QUARTERLY ECONOMIC COMMENTARY

WINTER 1992/3

The forecasts in this Commentary are based on data available by mid-March 1993.

For unavoidable reasons, preparation of this Commentary was delayed for almost two months. The usual time schedule will be gradually restored over the remainder of 1993.

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CONTENTS

SUMMARY

On the partial evidence so far available, it seems likely that there was a slight decline in economic activity in the final quarter of 1992. However, the economy had been expanding quite rapidly before the September currency crisis, so that the annual growth rate of real GNP in 1992 is estimated at 2¾ per cent.

The conditions of international uncertainty and very high domestic interest rates, which were responsible for the downturn in late 1992, have persisted for most of the first quarter of 1993. It is thus reasonable to assume that the economy continued to stagnate or decline. The restoration of industrial competitiveness through the devaluation of the Irish pound, the subsequent reduction in domestic interest rates, and the injection of substantial EC capital funds should all help to reverse this decline.

Nevertheless the outlook for 1993 remains very uncertain, and this uncertainty is likely to be compounded by the absence of trade statistics for the first half of the year. Any forecast must be regarded as tentative, and subject to a large margin of error. With this proviso, the least unlikely outcome for 1993 is a growth of real GNP of about 1 per cent, price inflation of 3 per cent, consolidation of the current account balance of payments surplus at about 6 per cent of GNP, and a small decline in the average number at work.

Given the high level of uncertainty and the likelihood of very low economic growth, short-term economic policy must inevitably be defensive, seeking to minimise the danger of job losses rather than looking for an unobtainable immediate increase in employment. The core element of this defensive policy is the need to reduce wholesale and retail interest rates. The cautious fiscal targets set in the Budget have helped to initiate this process, and there are good reasons to expect that interest rates will return to their pre-crisis levels by the middle of the year.

Having demonstrated that fiscal responsibility will be maintained, the government now needs to establish confidence in its broader economic management. The new ERM parity must continue to be defended firmly, price inflation must be kept low, and a credible long-term employment policy must be evolved. A key element of all these requirements is a sound medium-term pay strategy, which will consolidate the competitive gains of devaluation and avoid undue future pressure on the public finances. An agreement to replace the expiring PESP could be useful in this context, but only if its pay provisions are very moderate. With or without a new national agreement, there is urgent need for a modification of the process of public service pay determination, so that, in future, fairness can be combined with flexibility and realism.

While 1993 is likely to prove a very difficult year for the Irish economy, there is a real possibility that rapid growth will be resumed from 1994. Decisions taken this year can determine whether the next period of growth remains non-inflationary and can be converted into a sustained increase in employment.

ESTIMATED NATIONAL ACCOUNTS 1992

A: Expenditure on Gross National Product

	1991	1992	Change in 1992				
	Preliminary*	Estimated	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	15616	16522	906	468	5¾	2¾	3
Public Net Current Expenditure ...	4387	4810	423	162	9¾	5¾	3¾
Gross Fixed Capital Formation	4603	4679	76	– 28	1¾	2¼	– ½
Exports of Goods and Services (X) ...	16893	18694	1801	1757	10¾	¼	10½
Physical Changes in Stocks	557	– 220	– 777	– 770			
Final Demand	42056	44485	2429	1589	5¾	1¾	3¾
less:							
Imports of Goods and Services (M) ...	15072	15730	658	760	4¼	– ¾	5
GDP at Market Prices	26984	28755	1771	829	6½	3¼	3
less:							
Net Factor Payments (F)	2865	3048	183	179	6½	¼	6¼
GNP at Market Prices	24119	25707	1588	650	6½	3¾	2¾

B: Gross National Product by Origin

	1991	1992	Change in 1992	
	Preliminary* £m	Estimated £m	£m	%
Agriculture, Forestry, Fishing ...	1791	2078	287	16
Non-Agricultural: Wages, etc. ...	13620	14403	783	5¾
Other: ...	6890	7476	586	8½
less:				
Adjustments	736	1200	464	63
Net Factor Payments	2865	3048	183	6½
National Income	18700	19709	1009	5
Depreciation	2684	2818	134	5
GNP at Factor Cost	21384	22527	1143	5
Taxes less Subsidies	2735	3180	445	16¼
GNP at Market Prices	24119	25707	1588	6½

C: Balance of Payments on Current Account

	1991	1992	Change in 1992
	Preliminary* £m	Estimated £m	£m
X—M	1821	2963	1142
F	– 2865	– 3048	– 183
Net Transfers	1969	1752	– 217
Balance on Current Account ...	925	1667	742
as % of GNP	3¾	6½	2¾

*Adjusted for revised Balance of Payments Estimates

FORECAST NATIONAL ACCOUNTS 1993
A: Expenditure on Gross National Product

	1992	1993	Change in 1993				
	Estimated £m	Forecast £m	£m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	16522	17307	785	289	4¾	3	1¾
Public Net Current Expenditure ...	4810	5111	301	48	6¼	5¼	1
Gross Domestic Fixed Capital Formation	4679	4882	203	97	4¼	2¼	2
Exports of Goods and Services (X) ...	18694	19468	774	562	4¼	1	3
Physical Changes in Stocks	– 220	– 80	140	130			
Final Demand	44485	46688	2203	1126	5	2½	2½
less:							
Imports of Goods and Services (M) ...	15730	16712	982	641	6¼	2¼	4
GDP at Market Prices	28755	29976	1221	485	4¼	2½	1¾
less:							
Net Factor Payments (F)	3048	3275	227	198	7½	1	6½
GNP at Market Prices	25707	26701	994	287	3¾	2¾	1

B: Gross National Product by Origin

	1992	1993	Change in 1993	
	Estimated £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	2078	2140	62	3
Non-Agricultural: Wages, etc. ...	14403	15159	756	5¼
Other ...	7476	7838	362	4¾
less:				
Adjustments	1200	1300	100	8¼
Net Factor Payments	3048	3275	227	7½
National Income	19709	20562	853	4¼
Depreciation	2818	2959	141	5
GNP at Factor Cost	22527	23521	994	4½
Taxes less Subsidies	3180	3180	0	0
GNP at Market Prices	25707	26701	994	3¾

C: Balance of Payments on Current Account

	1992	1993	Change in 1993
	Estimated £m	Forecast £m	£m
X—M	2963	2756	– 207
F	– 3048	– 3275	– 227
Net Transfers	1752	2102	350
Balance on Current Account ...	1667	1583	– 84
as % of GNP	6½	6	– ½

COMMENTARY

The International Economy

General

Divergent growth trends in the major economies make it difficult to predict the course of world output in 1993 with confidence. The USA and Canada have already entered the recovery phase of their economic cycles, and North American growth in the second half of 1992 now appears to have been significantly stronger than was believed at the time. Continued growth is expected in 1993, although it is expected to be steady rather than dramatic.

Conversely, Germany and Japan are still in recession, and, despite some hopeful signs, the timing of their recovery remains a major uncertainty. Most other west European economies are currently in a state of near stagnation, and their return to a positive growth path is dependent on developments in Germany, and, to a lesser extent, on the strength of US growth.

It is reasonable to hope that the positive elements in the world economic outlook will outweigh the negative in 1993, and that world output and trade will expand less sluggishly than in 1992. Even so, most forecasts place world output growth no higher than 2 per cent in 1993 with the volume of trade rising by less than 5 per cent.

The US Economy

The recovery in the US economy in the second half of 1992 was moderately strong, with current estimates of real GDP growth 3.4 per cent in the third quarter and 2.7 per cent in the fourth. The main contributions to this growth were personal consumption and business inventories. Most indicators suggest that this moderate growth is continuing in 1993, but there is no clear sign yet of the surge of rapid expansion which has tended to characterise the upswing in most post-war US business cycles.

The pace of growth in the remainder of 1993 will obviously be influenced by the economic policies of the new Administration. Most of the measures outlined in the *State of the Union* address will take several months to implement, and will probably be modified in the process. Nevertheless, the reaction to the proposals, even before implementation, will be important through its impact on consumer and business confidence. It is thus reassuring that the initial response, in terms of public approval and of government bond prices, appears to have been favourable.

