2	-1,059	-3	1,028
Other Debit Flows	-1,013	30	-1,317	15	1,515
Total Debit Flows	-6,095	18½	-7,217	13¾	8,207
Credit Flows	1,961	25	2,451	15	2,819
Net Factor Flows	-4,134	15¼	4,766	13	5,388
Net Transfers	1,435	17	1,680	1¼	1,700
Balance on Current Account	2,046	27	2,600	-1¼	2,565

Our trade forecasts for 1996 suggest that the visible and merchandise trade surpluses will rise further this year, although the projected rate of increase is about half of that estimated for 1995. The surplus on trade in goods and services is similarly forecast to rise by about 10 per cent.

Profit outflows are expected to increase substantially again, but some slowing in the rate of multinationals' export growth since the middle of 1995 could be reflected in a slight decline in the rate of increase in gross profit outflows. Lower average interest rates and, it is hoped, greater currency stability should result in another small reduction in overseas national debt interest. Assuming similar rates of increase in other debit and credit flows, net factor outflows in 1996 are forecast to rise by about 13 per cent.

Only a marginal change is currently expected in the total of net transfer receipts, so that the current account surplus is projected to fall slightly to £2,565 million, or roughly 7¼ per cent of GNP.

Gross National Product

Despite some minor alterations in composition, our estimate of the increase in real gross domestic product remains basically unchanged at 7¼ per cent, the largest rise since 1990. A slight downward revision in estimated net factor outflows has raised our estimate of GNP from 6½ per cent to 6¾ per cent. Mainly due to a downward revision to our forecast of government consumption, our real GDP forecast for 1996 has been reduced from 6 per cent to 5¾ per cent. With a slight downward adjustment to net factor outflows, the forecast increase in real GNP remains unaltered at 5 per cent.

Final figures for average import and export prices in 1995 are not yet available. However the evidence of monthly unit price trends, which is not always reliable, suggests that there may have been very little, if any, deterioration in the terms of trade in 1995. If this proves to have been the case, then real gross national disposable income could have risen roughly in line with real GNP at about 6¾ per cent. This would be broadly in line with the increase achieved in 1989, and well above those in any of the intervening years. Assuming a slight deterioration in the terms of trade, an increase in real GNDI of about 4½ per cent is forecast for 1996.

Agriculture

The advance estimate of agricultural output shows that the volume of gross agricultural output rose by 2.8 per cent in 1995, aided by a strong, weather-related, increase in cereal production. The volume of inputs rose by 3.5 per cent, leaving the estimated increase in the volume of gross agricultural product at 2.1 per cent. Taking account of continued expansion in forestry and fishing, and for a small rise in sectoral depreciation, the gross domestic product of the broad agriculture sector is estimated to have grown by about 2½ per cent in 1995.

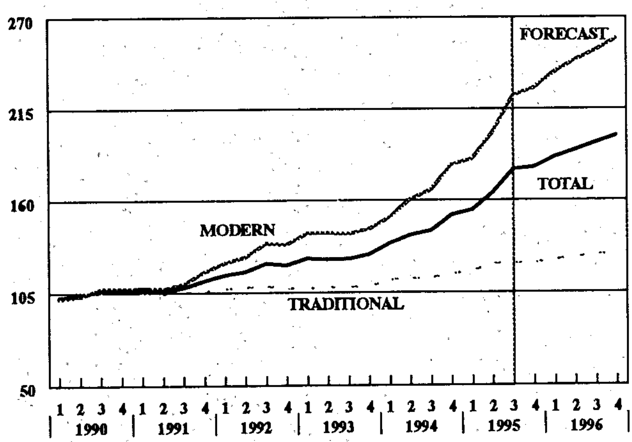
With a repetition of the favourable 1995 weather pattern inherently unlikely, it seems reasonable to expect little change in the volumes of gross agricultural output or product in 1996. Thus, even assuming continued growth in forestry and fishing, the gross domestic product of the broad agriculture sector will probably not exceed 1 per cent in 1996.

Industry

The volume of production index for manufacturing industry was 19.2 per cent higher in the first three quarters of 1995 than in the corresponding period of 1994. The IBEC/ESRI Survey suggests that production remained high in the final quarter of 1995, although no longer increasing at the phenomenal rate seen earlier in the year. The annual increase in the index thus seems likely to have been in the region of 18½ per cent. The rate of growth in the extractive industries and utilities was slower than in manufacturing, but the volume of production index for "all industries" is still likely to have risen by over 17 per cent in 1995.

Allowing for a large rise in inputs, it seems probable that net output in industry grew by at least 15 per cent, while net output in building and construction is likely to have increased by about 10 per cent. Thus net output in the broad industry sector is estimated to have increased by about 14½ per cent. When depreciation and adjustments for stock appreciation are also taken into account the 1995 increase in the volume of gross domestic product in the broad industry sector is estimated to have been over 14 per cent.

FIGURE 3: MANUFACTURING OUTPUT
Quarterly Averages Seasonally Adjusted, 1989=100



The rapid rise in the industrial production index in the course of 1995 means that there will be a substantial carryover, in the region of 7 per cent, into 1996. It seems certain that there will be further growth in manufacturing production in the course of 1996, although the rate of increase is expected to be slower than in 1995. The annual increase in the volume of production index for manufacturing industry is projected to be in the region of 14 per cent. Allowing for the effect of the non-manufacturing industries, the relationship between gross and net output, the slower growth expected in building output, and for depreciation and stock appreciation, the increase in the volume of gross domestic product in the broad industry sector in 1996 is forecast at a little over 10 per cent.

Services

There are no short-term indicators of output in most of the service sector, while the annual treatment of service sector output in the national accounts is complicated by the treatment of intervention stocks and by financial adjustments. It is thus difficult to predict the exact contribution of the service sector to gross domestic product in an individual year.

However, despite these difficulties, there is an underlying relationship between service sector output and the general state of the economy. Thus, given the rapid growth of domestic demand in 1995, it is reasonable to suppose that the gross domestic product of the service sector rose quite strongly. A volume increase of about 4½ per cent for the sector as a whole is estimated for 1995.

Private sector service output should continue to grow strongly in 1996, reflecting the buoyancy of domestic demand. However, the output of public services is expected to increase more slowly as a result of public spending curbs. Thus the volume of gross domestic product in the total service sector in 1996 is projected to rise by about 4¼ per cent.

Employment

Employment increased by 49,000 in the year to April 1995, and most sectoral evidence points to a continuing rise during the following summer. However, IBEC/ESRI Business Survey suggests that there could have been a significant slackening in the rate of growth of industrial employment in the closing months of the year. The estimate of average industrial employment in 1995 has accordingly been marginally reduced, although the annual increase, at 11,000, remains substantial. No change has been made to estimates of agricultural or service employment in 1995, so the estimated annual increase in the total number at work is 39,000.

Employment growth in industry and the services is likely to continue in 1996, but at a slightly slower rate than in 1995. On the basis of projected economic trends, and making some allowance for both employment creating schemes and restrictions on public service recruitment, the annual average number at work in 1996 is forecast to increase by 31,000 to 1,277,000. This is a marginal downward revision to our previous forecast, but still represents a continuation of the strong employment growth which has obtained since 1993.

Assuming that there has been another modest level of net emigration in 1995, it seems almost certain that the 1996 *Labour Force Survey* will record a further fall in the numbers unemployed. If this is so, the average unemployment rate for 1995 will eventually be revised downwards from its current official estimate of 12.9 per cent to about 12.6 per cent, as shown in Table 8. Unless there is a significant change in migration patterns, a moderate reduction in underlying unemployment should occur both in the 1996 annual average and in the twelve months to April 1997.

Whether this fall will be reflected in the Live Register totals remains very doubtful. Changes in eligibility for at least partial payment of unemployment assistance appear to have a strong autonomous influence on the Register, particularly as it affects females of over 25 years of age. It is therefore quite likely that falling unemployment will continue to co-exist with a rising total on the Register. Despite the disclaimer which now accompanies the monthly publication of the Live Register figures, the media and many politicians continue to interpret the total on the Register as representing the level of unemployment. It has become a matter of some urgency to present the figures in the Live Register in a more disaggregated manner, distinguishing at the very least between full-time and part-time recipients. Otherwise there is a danger that the

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000	1993	1994	1995	1996	1997
Agriculture	143	140	139	136	134
Industry	311	330	342	354	364
Services	692	712	751	772	792
Total at Work	1,146	1,182	1,231	1,262	1,290
Unemployed	230	218	192	184	177
Labour Force	1,375	1,400	1,423	1,446	1,467
Unemployment Rate %[1]	15.7	14.7	12.7	12.0[2]	11.4[2]
Live Register	295	285	276	276	273

B: Annual Averages '000	1993	1994	1995	1996
Agriculture	142	139	137	135
Industry	319	337	348	359
Services	700	731	761	783
Total at Work	1,161	1,207	1,246	1,277
Unemployed	225	207	189	180
Labour Force	1,386	1,414	1,435	1,457
Unemployment Rate %[1]	15.6	14.2	12.6[2]	11.7[2]
Live Register	294	282	278	275

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

[2] Projected unemployment rates, including 1995, incorporate a further expected divergence between Live Register and ILO measures of unemployment. This should result in a downward revision to initially published unemployment rates.

pressure of public and political opinion could force inappropriate policy initiatives on the basis of essentially illusory trends in apparent unemployment.

Incomes

According to official advance estimates, income arising in agriculture in 1995 increased by 5½ per cent. The increase in personal income in forestry and fishing could well have been somewhat lower, so a rise of 5 per cent in income arising in the broad agriculture sector is estimated for 1995. With gross agricultural product projected to show virtually no change in 1996, and little reason to expect significantly favourable movements in relative prices or a large rise in net subsidies, an increase of 2 per cent in the income of the broad agriculture sector is forecast for 1996.