Under the proposals, mild stimulation in the form of infrastructure investment is likely to precede current spending cuts and higher taxes, so that the fiscal impact should be expansionary in the short-term and restrictive in the longer-term, when it is hoped that underlying economic growth will be stronger. Provided that fiscal policy does, in practice, conform to this anti-cyclical time path, it is likely to be reinforced by monetary policy. This will remain relaxed in the immediate future, but will probably be tightened later in the year as the recovery becomes more fully established.

It is by no means impossible that US growth will accelerate sharply in the course of 1993. However, it is much more likely that the persisting private-sector debt overhang and sectoral weaknesses, particularly in defence-related industries, will continue to act as inhibiting influences. Thus the general expectation is that real GDP will grow by about 3 per cent in 1993 as a whole, leading to only a minor improvement in employment. With a 3 per cent rate of economic growth and a labour market remaining relatively slack, strong inflationary pressures should be avoided, and prices are expected to rise by less than 3 per cent. Similarly, a 3 per cent growth rate would appear unlikely to result in a large increase in import volumes.

The European Economy

The EC economy appears to be in a state of virtual stagnation, with the German recession combining with tight monetary and fiscal policies to hold back growth throughout the Community.

In Germany itself, the recession persists, and unemployment is rising quite sharply. Industrial output in December 1992 was 3.7 per cent lower than in the previous December. Investment is still tending to fall, personal consumption remains flat, and export performance is weak due to falling German competitiveness and the general lack of buoyancy in export markets.

Most commentators expect some improvement in German economic growth in the course of 1993, although only sufficient to leave the annual growth rate for Germany as a whole at ½ per cent or less. Annual output in the former West Germany is forecast to decline, despite a weak upturn in the second half of the year. The timing of even this limited recovery is uncertain, and depends to a considerable extent on the course of monetary policy.

The very cautious reductions in interest rates so far sanctioned by the Bundesbank are not expected to have any impact on the volume of consumption or investment. Significant reductions in interest rates, which could stimulate activity, must await the Bank's perception that German inflationary pressures are firmly on the wane. Although there are already welcome indications that the size of pay claims is being reduced, the successful conclusion of the much-discussed Solidarity Pact could be the key to an effective change in monetary policy. This pact, which would amount to a formal consensus involving unions, employers and various levels of federal and regional government, aims to cover both income policy and the public finances, the two issues of most concern to the Bundesbank. Negotiations on the pact have inevitably been slow, but the recent agreement on the public finance aspects of the pact offers hope that the entire package will soon be completed.

Until there is a significant easing of German monetary policy, it seems unlikely that there will be a resumption of sustained growth in the remainder of the continental EC. Until mid-1992, most of these countries appeared to be weathering the world recession relatively well, with annual growth rates typically around 2 per cent. However, the deepening recession in Germany, allied to the uncertainties and raised interest rates caused by currency instability within the ERM, interrupted this growth in the closing months of 1992. Stagnation has exacerbated fiscal problems in most countries, and, despite rising unemployment, fiscal policy is likely to be tightened in 1993 in an attempt to adhere to Maastricht criteria. Individual countries face additional problems, such as political weakness and financial scandals in Italy, the likelihood of tension between President and government in France, and residual uncertainty over ratification of the Maastricht Treaty in Denmark.

Despite these difficulties, the absence of excessive private sector debt offers the hope that most continental EC countries could respond quite rapidly to an easing of monetary policy and a reduction in the level of uncertainty. On balance, annual growth rates of between 1 and 2 per cent are expected in 1993, implying a considerably faster rate of growth in the second half of the year. Inflationary pressures are likely to remain weak.

The UK Economy

It is increasingly clear that the depreciation of sterling and the drastic reductions in interest rates since September have succeeded in halting the decline in the UK economy which was gathering pace in the middle of 1992. What is not yet clear is whether the decline is being followed by stagnation or a gradual recovery.

The indicators so far remain mixed, with favourable statistical releases tending to alternate with unfavourable. Consumer confidence remains low, partly due to fear of unemployment, and the burden of private debt is still an inhibiting factor on consumption. Although business confidence has improved since the autumn, it remains low by historical standards and no significant increase in business investment has yet taken place. Despite the depreciation of the currency, price inflation has been falling, and pay increases, at less than 5 per cent in December, are at their lowest level for several years.

Government policy, with regard to economic management and to industrial strategy continues to appear confused. Because another reduction in short-term interest rates cannot be ruled out if unambiguous evidence of economic growth does not soon appear, the risk of a further depreciation of sterling remains present. The initial report of the new advisory panel of economists has reduced this risk in the short term. As the year progresses it seems probable that official policy will gradually revert to a more anti-inflationary stance.

Despite the negative factors it seems probable that there will be a significant recovery in the UK economy under the twin stimuli of low interest rates and the substantial improvement in competitiveness. Unfortunately the recovery will be difficult to monitor fully, due to the absence of full trade statistics in the first half of the year, when past experience suggests that the currency depreciation should be beginning to have a beneficial effect on the volume of net exports. There is thus some danger that monetary policy will remain lax for too long, boosting growth in 1993 at the expense of adding to the underlying inflationary pressures in the economy.

Although it is too early to be certain, the most likely outcome for 1993 is that the UK growth rate will be stronger than most commentators, including the UK government, currently expect. Given that there will be a negative growth carryover from 1992, an annual rise of 2 per cent in real GDP in 1993, which seems likely, would imply quite rapid growth in the course of 1993. Almost inevitably, such growth would lead to a substantial rise in the rate of inflation, taking it above the upper limit of the official target range of 1 to 4 per cent before the end of the year. This, in turn, could lead the authorities to raise short-term interest rates in the second half of the year, even though interest rates in the rest of Europe should be tending to decline.

The Rest of the World

Like Germany, Japan is still suffering from a technical recession. Unlike Germany, Japanese monetary and fiscal policies are openly expansionary, with the Central Bank discount rate now at 2½ per cent and the 10.7 billion yen fiscal stimulation package now being implemented following the passing of the budget for fiscal 1992 in December. Uncertainties generated by financial scandals and by reduced asset values could continue to hold back the recovery of domestic demand, but on balance it seems likely that the economy will respond to fiscal and monetary stimulus in the course of 1993. The timing remains uncertain, with significant expansion probably being delayed until the second half of the year. Real GNP for 1993 as a whole is expected to be in the region of 2 per cent, compared with an outturn of 1.6 per cent in 1992. Inflation is likely to remain very low at under 2 per cent.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1992	1993	1992	1993	1992	1993	1992	1993	1992	1993
UK	– ¾	2	3¾	3½	6¾	6¼	10	10¾	– 2	– 2¼
Germany	1	¼	4	3¾	4½	5¼	6¾	7¾	– 1½	– 1¾
France	1¾	1½	2¾	2½	4	4	10¼	10¾	½	¼
Italy	1¼	1	5¼	5½	6½	6½	11	11½	– 2	– 2
Total EC	1	1	4	3½	5½	5	10	10¾	– 1	– 1
USA	2	3	2½	2¾	3	3¼	7½	7¼	– ¾	– 1
Japan	1½	2	2	1½	3¼	2¼	2	2¼	3¼	3½
Total (OECD)	1½	1¾	3½	3¼	5	3¾	8	8¼	– ¼	– ¼
Ireland	2¾	1	3	3	4½	4	16*	17¼*	6½	6

*See Footnote to Table 8.

The other industrial Asian economies have continued to grow rapidly throughout the recession. Further growth is expected in 1993. Many Latin American countries have also made considerable economic progress in the last year or so, and with the upturn in the US economy this progress should be sustained in 1993.

Economic decline has been acute in Eastern Europe in the past two years. This decline could be coming to an end in the former satellite countries, although the prospects remain daunting for most member countries of the former USSR. Most members of OPEC should benefit mildly from an upturn in world demand for oil in 1993, but no major rise is expected in crude oil prices in the near future.