Figures available for the first half of 1995 suggest that there was virtually no wage drift beyond the basic pay increases due under the Programme for

Competitiveness and Work. For the year as a whole, it is estimated that average non-agricultural, earnings increased by a little over 2¾ per cent. The rise in full-time equivalent employment was in the region of 3 per cent. Thus aggregate wages, salaries and pensions in the non-agricultural sector are estimated to have risen by 6 per cent in 1995, a small upward revision on our previous forecast. The phasing of payments under the PCW suggests that there will be a rather larger carryover into 1996 than there was into 1995. Taking account of increases due in the course of 1996 and the possible emergence of a small degree of pay drift, an increase of about 3¼ per cent in average earnings seems likely in 1996. The annual average increase in full-time equivalent employment is projected to be around 2½ per cent, so aggregate earnings are forecast to rise again by about 6 per cent.

Other non-agricultural income, comprising income from self-employment and from interest, dividends and rent, is estimated to have increased by about 6 per cent in 1995. With domestic demand continuing to grow substantially, a similar rate of increase is projected for 1996. Thus total income received from economic activity is estimated to have risen by about 6 per cent in 1995 and is forecast to increase by about 5½ per cent in 1996, as shown in Table 9.

TABLE 9: Personal Disposable Income

	1994	Change		1995	Change		1996
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,330	5	117	2,447	2	49	2,496
Non-Agricultural Wages, etc.	16,772	6	1,006	17,778	6	1,067	18,845
Other Non-Agricultural Income	3,731	6	224	3,955	6	237	4,192
Total Income Received	22,833	6	1,347	24,180	5½	1,353	25,533
Current Transfers	5,484	7	384	5,868	4¼	244	6,112
Gross Personal Income	28,317	6	1,731	30,048	5¼	1,597	31,645
Direct Personal Taxes	6,299	1¼	81	6,380	5½	355	6,735
Personal Disposable Income	22,018	7½	1,650	23,668	5¼	1,242	24,910
Consumption	19,438	5¾	1,108	20,546	6½	1,335	21,881
Personal Savings	2,580	21	542	3,122	-3	-93	3,029
Savings Ratio	11.7			13.2			12.2

Current personal transfer income received in 1995 is estimated to have increased by about 7 per cent, boosted by the payment of substantial equality arrears. Taking the Budget measures into account, the increase in 1996 could be in the region of 4¼ per cent. Thus gross personal income is estimated to have risen by 6 per cent in 1995 and is projected to increase by 5¼ per cent in 1996.

The actual rise in direct personal taxation in 1995 was very small, at about 1¼ per cent, but of course this figure is distorted by the effect of the tax amnesty on the 1994 total. The underlying rise in direct personal taxation in 1995 was close to 5 per cent. With the effective relaxation in tax allowances and bands significantly smaller in 1996 than in 1995, the rate of increase in direct personal taxation is likely to accelerate slightly, to about 5½ per cent.

Personal disposable income is thus estimated to have risen by a somewhat misleading 7½ per cent in 1995, and is forecast to grow by about 5¼ per cent in 1996. On the basis of indicators so far available, it seems likely that the value of personal consumption rose by about 5¾ per cent in 1995, implying a substantial increase of 1½ per cent in the personal savings ratio. About half of this rise can be attributed to the amnesty effect, which artificially reduced the 1994 ratio. The remaining increase in the ratio could have been influenced by the fact that in the early months of the year interest rates were rising and were widely expected to rise further, thus deterring purchases of cars and other consumer durables. By contrast, interest rates during the car-buying season of early 1996 are relatively low and there is no expectation of an early reversal of their downward trend. Unofficial indicators suggest that car sales did increase sharply in January, and it is reasonable to suppose that this reflects a more general revival of consumer confidence. Thus it is projected that the personal savings ratio will decline by about 1 per cent in 1996, enabling an increase of 6½ per cent in the value of personal consumption.

Consumer Prices

The November consumer price index was almost exactly in line with our assumptions in the Autumn *Commentary*. Thus, for 1995 as a whole, the total consumer price index rose by 2½ per cent, with the housing index increasing by 5.8 per cent and the remainder of the index by a very moderate 2.2 per cent.

The overall rate of consumer price inflation is likely to rise even more slowly in 1996. Little significant change is projected for the housing price index, with a small reduction in average mortgage interest rates more or less offset by an increase in the other items in the housing index, including the price of houses. With the abolition of university fees continuing to exert a downward influence, the increase in the non-housing index seems likely to remain in the region of 2¼ per cent. Thus the total consumer price index is forecast to rise by an annual average of 2.2 per cent in 1996, as shown in Table 10.

The experience since mid-1993, when a prolonged period of rapid economic growth has been accompanied by inflation rates of 2½ per cent or less, illustrates the changed nature of the Irish economy. The role of successive national agreements in forestalling an increase in domestic inflationary pressures in response to economic expansion cannot yet be fully assessed, but is likely to have proved considerable.

Public Finances

The public finances performed very strongly in 1995, as indeed they should given the rate of economic growth in the year. As was pointed out in the Autumn *Commentary*, the authorities generally have considerable leeway in determining the recorded out-turn of the current budget deficit and the Exchequer borrowing requirement. In 1995 they chose to present a moderate undershoot of the revised target for the current budget deficit and a more substantial improvement in the EBR. However, these figures were struck after

TABLE 10: Consumer Price Index - Recent Trend And Forecast

	Quarterly Trend								Annual		
	1994				1995				1994	1995	1996
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.			
Index Nov. 1989 = 100											
Housing	110.6	111.4	111.8	112.2	113.0	119.3	120.8	118.8	111.5	118.0	119.2
Other	111.2	112.2	113.1	113.2	114.1	114.9	115.3	115.6	112.5	115.0	117.6
Total CPI	111.2	112.1	113.0	113.1	114.0	115.2	115.7	115.8	112.4	115.2	117.7
Annual % Change											
Housing	-17.0	-3.8	1.9	1.1	2.2	7.1	8.1	5.9	-5.0	5.8	1.0
Other	3.5	3.3	2.6	2.4	2.6	2.4	2.0	2.1	3.0	2.2	2.3
Total CPI	1.7	2.7	2.5	2.4	2.5	2.8	2.4	2.4	2.4	2.5	2.2
Quarterly % Change											
Housing	-0.4	0.7	0.4	0.4	0.7	5.6	1.3	-1.7			
Other	0.6	0.9	0.8	0.1	0.8	0.7	0.3	0.3			
Total CPI	0.6	0.8	0.8	0.1	0.8	1.1	0.4	0.1			

the bringing forward of potential compensation payments for infected blood products and a substantial increase in the carryover of savings in servicing the national debt. When account is also taken of the budgeted rapid repayment of equality arrears, 1995 can be characterised as a year when high revenue buoyancy was used to pay off a large quantity of the accumulated financial obligations of the state. Although these particular obligations did not constitute part of the official national debt, their settlement had much the same impact in reducing future liabilities as an equivalent repayment of a portion of the national debt itself.

The budgetary targets for 1996 represent a substantial reduction in the current budget deficit, offset by a large rise in borrowing for capital purposes, resulting in a modest increase in the EBR. If the economy grows at roughly the rate forecast, these targets should again be undershot, although the precise degree of improvement will again be decided by the authorities at the end of the year.

Underlying tax buoyancy is likely to be slightly less than in 1995, because personal incomes are expected to grow more slowly. On the other hand, the budgetary concessions on income tax were significantly smaller than in 1995, while the virtual stagnation of corporation tax receipts in 1995 is likely to have proved temporary. It thus seems probable that total tax receipts in 1996 will increase by about 7½ per cent, compared with an underlying rise of 7 per cent in 1995.

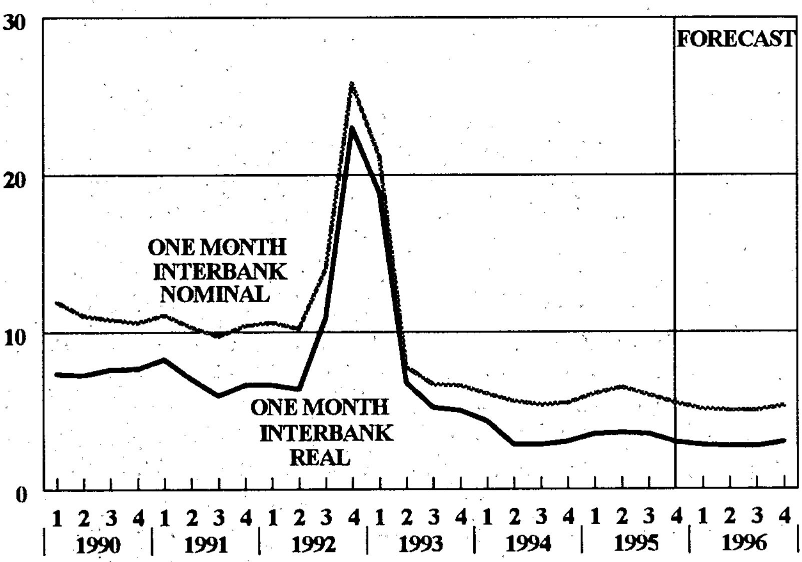
Accounting methods appear designed to obscure the exact course and timing of interest payments on the national debt. However, given the downward trend in interest rates since the first quarter of 1995 and the probable stabilisation of exchange rates against those countries which hold the bulk of the overseas national debt, it would be surprising if the underlying rate of interest payments is not significantly lower than the figure included in the budgetary estimates. Assuming that day-to-day expenditure is, as usual, held quite close to estimated levels, and that no new unexpected obligations come to light, total current expenditure could be a little below the budgeted total.

It will thus be disappointing if, at the end of the year, the authorities are not in a position to announce a modest current budget surplus and an EBR somewhat below the absolute level recorded for 1995.