The Context for Ireland

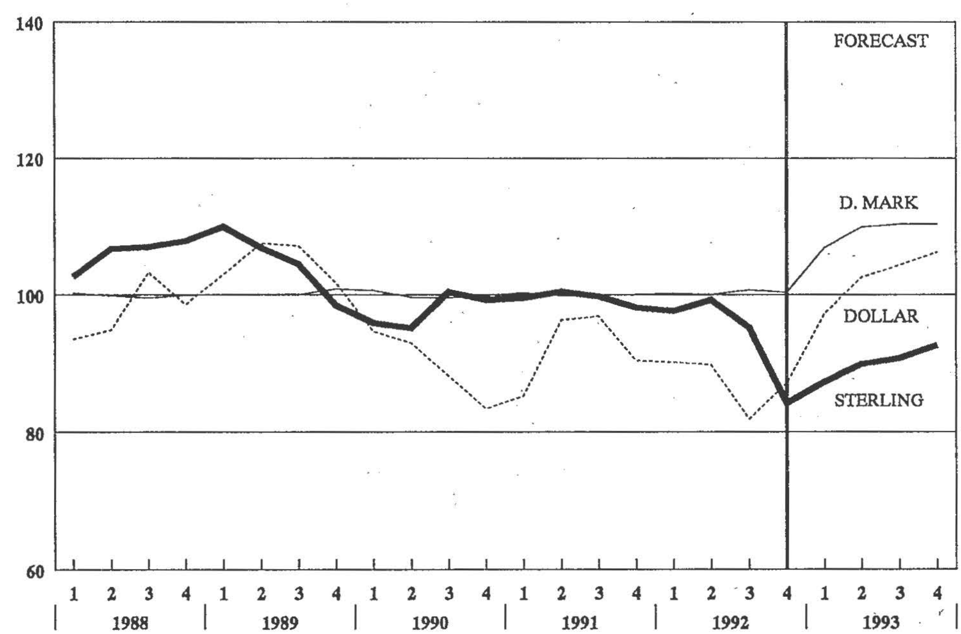
The economic environment for 1993 remains characterised by uncertainty. With regard to growth of export markets, the most likely outcome is a very slight improvement on current depressed levels in the course of 1993, but a slight weakening of annual growth rates compared with 1992. The European market in particular is expected to remain stagnant until quite late in the year. However, a decline in import volumes in Ireland's major European partners cannot be ruled out if the German recession intensifies, or if growth in other European countries is prevented by a continuation of very high interest rates. Conversely, more rapid market growth is possible if the US recovery accelerates, and if there is an early reversal of German monetary policy. Given this uncertainty, it is prudent to anticipate difficult trading conditions for Irish industrial exports for most of the year.

While doubts persist concerning the direction of the European economy, and while the EMS is dogged by instability, it would be unreasonable to assume any upturn in productive private investment within the European Community. Thus, although Ireland's long-term competitive advantage in seeking international investment should remain strong, the pool of such investment to be attracted during 1993 is likely to be limited.

Short-term competitiveness in export markets is obviously affected by exchange rate movements. Currency fluctuations are always difficult to predict, and with speculative pressure in the ERM still active, predictions are more than usually hazardous. For the purpose of this *Commentary*, we assume that

FIGURE 1: Exchange Rates

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



there will be no further realignment within the ERM in 1993, that both the US dollar and the Japanese yen will tend to appreciate against European currencies in the course of the year, and that, after some fluctuations, sterling will strengthen to end the year at slightly above parity with the Irish pound.

These currency assumptions would be compatible with a gradual, but substantial, reduction in German and related interest rates in the next few months, and with approximate stability in short-term interest rates in the US, UK and Japan. The next move in interest rates in these three countries is likely to be upwards, but will probably not take place until late in 1993.

In summary, the external economic environment appears significantly less favourable than was predicted in our Autumn *Commentary.* This is primarily because the German recession has proved to be deeper than was expected, and shows signs of spreading to other European economies, while the restoration of stability in the ERM and reductions in German interest rates are coming more slowly than was then assumed.

The Domestic Economy

General

There have been many major economic developments since the publication of the Autumn *Commentary* in early December. As already discussed, prospects for the European economy appear to have deteriorated significantly, with the German recession proving deeper and more influential than expected. The uncertainty created by a poorer growth outlook has been intensified in much of Europe by continuing pressure on the ERM.

Domestically, interest rates remained very high from December to February, negating our assumption that there would be an early reduction towards pre-crisis levels. Even since devaluation, the pace of interest rate reductions suggests that average interest rates in 1993 will be somewhat above the level assumed in the Autumn *Commentary.*

These negative external and domestic developments are to some extent counterbalanced by the devaluation itself. At the time of writing, this has restored the effective exchange rate of the Irish pound to roughly the same level as in early 1992. This obviously has improved short-term competitiveness compared with the appreciation of over 5 per cent implicit in the previous assumption of an unchanged ERM parity. If our expectation of some appreciation in the US dollar and sterling in the course of the year is justified, then there will be some further improvement in average competitiveness.

The impact of the Budget is unlikely to be significantly different from our previous fiscal assumptions. The current budget deficit implies a slightly tighter stance than we assumed on current spending and taxation, but this is offset by a more expansionary public capital programme.

The final factor which affects our estimates for 1992 and forecasts for 1993 is the substantial revision to the *Balance of Payments Estimates* for earlier years. The revised figures modify our understanding of economic processes in the years from 1985 to 1991. More immediately, they pose the technical question of how to amend the National Accounts tables to ensure balance between the expenditure and income accounts. As the revised service trade figures for the years from 1986 to 1990 were based largely on information already incorporated in the Income estimates of the latest *National Income and Expenditure*, there seems no case for revising estimates of nominal GDP, as derived from the incomes table. Thus, balance has been achieved by revising upwards the estimates of personal consumption, which is derived as a residual in the National Accounts. Although this has the effect of substantially reducing estimates of the personal savings ratio in recent years, it does not significantly affect the forecasts of economic growth in 1992 and 1993.

Exports

Not surprisingly, the seasonally corrected value of exports levelled off in the closing months of 1992, after its rapid growth in the first half of the year. So far as agricultural exports are concerned, this reflected mainly the reduction in export sales of dairy produce out of intervention, which was inevitable as dairy stocks neared exhaustion.

The check in the growth of industrial export values is more critical. Until export price indices for the full period in question are available, it will remain unclear just how much of the lower value trend was due to price reductions following the depreciation of sterling. Average export prices were tending to decline even before sterling left the ERM, and fell further in October. It thus seems probable that the volume of industrial exports continued to grow in the final quarter, although more slowly than in the earlier part of the year, and that average prices fell significantly.

TABLE 2: Exports of Goods and Services

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Agricultural	2251	26	25	2814	-5	-2½	2744
Manufactured	10526	9½	9¼	11506	4½	5	12081
Other Industrial	2066	4¼	3½	2140	3½	3½	2205
Other	181	-8¾	-8¾	165	0	1	167
Total Visible	15025	11	10¾	16625	2½	3½	17197
Adjustments	-350			-275			-270
Merchandise	14675	11½	11½	16350	2¾	3½	16927
Tourism	1218	0	3	1254	4	7	1342
Other Services	1000	6	9	1090	7	10	1199
Exports of Goods and Services	16893	10½	10¾	18694	3	4¼	19468

Total visible exports in 1992 rose by 10¾ per cent in value, and are estimated to have risen by 11 per cent in volume, implying a fall in average prices of about ¼ per cent. With intervention stocks not being sent for storage abroad in 1992, unlike earlier years, the balance of payments adjustment to the trade statistics is likely to have been significantly smaller than in 1991. Merchandise exports are thus estimated to have increased by 11½ per cent in both value and volume.

Official tourist statistics show that there was an increase of over 4 per cent in the number of visitors to Ireland in 1992. However, the same source estimates that earnings from tourism rose by only 2¼ per cent in the first 9 months of the year, in spite of the increase in numbers. This implies that spending per head was lower, perhaps due to a shorter average stay. For the year as a whole, it seems likely that tourism earnings rose by about 3 per cent, implying an unchanged volume of tourism exports, when the value increase is deflated by the consumer price index.

The revised *Balance of Payments Estimates*, as expected, show that other service exports have been expanding more rapidly in recent years than had previously been recorded. In the light of this trend, and of preliminary estimates for the first half of the year, there is likely to have been an increase of about 9 per cent in the value of other service exports in 1992.

As shown in Table 2, total exports of goods and services in 1992 are thought to have risen by about 10 per cent in value, and 10½ per cent in volume. Given the uncertain trading environment for much of the year, this represents a considerable achievement, and underlines the strong competitive position reached by Irish exporters before the currency crisis.