Interest Rates

In the early months of 1995, there were widespread fears, not shared by the *Commentary*, that interest rates would rise significantly throughout the year. In practice, of course, both long-term and short-term interest rates have declined fairly steadily from their peak in March 1995. The one-month interbank rate, to which most retail interest rates are linked, has fallen from 6¾ per cent in March 1995 to 5 per cent at the time of writing. This reduction has largely followed international trends, but also includes a significant narrowing in the differential over German short-term rates, which was usually wide in early 1995 due to European currency instability. Because of the absence of this element, and because the decline internationally has been slightly less pronounced, long-term interest rates in Ireland have fallen at about half the speed of the one-month rate since March 1995.

FIGURE 4: INTEREST RATES
Per Cent Per Annum, Quarterly Averages



At present it is not clear whether German and other international short-term rates have completed their decline, or whether a smaller further reduction is likely. It certainly seems improbable that German rates will be increased in 1996 although there remains some danger that renewed currency instability could force up the differential in other countries, including Ireland. On balance, it seems fair to assume that there will be no significant change in the level of Irish interest rates, short-term or long-term, for most of 1996, although some rise in short-term rates in the closing months of the year in response to renewed sterling depreciation remains a possibility.

General Assessment

The Irish economy continued to grow very rapidly in 1995. Our current estimate of the rise in real GNP is 6¾ per cent, although this could be revised in either direction when more complete information becomes available concerning trends in the second half of the year. Whatever the final estimate, it will not significantly change the picture of a second successive year of strong, well-balanced growth.

Industrial production rose by over 17 per cent, reflecting new capacity, buoyant exports, especially but not exclusively in the electronics sector, and a steady expansion in domestic demand. Service output also increased substantially in response to high domestic demand, while there was a small increase in agricultural production. Inflation remained very moderate, in spite of the prolonged economic growth, with the consumer price index rising by 2½ per cent in 1995 and pay increases staying very close to PCW entitlements. The current account surplus on the balance of payments is believed to have strengthened substantially to about 7¾ per cent of GNP, and now comfortably exceeds the level of net transfers. The public finances performed impressively, despite significant reductions in effective average direct tax rates in the 1995 Budget. Revenue buoyancy was largely used to clear accumulated expenditure obligations, which, in terms of easing future fiscal pressure, had much the same effect as a similar reduction in government borrowing. Most important of all, the economic growth was accompanied by a substantial increase in total employment, and by a reduction of 26,000 in the level of unemployment in the year to April 1995.

Present indications are that 1996 will be another year of considerable growth in the Irish economy, although the rise in real GNP is forecast to decline somewhat to around 5 per cent. The volume growth of exports is projected to fall back to its long-term trend of about 10 per cent after two years of exceptionally rapid increase. The volume of domestic demand is forecast to continue its strong annual expansion of well over 4 per cent, with the effects of the reduction in interest rates over the past 10 months largely offsetting a predicted easing in the rate of increase in housebuilding and a slower projected rise in government consumption.

Inflation should remain low, with the consumer price index rising by about 2¼ per cent. There could be a marginal fall in the current account surplus, but it is likely to remain at over 7 per cent of GNP. Barring unforeseen expenditure commitments, 1996 is expected to see a small current budget surplus, and an

EBR of little more than 1½ per cent of GNP. Employment growth is forecast to be slower than in 1995, but, with an annual average increase of over 30,000 in total employment, the unemployment rate should decline modestly to an annual average of about 11¾ per cent.

Looking beyond 1996, the most likely prospect is for the growth rate to remain high, at an annual average of around 5 per cent, and inflation moderate at about 2½ per cent annually. If such outcomes can be achieved for another two or three years, steady although not spectacular progress should be made in reducing the unemployment rate to under 10 per cent and in putting the public finances into a condition where they could absorb the probable reduction in EU transfers after 1999, when there is a likelihood that either, or both, structural funds and CAP subsidies could decline. At the same time considerable further convergence towards average EU living standards would be achieved.

Thus the Irish economy has just completed its second successive year of near record growth in output and employment, continuing its now established practice of substantially out-performing the EU average. The prospects for 1996 and future years are favourable, even if output and employment growth are likely to be less dramatic than in 1994 and 1995. Such a prolonged period of rapid growth should go a considerable way towards resolving the problem of a still excessive national debt, and, in conjunction with appropriate specific measures, make a significant contribution towards easing the chronic problem of high long-term unemployment.

This benign prognosis is our assessment of the most likely course of the Irish economy in 1996 and beyond. Naturally, it cannot be guaranteed, and there are significant dangers, external and domestic, which could prevent its realisation.

As an exceptionally open small economy with a comparatively large foreign debt, Ireland is inevitably vulnerable to external shocks. The forecast for 1996 and the expectation of continued rapid growth in the succeeding years are based on the assumption that the expansion phase of the current European economic cycle will continue at a moderate pace for several more years. Clearly, an early international recession would seriously reduce the Irish growth rate, although such a recession is most unlikely in 1996. Similarly, any world event which resulted in a substantial and sustained increase in international interest rates would damage Ireland's economic prospects.

More immediately, a resumption of European currency instability, which is possible even within 1996, could both damage business confidence directly and lead to some increase in the interest-rate differential between Germany and Ireland. A special case of currency instability would be a renewed depreciation of sterling. This could not only raise the Irish interest rate differential as the authorities attempted to prevent too great a depreciation of the Irish pound against the DM but also result in a further loss of competitiveness *vis-à-vis* the UK.

The nature of possible external shocks is such that the Irish authorities have no control, and very little influence, over their occurrence or their dimensions. The only domestic provisions which can be made for them is to maintain a fiscal safety margin, to encourage institutional flexibility in responding to them and to urge private insurance against their possibility.

One potential danger which could be classified as partly external and partly domestic would be the breakdown of the peace process and a return to violence in Northern Ireland. It is impossible to quantify what proportion of recent economic growth, particularly in tourism and industrial investment, has represented a peace dividend following the ceasefires. Similarly, it is impossible to predict the economic consequences of a return to violence, but clearly it would have some adverse effect on future growth rates.

Because they can, and must, be addressed by the Irish authorities, interest groups and people, it is the domestic threats to the benign prognosis which are the most important to consider. They include a return to domestically generated wage inflation, with a consequent loss of competitiveness, a retreat from the relative flexibility with which necessary structural change has been tackled in recent years, and the generation of irresistible political pressure on the government of the day to compromise on the requirement to further strengthen the public finances before the reduction in EU transfers.

All of these domestic dangers can be related to one underlying factor, the re-emergence of unrealistic public expectations.

It was the height of general economic expectations, fuelled by irresponsible government policies, which first led to the economic crisis of the early eighties, and then delayed for some years the effective policy response to that crisis. The eventual lowering of expectations, reflected in election campaigns stressing rival claims to fiscal rectitude and institutionalised in the Programme for National Recovery and its successors, played a fundamental role in permitting the Irish economy to respond to favourable external conditions in 1989 and 1990. The maintenance of modest expectations throughout the first half of the '90s contributed to Ireland's comparatively robust economic performance during the recessions in the other English-speaking countries and then in continental Europe, and to the very rapid growth of the past two years. This broad national consensus on a fiscally responsible, low inflation and competitiveness-conscious economic strategy has yielded great benefits in terms of substantial employment growth, the stabilising of the public finances and a steady, but moderate, improvement in living standards for the majority of the population.

Recently, there have been a few worrying signs that the consensus is beginning to weaken and that public expectations are starting to rise again to unrealistic levels. In particular, a mood appears to be emerging that economic growth can accommodate simultaneously a significantly faster rate of net job creation, a substantial rise in real average disposable incomes and an improvement in the level of public services. Such an illusion is dangerous, and, if it were to gain general credence, could undermine the conditions necessary to sustain a prolonged period of employment and income growth.

Perhaps some of the blame for unduly rising expectations can be attached to economic commentators like ourselves. Although we have consistently advocated moderation and the prolonging rather than the intensification of the recovery phase of the Irish economic cycle, it is possible that we have not expressed clearly enough the constraints under which the Irish economy operates or described adequately the improvement in living standards in recent years.

Stress on the annual growth of real GNP tends to oversimplify the process of economic development and to exaggerate the availability of resources to improve living standards. In part this is because a considerable proportion of the total economic growth since the late '80s has been required to stabilise the public finances. It does not seem to be widely enough recognised, and needs to be made crystal clear, that this process of improving the fiscal balance must continue if the reduction in EU funding at the end of the decade is not to impose a traumatic shock on the economy.

Recent years have also seen a significant rise in corporate profits' share of GDP. This was probably a necessary precondition for the upturn in productive investment on which the future growth of the economy depends.

Despite this necessary absorption of a portion of growth into reducing government dis-saving and raising corporate saving, there has, nevertheless, been a substantial increase in living standards. This has taken the form of both a rise in employment, obviously improving the standard of living of those obtaining the new jobs, and an increase in the real disposable income of those who already had jobs.

The extent of the achievement in increasing the number of jobs, against a background of generally declining employment in the rest of Europe, is insufficiently appreciated. This is partly due to a continued focus on the misleading Live Register as an indicator of unemployment trends, and a comparative lack of attention for the fall to below 200,000 in the numbers regarding themselves as unemployed or for the dramatic reduction in net emigration since the late '80s.

Because much of the rise in living standards has been in the form of extra jobs, the growth of real disposable income for those in employment has inevitably been moderate compared with the increase in real GNP. Nevertheless, it has been positive and fairly steady.

Since 1988 the real take-home pay of a single worker on average industrial earnings has risen by 16 per cent, of which slightly over half has been accounted for by reductions in effective direct taxes, including income tax, levies and employee PRSI contributions. Although the tax gains for those with substantial mortgages would be somewhat lower over the period, the real income of those with large families would have risen faster due to increases in child benefit.

A continuation of such steady increases in living standards and employment are reasonable expectations for the coming years. Hopes of a dramatic improvement in the rate of increase in either are unrealistic, and attempts to force such improvements could prove seriously counter-productive. On any dispassionate assessment the Irish economy is performing exceptionally well, and considerable progress is being made towards tackling the outstanding problem of unemployment. Impatience at this rate of improvement in living standards and job opportunities is an emotion which could prove costly.