Prospects for 1993 remain difficult to assess, and the hiatus in trade statistics for the first half of the year will make it hard to monitor emerging trends. It seems certain that there will be some fall in the volume of agricultural exports, as the very high 1992 levels reflected an unsustainable rate of liquidating intervention stocks of dairy produce. The resultant change in the composition of agricultural exports should result in an increase in average prices, even in the likely absence of price increases for most specific products.

Manufactured export volume could increase at less than half its 1992 rate. Although the UK domestic market is likely to grow more rapidly than last year, the improved competitiveness of UK producers could limit import growth. For many Irish exporters, the lengthy period when an unfavourable exchange rate coincided with high interest rates must have resulted in some loss of orders. Probable trends in post-devaluation exchange, interest, and inflation rates should restore much of the lost competitiveness *vis a vis* the UK, but the usual lags could mean that the results will not be seen until late in the year.

Compared with most continental European countries, the devaluation of the Irish pound has given Irish industrial exporters a significant competitive advantage. However, most of the large exporters to continental countries are not in particularly cost sensitive industries, and manufactured exports to the continent are more likely to be held back by the general sluggishness of the market than stimulated by improved margins.

Despite devaluation, it seems probable that market conditions will preclude major price rises in Irish pound terms. Indeed, unless there is an unexpectedly rapid rise in the value of sterling, it seems likely that average industrial export prices for 1993 as a whole could be only marginally higher than in 1992.

Thus total visible exports in 1993 are tentatively forecast to rise by about 2½ per cent in volume and 3½ per cent in value. Given no significant change in the balance of payments adjustment, merchandise exports should increase by a similar amount.

The recovery of the US economy and the greater value of the dollar could encourage a significant increase in the number of American tourists in 1993. However, the stagnant state of the continental economy and the depreciation of sterling are likely to restrict the number of European visitors, including the British. Overall, tourism exports could grow rather faster than in 1992, but are unlikely to return to the high growth rates of the late '80s.

Extrapolating the trends of recent years, other service exports can be expected to increase by about 10 per cent in value. On this basis, the value of total exports of goods and services is projected to increase by about 4¼ per cent in 1993, and the volume by 3 per cent. It must be stressed, however, that these export forecasts are subject to a greater margin of error than is normal at this time of the year.

Stocks

It now appears that the turnaround in stockbuilding in 1992 was even greater than had been thought, from a rise of £557 million in 1991 to a fall of about £220 million. Given that there is thought to have been a moderate increase in farm stocks and a largely involuntary rise in industrial and distribution stocks, the fall in intervention and related stocks was even more dramatic, as shown in Table 3.

TABLE 3: Stock Changes

	1991 £m	Change in Rate £m	1992 £m	Change in Rate £m	1993 £m
Livestock on Farms	27	28	55	– 55	0
Irish Intervention Stocks[1]	535	– 845	– 310	210	– 100
Other Stocks	– 5	40	35	– 15	20
Total	557	– 777	– 220	140	– 80

[1]Including subsidised private storage.

Intervention stocks are expected to be reduced again in 1993, although the pace of reduction will be considerably slower than last year. Whereas in 1992 the bulk of stock reduction was in dairy products, in 1993 the reduction will be concentrated on beef. While estimates of annual changes in intervention stocks made early in the year frequently prove to be mistaken, a fall of about £100 million appears to be a reasonable forecast.

The build-up of farm stocks seems likely to come to an end in 1993, as the incentive for maximising herd size as a basis for calculating future CAP benefits will no longer apply. An unchanged level of farm stocks is thus forecast. With slow economic growth expected for most of the year, it seems unlikely that there will be a significant increase in industrial and distribution stocks. A modest reduction of about £80 million in total stocks is thus projected for 1993.

Investment

The economic uncertainty and high interest rates which followed the September 1992 currency crisis obviously had an adverse effect on capital investment. It now seems probable that there was a slight fall in the volume of gross fixed capital formation in 1992, with a 2 per cent decline in the volume of investment in machinery and equipment outweighing a marginal rise in the volume of building and construction.

The fall in private sector investment, both in building and machinery, is believed to have continued in the first quarter of 1993. Even if interest rates fall quite sharply in the remainder of the year, the uncertainty generated by the events of the past six months seems likely to discourage any rapid recovery in private investment. Given the usual lags in converting intentions into actual capital expenditure, even the full restoration of confidence in the second half of the year would be likely to increase private investment in 1994 rather than 1993. Thus private sector capital formation is likely to be considerably lower in 1993 than in 1992, with reductions probable in the volume of almost all categories of investment.

TABLE 4: Gross Fixed Capital Formation

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Building and Construction	2545	½	3	2621	2½	5	2752
Machinery and Equipment	2058	−2	0	2058	1½	3½	2130
Total	4603	−½	1¾	4679	2	4¼	4882

In these circumstances, it is particularly fortunate that increased EC funding will enable a large rise in public capital spending, as outlined in the Public Capital Programme and the Budget. This rise, concentrated on infrastructure investment, but including equipment as well as building and construction, should outweigh the decline in private investment. As shown in Table 4, modest increases are forecast for the volume of capital formation in both building and equipment.

Consumption

For most of 1992 the retail sales index charted a substantial rise in both the value and the volume of personal consumption. However, under the influence of economic uncertainty and very high interest rates, the seasonally corrected retail sales index showed a sharp decline in November and December. For the year as a whole, the value of retail sales rose by about 5.1 per cent with the volume increasing by about 3 per cent. Allowing for a faster increase in non-retail consumption, including tourist spending abroad, the value of personal consumption probably rose by about 5¾ per cent in 1992. As Table 5 illustrates, this was a significantly faster consumption growth than in the two preceding years, even on the basis of consumption figures adjusted upwards to compensate for the revisions to the balance of payments. The adjustments for earlier years have the effect of making consumption growth in the boom year of 1989 much more credible than the previous estimate. Conversely, the consumption increases in 1988 and 1991 are now perhaps slightly exaggerated.

If our income estimates are roughly correct, an increase of 5¾ per cent in the value of personal consumption implies a rise of almost ¾ per cent in the

TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1988	1989	1990	1991	1992 To Date	1992 Forecast	1993 Forecast
Consumption Value							
NIE 1991, Personal Consumption*	8.1	9.6	4.3	3.9	—	5.8	4.8
Retail Sales Index, Value	4.8	9.2	4.8	1.8	5.1	5.1	4.3
Divergence	3.3	0.4	-0.5	2.1	—	0.7	0.5
Consumption Volume							
NIE 1991, Personal Consumption*	5.5	5.7	2.6	0.7	—	3.0	1.8
Retail Sales Index, Volume	2.1	4.7	2.7	-0.2	3.2	3.0	1.3
Divergence	3.4	1.0	-0.1	0.9	—	0	0.5
Consumer Prices							
NIE 1991, Personal Consumption Deflator	2.6	3.8	1.7	3.2	—	2.8	3.0
Retail Sales Index Deflator	2.6	4.3	2.0	2.0	2.1	2.1	3.0
Consumer Price Index	2.1	4.0	3.4	3.2	—	3.0	3.0

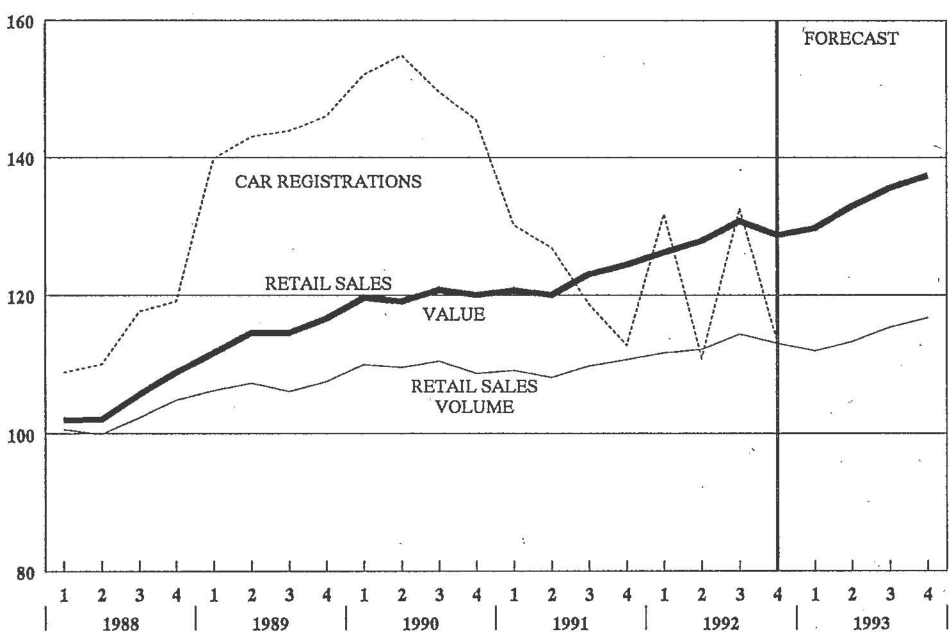
*Adjusted to conform with revised Balance of Payments Estimates.

personal savings ratio in 1992. This is likely to have taken place entirely in the last quarter of the year, as personal consumption appears to have been at least keeping pace with disposable incomes in the first nine months.