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								

Quarterly Averages or Totals

1992 I	167.6	245.9	113.2	4187	4372	192.5	51.4	141.3
II	173.4	245.6	122.5	3644	5920	193.4	51.3	141.9
III	161.0	227.5	113.9	3602	6284	195.4	52.2	143.2
IV	176.8	248.9	122.2	4249	5888	194.5	53.4	141.0
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	6295	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		212.6	66.6	145.9
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1992 I	165.0	230.5	117.5	3880	No Seasonal Pattern	194.6	52.1	142.9
II	167.2	236.8	118.2	3866		194.2	51.8	141.9
III	174.0	251.9	119.2	3935		193.7	51.9	142.0
IV	172.8	250.6	117.2	3998		193.3	52.6	140.6
1993 I	178.6	262.9	117.9	3931		193.4	54.1	139.4
II	177.3	263.1	117.7	4037		193.8	53.7	139.8
III	177.8	262.4	118.7	4068		194.0	54.9	139.8
IV	181.7	267.9	118.6	4132		194.7	55.4	139.4
1994 I	191.3	281.8	123.1	4160		196.8	56.5	140.1
II	198.2	301.1	123.8	4251		198.3	57.4	140.8
III	201.8	311.6	124.4	4227		199.1	58.4	141.0
IV	215.3	340.0	127.0	4212		203.0	60.3	142.6
1995 I	220.6	346.9	128.6	4341		207.1	62.6	144.4
II	233.2	376.4	133.4	4388		209.7	65.2	145.8
III	253.0	418.4	133.9	4453		210.9	66.4	144.8
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
								1995
Quarterly Averages								
162.7	188.4	118.1	109.6	100.6	186.7	91.4	278.1	1992 I
167.6	188.5	127.4	112.5	102.5	183.9	93.1	277.0	II
154.0	171.6	117.3	113.2	102.5	188.5	101.8	290.2	III
169.9	183.6	127.9	115.7	104.6	189.5	97.6	287.2	IV
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	139.9	125.8	107.5	176.9	96.8	273.7	II
205.1	224.3	129.4			177.7	101.5	279.2	III
								IV
Quarterly Averages (Seasonally Corrected)								
158.0	174.7	121.3	110.7	101.5	181.9	91.0	272.9	1992 I
161.6	179.5	122.7	112.4	102.4	185.5	94.4	279.9	II
167.8	192.1	123.7	113.4	102.8	189.6	99.2	288.8	III
167.5	187.4	123.3	114.5	103.4	191.7	99.3	291.0	IV
172.4	191.6	124.7	116.6	104.9	193.2	101.3	294.5	1993 I
172.1	192.2	124.1	116.9	105.7	195.2	100.2	295.4	II
170.9	189.5	125.2	120.0	107.3	193.9	99.5	293.4	III
174.4	190.3	125.9	121.6	108.3	192.7	101.1	293.8	IV
181.8	196.8	129.5	122.1	108.0	189.5	99.1	288.6	1994 I
188.0	205.7	129.6	121.9	107.2	185.1	97.8	282.9	II
188.6	211.4	130.0	121.8	106.2	182.6	96.9	279.5	III
198.5	221.7	131.8	123.4	107.3	180.4	98.3	278.7	IV
198.7	218.6	131.2	124.5	107.4	177.1	97.4	274.5	1995 I
207.5	226.2	134.8	125.7	107.6	178.3	98.3	276.6	II
223.0	249.7	136.3			178.7	98.9	277.6	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
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	113.5	105.8	108.1	103.8	96.0	1853.4
1995	115.2	119.8						1992.9

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	113.9	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	109.6	105.5	96.2	1806.3
III	113.0	116.6	113.2	104.6	109.0	106.6	97.8	1817.7
IV	113.1	116.8	113.4	103.1	109.2	103.6	94.9	1823.1
1995 I	114.0	118.3	115.4	107.8	112.6	105.6	93.8	1863.6
II	115.2	119.5	116.6	110.5	114.7	108.7	94.8	1893.2
III	115.7	120.2		106.9				2055.7
IV	115.8	121.3						2159.2

Quarterly Averages (Seasonally Corrected)

	17	18	19	20	21	22	23	24
1992 I	107.3	110.4	108.1	98.3	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	108.2	110.8	107.9	98.2				
III	108.5	110.3	107.0	98.8				
IV	109.0	110.3	106.4	98.2				
1993 I	109.3	113.1	110.2	99.7				
II	109.1	114.8	111.4	103.4				
III	110.0	117.0	113.8	105.9				
IV	110.6	117.4	114.4	106.7				
1994 I	111.3	117.1	113.8	108.1				
II	112.1	116.6	113.3	108.1				
III	112.8	116.4	113.0	105.5				
IV	113.2	117.2	113.9	105.7				
1995 I	114.1	118.5	115.6	107.5				
II	115.2	119.1	116.0	107.4				
III	115.5	120.1		107.8				
IV	115.9	121.7						

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Registered (New + S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expenditure	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	NA	NA	7690	8006	317	7.8	9.5	1988
88452	NA	NA	7756	8019	263	9.6	8.9	1989
105849	NA	NA	8269	8421	152	11.1	10.1	1990
89589	100.0	100.0	8776	9076	300	10.4	9.3	1991
85492	101.8	99.9	9360	9806	446	15.2	9.1	1992
87352	106.2	102.2	10140	10519	379	10.6	7.8	1993
116636	109.4	103.6	11203	11188	-15	5.7	8.2	1994
	118.0	109.3	11667	12029	362			1995
Quarterly Averages or Totals								
28411	99.0	95.8	2055	2538	483	10.6	8.7	1992 I
23950	104.7	100.7	2299	2374	75	10.2	8.8	II
21112	107.5	103.1	2473	2307	-166	14.0	9.3	III
12019	112.5	108.3	2533	2587	54	25.8	9.6	IV
25583	100.7	96.9	2170	2763	593	21.1	9.0	1993 I
27135	106.0	100.8	2363	2408	45	7.8	8.1	II
21329	110.7	104.3	2842	2622	-220	6.7	7.4	III
13305	118.7	111.3	2764	2725	-39	6.6	6.6	IV
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
			3060	3475	415	5.5	7.8	IV
Quarterly Averages or Totals (Seasonally Corrected)								
21961	104.3	100.9	2259	2368	109	No Seasonal Pattern	No Seasonal Pattern	1992 I
19161	105.6	101.6	2330	2441	111			II
22884	107.2	102.9	2416	2451	35			III
22687	106.6	102.5	2363	2543	180			IV
19597	105.8	101.9	2380	2578	198			1993 I
21836	107.1	101.9	2358	2491	132			II
23155	110.5	104.2	2791	2789	-3			III
25227	112.5	105.4	2605	2659	54			IV
30251	118.7	110.9	2962	2769	-193			1994 I
29318	116.2	107.7	3002	2752	-249			II
27875	116.9	108.0	2604	2815	211			III
28429	118.9	109.4	2670	2845	175			IV
29797	121.7	111.3	2765	2592	-173			1995 I
30658	122.5	111.2	3098	3082	-15			II
32184	123.5	112.2	2881	3001	120			III
			2917	3369	452			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	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	4041.3	66.16	0.9776	1.4982	2.4262
1995					67.12	1.0165	1.6038	2.2971
	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	19252.3	2939.9	18383.8	4546.9	67.05	1.0193	1.6270	2.2717
III	20420.6	3279.6	19036.5		67.42	1.0243	1.6115	2.3067
IV		3332.1	19916.6		67.43	1.0281	1.6033	2.2838
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1992 I II III IV	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
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	
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	16743.8	3549.1	105.6	121.1	-3299	1448	1992
14884.9	19829.7	4945.0	113.0	133.0	-4014	2139	1993
17195.2	22830.2	5635.1	126.9	153.2	-4135	2046	1994
							1995
Av. Monthly Totals			Quarterly Averages or Totals				
1107.8	1356.2	248.4	104.5	114.5	-816	332	1992 I
1108.3	1463.0	354.7	105.1	120.0	-825	352	II
1060.2	1348.2	288.0	103.0	116.0	-850	442	III
1122.0	1414.0	292.0	111.8	126.4	-808	322	IV
1213.7	1524.2	310.5	112.8	130.5	-912	455	1993 I
1168.9	1631.5	462.6	107.5	136.0	-1018	635	II
1241.9	1605.6	363.8	112.2	132.5	-1008	439	III
1337.2	1848.6	511.4	120.3	151.9	-1076	610	IV
1419.4	1773.8	354.4	125.9	143.8	-1051	180	1994 I
1415.0	1868.3	453.3	123.9	148.5	-1148	288	II
1334.3	1854.2	519.9	117.5	145.8	-910	760	III
1563.0	2113.7	550.7	137.3	171.1	-1026	818	IV
1645.1	2121.9	476.8	140.2	168.4	-1203	397	1995 I
1621.4	2263.0	641.6	135.7	174.6	-1166	928	II
							III
							IV
Av. Monthly Totals (S.C.)			Quarterly Averages or Totals (S.C.)				
1077.9	1362.5	284.5	101.7	115.0	No Seasonal Pattern	No Seasonal Pattern	1992 I
1100.6	1422.1	321.5	104.6	117.5			II
1103.8	1390.9	287.1	107.5	120.0			III
1107.1	1389.0	281.9	109.4	123.0			IV
1192.5	1537.5	345.0	111.2	131.4			1993 I
1160.3	1588.6	428.3	107.4	133.5			II
1291.1	1665.7	374.6	116.7	138.3			III
1322.4	1816.1	493.8	117.8	147.1			IV
1394.4	1793.0	398.6	123.9	145.6			1994 I
1405.1	1819.8	414.7	124.0	146.1			II
1387.2	1923.0	535.8	122.4	151.5			III
1563.6	2061.7	498.2	135.6	164.8			IV
1601.3	2161.4	560.1	136.8	171.6			1995 I
1611.2	2205.0	593.7	135.9	171.8			II
							III
							IV