Interest rates and uncertainty have almost certainly kept personal consumption depressed in the first quarter of 1993, although no figures are yet available to confirm this. The key question for the remainder of the year is how

FIGURE 2: Consumption

Quarterly Averages Seasonally Adjusted, 1987=100



rapidly consumption will respond to the lowering of interest rates and the gradual lessening of uncertainty which are expected in the coming months. Even though Irish households are not burdened with the excessive debt which has held back the recovery of consumption in the UK, the shock inflicted in recent months by the currency crisis and associated events has been so deep that the recovery of consumer confidence is likely to be quite slow.

Thus it seems prudent to assume no decline in the personal savings ratio in 1993 as a whole. The slower growth expected in disposable incomes is therefore likely to restrict the increase in the value of personal consumption to about 4¾ per cent. With consumer prices likely to rise by about 3 per cent, this implies an increase of only 1¾ per cent in the volume of personal consumption.

Government consumption rose very sharply in 1992, with end-year expenditure figures suggesting increases of 9¾ per cent and 3¾ per cent in the value and volume of public net current expenditure respectively. Both figures were somewhat inflated by the bringing forward of expenditure, especially pay retrospection, from 1993, but even allowing for this the rate of increase was striking. A considerably slower rate of increase appears planned for 1993, with the volume of public consumption growing by about 1 per cent and the value by about 6¼ per cent. It is worth noting that even at this reduced rate of growth, the value of public authorities' net current spending is likely to rise faster than any other major component of expenditure on GNP.

Final Demand

Final demand in 1992 is estimated to have increased by 5¾ per cent in value and 3¾ per cent in volume. The volume increase was accounted for entirely by the rise in exports of goods and services, with the increase in domestic consumption, personal and public, more than offset by the heavy decline in stocks. The composition of final demand was of low import intensity, given the contributions to growth of agricultural exports and public consumption and the decline in the volume of investment in machinery and equipment.

The growth of final demand in 1993 is forecast to be slower, with increases of 5 per cent in value and 2½ per cent in volume projected. The pattern of final demand is likely to be more import intensive than in 1992, although still much less so than in some recent years when investment in equipment, personal consumption and manufactured exports contributed a higher proportion of growth. It is worth noting that the revisions to the balance of payments figures have tended to raise the import elasticity of final demand, with the growth of multinational companies inducing a much higher level of service imports than had previously been reported.

Imports

As in the case of exports, it is difficult to apportion the levelling off in the value of visible imports in the closing months of 1992 between volume and price effects. As with exports, it seems most likely that the volume of imports continued to grow modestly, and that this was roughly offset by falling import prices.

For 1992 as a whole, it thus seems probable that the value increase of about 2¾ per cent reflects a rise of about 4¼ per cent in the volume of visible imports. Volume increases of 5 per cent or more in imports of consumer goods and industrial materials and components offset minor decreases in the volume of imports of capital goods and materials for use in agriculture, as shown in Table 6.

TABLE 6: Imports of Goods and Services

	1991 £m	% Change Volume	% Change Value	1992 £m	% Change Volume	% Change Value	1993 £m
Capital Goods	1814	− 1	− 1	1796	2	4½	1877
Consumer Goods	3620	5	3½	3747	4	5½	3953
Intermediate Goods:							
Agriculture	466	− 2	− 5½	441	− 3	− 1	437
Other	6871	5½	3¾	7130	4¼	6¼	7576
Other Goods	83	2½	2½	85	2	4	88
Total Visible	12853	4¼	2¾	13199	3½	5½	13931
Adjustments	− 165			− 165			− 165
Merchandise Imports	12688	4¼	2¾	13034	3¾	5½	13766
Tourism	699	9½	13	790	4	7	845
Other Services	1685	9½	13	1906	7	10¼	2101
Imports of Goods and Services	15072	5	4¼	15730	4	6¼	16712

There is no reason to suppose that there was any significant change in the balance of payments adjustment, so trends in merchandise imports were the same as for visible imports. Expenditure on tourism abroad rose sharply, after two years of approximate stagnation in the value of tourism imports. The balance of payments revisions revealed that other service imports have been rising in recent years much more rapidly than had been realised. In line with this upward trend, figures for the first half of 1992 suggest that the annual value increase in other service imports was about 13 per cent.

Thus total imports of goods and services are estimated to have risen about 4¼ per cent in value and 5 per cent in volume in 1992. This volume growth is more than 3 times the revised 1991 increase, but well below the average for the preceding five years.

With the volume growth of final demand in 1993 expected to be considerably slower, but rather more import intensive, than in 1992, a slightly slower volume increase in visible imports is forecast. Depending on the country of origin, some import prices are likely to rise significantly in 1993 while others should remain below their 1992 average levels, simply as a result of currency movements. Pricing decisions by suppliers are likely to modify the pure currency effects. In particular, imports from countries such as Britain which have maintained a net depreciation against the Irish pound will have much of the currency fall offset by exporters' price increases. Nevertheless, with a significant negative carryover of import prices from 1992, and with world trade prices likely to remain weak, annual average import prices are projected to rise by no more than 2 per cent.

A modest rise in the value of tourist spending overseas is forecast, while a slightly slower increase than last year is projected for other service imports, due to the lower rate of growth expected in the Irish economy.

Total imports of goods and services are thus forecast to increase by 4 per cent in volume, and by 6¼ per cent in value. As with the export forecasts, however, the import projections must be treated as more than usually tentative, especially as they cannot be tested against actual trends in the trade statistics in the course of the year.

Balance of Payments

Despite the major downward revision in estimates of the current account surplus in recent years, it still seems certain that there was a very large surplus in 1992. As Table 7 shows, there was a massive increase in the merchandise trade balance, which was more than sufficient to outweigh adverse trends in service trade, factor flows and net international transfers. Although it is £800 million lower than our previous estimate, the new estimate of £1,667 million for 1992 represents over 6½ per cent of GNP, and confirms the earlier view that in the short to medium term the current account of the balance of payments is not a constraint on Irish economic growth.

TABLE 7: Balance of Payments

	1991 £m	Change %	1992 £m	Change %	1993 £m
Visible Trade Balance	2172	57½	3425	- 4¾	3266
Adjustments	- 185		- 110		- 105
Merchandise Trade Balance	1987	67	3315	- 4¾	3161
Service Trade Balance	- 166	112	- 352	15	- 405
Trade Balance in Goods and Services	1821	63	2963	- 7	2756
Factor Flows:					
Profits etc.	- 2377	8½	- 2579	7½	- 2772
National Debt Interest	- 1031	—	- 1031	8	- 1113
Other Debit Flows	- 1220	- 6	- 1147	4	- 1193
Total Debit Flows	- 4627	2¾	- 4757	6¾	- 5078
Credit Flows	1762	- 3	1709	5½	1803
Net Factor Flows	- 2865	6½	- 3048	7½	- 3275
Net Transfers	1969	- 11	1752	20	2102
Balance on Current Account	925	80	1667	- 5	1583

On the basis of our export and import forecasts, there could be a minor fall of about £150 million in the surplus on visible and merchandise trade in 1993. However, given the uncertainties outlined in the discussion of exports and imports, this projection must be treated with considerable caution. The newly discovered deficit on service trade seems likely to widen further, although much more slowly than in 1992. Thus the surplus on trade in goods and services is projected to decline by about 7 per cent, or roughly £200 million.

The balance of payments estimates for the first half of 1992 indicate that profit outflows were increasing more slowly than we had expected. With multinational export trade not particularly buoyant, a continuation of this relatively moderate increase in profit expatriation seems probable in 1993. Devaluation will increase the Irish pound cost of servicing the overseas national debt in 1993, while other current debit flows, which are thought to have declined in 1992, are assumed to return to their more normal upward trend in 1993. Thus total debit flows are projected to increase by 6¾ per cent in 1993, compared with the unusually small increase of 2¾ per cent estimated for 1992.

Credit flows also seem to have declined in 1992, against their usual strong upward trend. A resumption of modest growth is assumed for 1993. Thus net factor flows are projected to increase by 7½ per cent in 1993, slightly faster than the estimated 1992 increase.

The probable deterioration in the trade balance and net factor flows will be largely offset by substantial rise in net international transfers, primarily from the EC. Thus the most probable outturn for 1993 is that there will be a small decline in the value of the current account surplus, although as a proportion of GNP it should remain at the high level of 6 per cent, provided that the latest revisions to the balance of payments do represent an accurate base for measuring current flows.

Agriculture

Official estimates of agricultural output in 1992 show that growth was slightly higher than we forecast in the Autumn *Commentary*. The volume of gross agricultural output rose by 2.8 per cent, with most of the rise due to increased livestock production. As expected, the volume of inputs continued to fall, so that the volume of gross agricultural product increased by over 7 per cent, contributing roughly ½ per cent to the rise in real GNP.

Although agricultural output is inevitably liable to be affected by weather conditions, at this stage of the year there is no reason to expect any significant change in the volume of gross output. Milk production is likely to be slightly below 1992 levels, but this should be offset by a modest increase in livestock production. The volume of inputs should continue to fall, suggesting that there could be an increase of about 1 per cent in the volume of gross agricultural product.

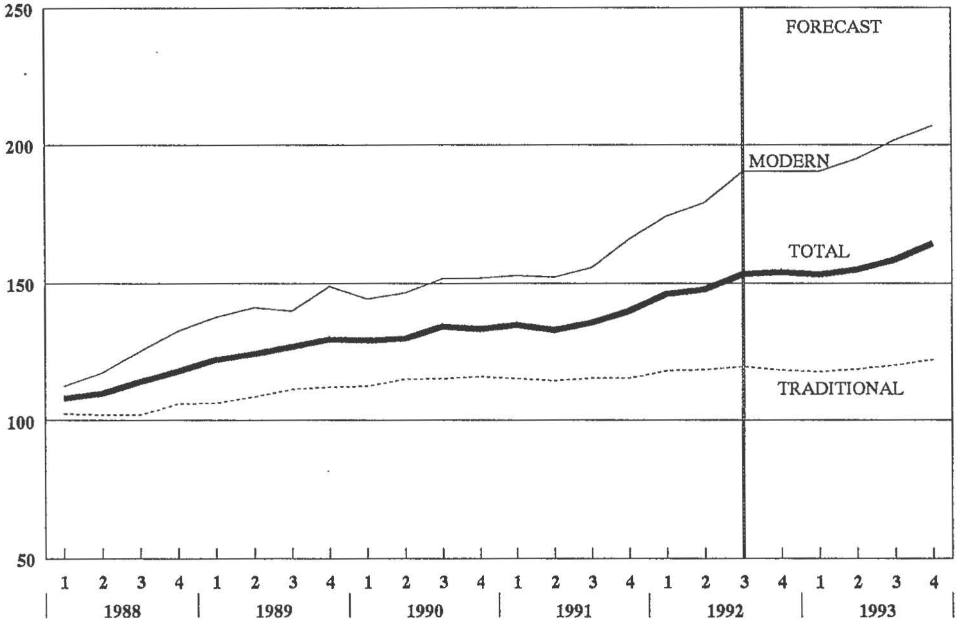
Industry

The industrial production index for the first eleven months of 1992 indicates that the annual rise in the volume of production in manufacturing industry is likely to have been over 10½ per cent. For "all industries" the annual increase approached 10 per cent. The largest increase was in chemicals, but most industry groups shared in the annual rise. On a seasonally corrected basis it is clear that most of the annual growth in manufacturing output levels was achieved in the early months of the year, and that there was a considerable slowing of growth in the later months.

This slowdown implies that there will be only a modest carryover of about 2½ per cent in manufacturing growth into 1993. Output seems likely to remain roughly static in the early months of 1993, due to slack European demand for exports and the temporary loss of competitiveness *vis a vis* UK competitors. Expansion seems likely to be resumed from about the middle of the year, but the annual increase in the volume of production in manufacturing industry will

FIGURE 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1987=100



probably not exceed 5 per cent. This represents a modest upward revision to our previous forecast, mainly as a result of devaluation improving prospects for the traditional sector.

A minor recovery is projected for the building and construction industry as a result of increased EC funding, so that gross output of the broad industry sector is forecast to rise by about 4 per cent in 1993, compared with about 7 per cent in 1992.

Services

The value of output of the public services in 1992 was rather higher than had been expected. However, despite the upward revision to estimates of some service exports in recent years, it seems likely that the total output of private services in 1992 was weaker than we previously forecast. Thus the volume of output of the total service sector was probably about 2 per cent, much the same as our earlier estimate.

Public service output is scheduled to increase more slowly in 1993, on the basis of Budget projections. With general economic growth likely to be subdued in 1993, the increase in the volume of private service output can also be expected to be slightly less than in 1992. An overall increase of about 1½ per cent is thus forecast for the volume of services in 1993.

Employment

Despite the strong rise in manufacturing output in 1992, quarterly statistics indicate approximate stagnation in manufacturing employment. This is particularly surprising as several labour intensive traditional industries shared in the general buoyancy of output. With both manufacturing and building employment likely to have fallen in the final quarter, average employment in the broad industry sector probably declined by about 5,000 in 1992 as a whole. With numbers in public employment once more increasing, total service employment is thought to have risen enough to outweigh the fall in industrial employment. Assuming the usual decline in the numbers engaged in agriculture, the total at work is likely to have remained roughly constant, or perhaps declined marginally, as shown in Table 8.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000					
	1990	1991	1992	1993	1994
Agriculture	167	154	150	147	144
Industry	320	322	316	309	313
Services	639	649	659	663	668
Total at Work	1126	1125	1125	1119	1125
Unemployed	179	208	225	248	259
Labour Force	1305	1334	1350	1367	1384
*Unemployed Rate %	13.2	14.7	15.7	16.9	17.5
Live Register	221	248	281	303	318

B: Annual Averages '000				
	1990	1991	1992	1993
Agriculture	160	152	149	146
Industry	321	319	314	310
Services	645	655	662	665
Total at Work	1126	1126	1125	1121
Unemployed	185	216	236	255
Labour Force	1311	1342	1361	1376
*Unemployed Rate %	13.4	14.9	16.1	17.2
Live Register	225	254	283	308

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

Employment prospects in 1993 remain unfavourable. Even after devaluation, many indigenous firms are facing a squeeze on costs which could result in job losses, although a minor upturn in manufacturing employment is possible later in the year. The increase in EC- financed construction is likely to be less labour intensive than the expected reduction in private building. Service employment should continue to grow, but more slowly than in 1992, due to the general sluggishness of the economy and the tighter constraints on the volume of government current spending. Assuming a further decline in agricultural employment, the annual average total at work in 1993 could fall by about 4,000.

Given the continuing rise in UK unemployment, emigration seems likely to remain low, and the labour force to rise by perhaps 15,000 on an annual basis.

This implies a further substantial increase in unemployment, with the Live Register averaging about 308,000 and the unemployment rate about 17.2 per cent.

Incomes

Agricultural incomes rose sharply in 1992, with higher output prices and increased net subsidies reinforcing the increase in the volume of gross agricultural product. Official estimates place the increase in income arising in agriculture at 16.8 per cent, implying a rise of almost 16 per cent in incomes in the broad agricultural sector. At present it seems probable that there will be a much smaller increase of about 3 per cent in agricultural incomes in 1993, but unexpected price movements or abnormal weather conditions could change this outlook in either direction.

The partial evidence of industrial and financial earnings data suggest that average private sector weekly earnings rose by about 4½ per cent in 1992. Average public service earnings were considerably higher, especially when allowance is made for the bringing forward into 1992 of retrospection due in 1993. With a marginal increase in total non-agricultural employment, it is estimated that aggregate wages salaries and pensions rose by about 5¾ per cent.

Due largely to enhanced cost-consciousness, it seems probable that the increase in average private sector pay will be slightly slower in 1993, at just over 4 per cent. Public service pay will again increase more rapidly than private sector, but not as rapidly as in 1992. With total non-agricultural employment roughly static, the increase in aggregate earnings in 1993 is projected at 5¼ per cent.

Other non-agricultural income is always difficult to estimate, partly because the base for projection is generally about two years out of date. With this proviso, it seems likely that any increase in such incomes would have been very small in 1992. For most of the year, rates of interest were below the previous year's level, while dividends and other property income were far from buoyant. Income from non-agricultural self employment is likely to have reflected the relatively slow growth in domestic demand in 1991 and 1992. Due largely to the probability that average receipts from interest and other property income will be somewhat higher, other non-agricultural incomes are projected to rise by 4½ per cent in 1993 compared with 1 per cent in 1992.

Current transfers to the household sector are estimated to have increased by 9¾ per cent in 1992, due mainly to higher unemployment and increased rates of benefit. An increase of 6¼ per cent in transfer income is projected for 1993. Thus, as shown in Table 9, gross personal income is estimated to have risen by about 6¾ per cent in 1992, and is forecast to rise at the slower rate of 5¼ per cent in 1993.

Direct personal taxes, including PRSI contributions, increased by about 6¾ per cent in 1992. With gross incomes rising more slowly, but allowing for the impact of the temporary income levy, the increase in direct personal taxation seems likely to be about 6½ per cent in 1993. Thus personal disposable income, which is estimated to have risen by 6¾ per cent in 1992, is forecast to increase by 4¾ per cent in 1993.

TABLE 9: Personal Disposable Income

	1991	Change		1992	Change		1993
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	1794	15¾	284	2078	3	62	2140
Non-Agricultural Wages, etc.	13620	5¾	783	14403	5¼	756	15159
Other Non-Agricultural Income	2824	1	28	2852	4½	128	2980
Total Income Received	18238	6	1095	19333	5	946	20279
Current Transfers	4287	9¾	417	4704	6¼	296	5000
Gross Personal Income	22525	6¾	1512	24037	5¼	1242	25279
Direct Personal Taxes	4984	6¾	336	5320	6½	349	5669
Personal Disposable Income	17541	6¾	1176	18717	4¾	893	19610
Consumption	15616	5¾	906	16522	4¾	785	17307
Personal Savings	1925	14	270	2195	5	108	2303
Savings Ratio	11.0			11.7			11.7

The personal savings ratio appears to have risen by almost ¾ per cent in 1992, if our estimates of income and consumption are correct. Such a rise would be in keeping with the composition of income increases, including the payment of public service retrospection in the closing weeks of the year. It would also reflect the sharp fall in consumer confidence experienced in the last quarter of the year following its gradual rise in the earlier months. The reverse time pattern is likely to be seen in 1993, with consumer confidence very weak in the first quarter, followed by a gradual improvement in later quarters. For the year as a whole, it seems reasonable to assume that consumer confidence will be marginally weaker than in 1992. On the other hand, the composition of income increases is expected to be less savings-intensive. Thus an unchanged savings ratio is projected for 1993. On this basis, an increase of about 4¾ per cent in the value of personal consumption would be compatible with our incomes forecasts.

Consumer Prices

The 3 per cent annual average rise in the consumer price index in 1992 masked a substantial deceleration in price inflation in the course of the year. The annualised quarterly change in the seasonally corrected index declined from over 3 per cent in the first half of 1992 to about 1½ per cent in the second half of the year. But for the steep rise in mortgage interest rates, which added more than ¾ per cent to the index, there would have been an actual decline in the consumer price index in the quarter to November, as the effects of sterling devaluation began to be felt.

Thus the carryover of price increases into 1993 is low. Mortgage interest rates are likely to decline after the first quarter, and there were only limited increases in indirect taxes in the Budget, which, being later than usual, will not have affected the February index. Against these factors tending to limit the rise in the consumer price index in 1993 must be placed the possibility that seasonal food prices, particularly of potatoes, might increase again following their sharp fall in the summer of 1992, and, of course, the influence of currency movements. The devaluation of the Irish pound has brought the effective exchange rate back to roughly where it was in the first quarter of 1992. A substantial appreciation has so far been retained over sterling, which is the relevant currency for a large proportion of imported consumer goods. Even allowing for some recovery in the value of sterling in the course of the year, and for some increase in sterling prices, it does not appear probable that import prices will be a major source of inflation in 1993.

For the year as a whole, therefore, there seems no reason to expect inflation, as measured by the consumer price index, to increase by more than 3 per cent. Ireland should thus remain among the EC countries with a relatively low inflation rate in 1993.

Public Finances

Due partly to revenue weakness in the closing months, and partly to the decision to bring forward expenditure from 1993, the current budget deficit in 1992 exceeded its target by just over £100 million. Nevertheless, at £446 million, or 1.8 per cent of GNP, it remained comfortably within the Maastricht guidelines, as did the Exchequer Borrowing Requirement at 2.8 per cent of GNP.

The shifting of expenditure into 1992, and administrative arrangements to maintain the flow of VAT revenue in 1993 in spite of the ending of collection at point of entry, did much to relieve the expected pressure on the current budget deficit in 1993. Thus, according to the Budget arithmetic, it has been possible to restrict the expected rise in the deficit to £76 million, leaving the total at about 2 per cent of GNP, through a combination of relatively minor changes in tax and expenditure.

Adjustments in VAT bands and increases in excise and stamp duties amount in aggregate to little more than the indexing of specific indirect tax rates. Changes in income tax allowances, exemptions and bands fall slightly short of the equivalent of full indexation, leaving the introduction of the 1 per cent income levy the principal addition to real tax rates. With regard to expenditure, the revised Estimates indicate a moderate rather than a drastic restriction on the growth of spending, both in constant and current price terms.

If our general economic forecast is correct, there could be a slight shortfall in revenue receipts in 1993, as the Budget projections are based on more buoyant expectations of the value of consumer spending than we have forecast. The expenditure projections appear realistic, provided that strict control is maintained on day-to-day outlays. Fortunately, the target for the current budget deficit is sufficiently tight that a minor slippage would neither breach the Maastricht guidelines nor cause serious concern to the financial markets.

The most important feature of the Budget is the very substantial increase proposed in capital expenditure. As already discussed, this should be sufficient to offset the decline expected in private capital spending, and thus ensure some increase in the volume of total fixed capital investment in 1993. While much of the increased capital requirements will come from higher EC funding, increased domestic resources are also postulated, including receipts of £150 million from asset disposals.

Assuming that both the expenditure and financing element of the capital budget are met, Exchequer borrowing for capital purposes will be slightly lower than in 1992, in spite of the major increase in the volume of the Public Capital Programme. The budgeted increase in the Exchequer Borrowing Requirement is thus less than £50 million, and even the minor slippage which seems possible in the current budget deficit should allow the EBR to be kept to about 3 per cent of GNP. Valuation changes due to devaluation will result in a small deterioration in the debt GDP ratio, but this seems likely to be only a temporary interruption to the steady long-term process of reducing this key ratio.

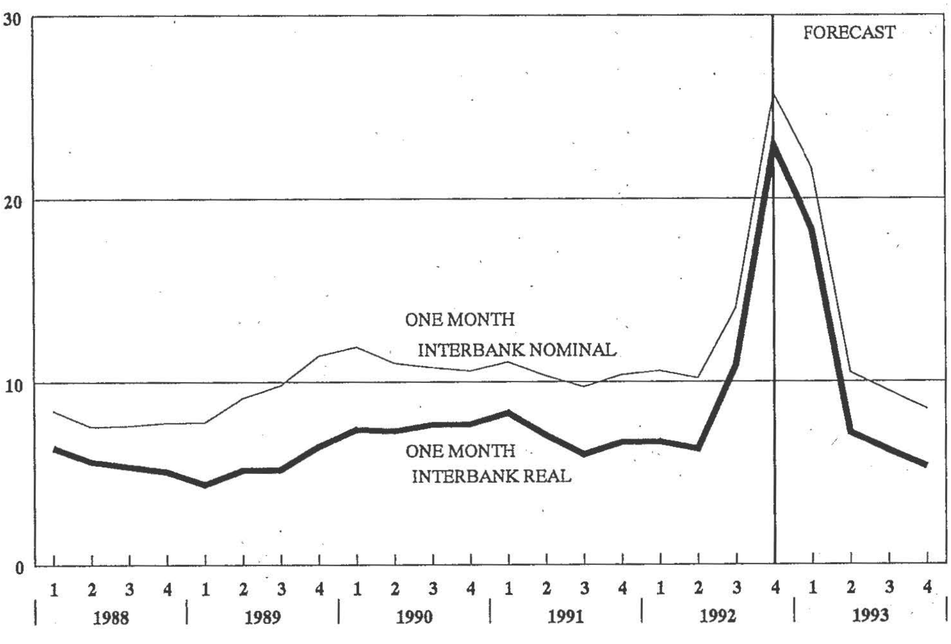
Interest Rates

The assumption was made in the Autumn *Commentary* that Irish interest rates would fall rapidly during the winter months to end the first quarter of 1993 at approximately their pre-crisis levels. Obviously, this assumption has not proved justified. Throughout December and January wholesale interest rates remained very high, with occasional surges in response to intensified currency speculation. Attention had to be focused on preventing further increases in retail interest rates, and reductions could not be considered.

Even after devaluation, the need to recoup foreign exchange reserves, and the renewed depreciation of sterling, prevented an immediate and substantial lowering of wholesale and retail interest rates. More recently, a combination of factors has permitted a significant lowering of rates. Domestically, an adequate level of external reserves has been re-established, and the Budget has removed fears of a loss of fiscal discipline. Abroad, the Bundesbank has initiated a process, however gradual, of reducing German interest rates, the degree of

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



speculation against the parities, and perhaps even the structure, of the ERM has abated, and the value of sterling has appreciated.

While occasional relapses in the external factors, such as renewed ERM speculation after the French elections or a renewed depreciation of sterling, cannot be ruled out, in general conditions over the coming months should be conducive to a further substantial reduction in Irish interest rates. By the end of the second quarter, German interest rates should be significantly lower than their mid-1992 level. Allowing for the wider differential over German rates, Irish wholesale interest rates are thus likely to have returned roughly to their mid-1992 levels. Retail interest rates might be rather slower to decline than wholesale, as lending institutions attempt to compensate for the loss of margins suffered during the winter when the rise in wholesale rates was not fully passed on.

One of the legacies of devaluation is that the differential over German levels of both wholesale and long-term interest rates is likely to remain higher than in the period preceding the September 1992 currency crisis. However, provided the start made by the Budget in signalling Ireland's determination to defend its new ERM parity is resolutely followed through, particularly during any periods of temporary sterling weakness, there seems no reason why the additional differential should be large. It is certainly reasonable to expect that the current differential on short-term wholesale interest rates will be significantly eroded by the end of the year. This narrowing of the differential, together with the restoration of a normal relationship between wholesale and retail rates and a continued easing of German monetary policy, should permit Irish retail interest rates to fall below pre-crisis levels in the second half of 1993. For the year as a whole, average retail rates, including the mortgage rate, could thus be marginally lower than the 1992 average.

General Assessment

In the Autumn *Commentary*, the overriding policy imperative was identified as an almost immediate reduction in short-term interest rates. The preferred policy method of achieving this was an adjustment package which would enable the economy to compete effectively at the existing exchange rate.

In the event, neither government, potential government parties, nor the trade unions appeared willing to implement the cost reductions needed to make such a strategy work. At the same time, external instability, in terms of pressure on the ERM and fluctuations in the value of sterling, proved more persistent than might have been expected. This combination of internal and external factors not only ruled out the early reduction of interest rates but contributed to the pressure for a further substantial increase in the already crisis levels of mortgage and other retail rates.

The prospect of even higher interest rates for an indefinite period made the decision to devalue the Irish pound inescapable. Whatever the arguments about the effect on long-term interest differentials of alternative currency strategies, the near certainty of large-scale job losses if the immediate interest rate crisis was not resolved was rightly seen as unacceptable.

This relationship between excessive interest rates and employment prospects is central to an understanding of policy issues in the first half of 1993. Despite the inevitable rhetoric in the election campaign about reducing the level of unemployment, the continuation for several months of real interest rates far above the historical norm or those in competing countries meant that the initial actions of the new government had to be defensive rather than offensive. There was a serious danger, still not fully averted, that the increase in unemployment would accelerate as businesses failed or laid off a high proportion of their workforce.

To prevent such a catastrophe, it was, and is, necessary to address the twin problems of competitiveness and of interest rates. In the absence of a cost-cutting package, devaluation was the necessary first step in tackling the issue of competitiveness and in making possible a reduction in interest rates. However, devaluation alone was unlikely to solve the interest rate problem. Confidence needed to be established that the hard currency strategy had undergone a forced modification, rather than been abandoned, and that the Maastricht fiscal targets remained in place.

Given that domestic cost adjustments were not to be made, and that currency speculation showed no sign of abating, devaluation was perhaps delayed too long. However, the long battle to preserve the Irish ERM parity following sterling's withdrawal from the mechanism was itself a necessary affirmation of Ireland's determination to pursue a strong currency policy and to participate in any moves towards *de facto* monetary union. The final admission that the old parity could not be held, in the face of yet another reduction in UK interest rates and consequent sterling depreciation, was not, in the circumstances, a signal that the strategy had been changed. To demonstrate this continuity of strategy, it was also necessary that the devaluation was within the ERM, and was of a size which would remove speculative pressure without attempting to restore the Irish pound/sterling exchange rate to its pre-crisis level.

Any element of the alternative strategy, such as a much earlier devaluation, a decision to float rather than remain with the ERM, or an attempt to restore the August 1992 relationship with sterling, would have indicated that economic links with the UK remain paramount, and that the progress made over the previous decade or so towards moving from being an economic satellite of the UK to becoming an integrated part of the European economy had been illusory. There might have been short-term gains from such a strategy switch, but the long-term costs would have been unacceptably high. Although the UK might well achieve one of the highest growth rates in the EC in 1993, because it is recovering from the earliest and deepest recession, its medium to long-term prospects remain among the weakest in the Community. Once the initial J-curve effects have been worked off, the balance of payments constraint on UK growth is likely to have been temporarily eased by the depreciation of sterling. However, it has by no means been removed, and there is a strong likelihood that over the next five years UK growth will be slower and more erratic than in the rest of the EC, and that the UK will be forced to maintain interest rates considerably above the European norm. Thus, while the UK will inevitably remain the largest single market for Irish exports, the process of trade diversification towards Europe should be encouraged and the financial decoupling from London should be continued, at least until such time as there is irrevocable movement towards European Monetary Union including the UK.

While the devaluation itself met the requirements for re-establishing a strong ERM currency strategy, further action was, and still is, needed to reinforce market perceptions that such a strategy is in place. At the technical level of currency management it was important that the external reserves should be restored to normal levels before any attempt was made to force down domestic interest rates. This re-building of reserves now appears to have been accomplished. It will also be necessary to demonstrate determination to defend the new ERM parity during any future bout of speculation, whether occasioned by further ERM realignments or by a temporary depreciation of sterling. If required, there must be a willingness to reverse, promptly but temporarily, the process of reducing domestic interest rates.

However, although strong currency management, including the appropriate use of monetary policy, will remain a requirement in restoring full confidence and thus reducing the interest rates differential, it is by no means sufficient. General economic management is likely to prove even more critical in the full restoration of market confidence.

One aspect of economic management is fiscal policy. A perception that there was a weakening of policy in relation to medium term fiscal targets could undermine confidence and place upward pressure on interest rates. The danger of such a perception arising with regard to any country is inevitably more acute when there is a change of government, especially when the new government contains a left of centre party. Thus the incorporation of relatively tight, but credible, fiscal targets in the new government's first Budget was a necessary first step in retaining market confidence in economic policy. Even the alleged lack of imagination in the tax and current expenditure provisions of the Budget could have been advantageous, as the markets have frequently proved chary of imaginative fiscal initiatives.

While the timing and extent of recent interest rate reductions provides evidence that the Budget was successful in its primary aim of reassuring the markets concerning fiscal policy, this does not mean that full confidence in economic management has been established. Quite apart from fiscal responsibility, the markets are traditionally concerned with inflation trends, and more recently have come to regard unemployment levels as one of the fundamental indicators of economic performance.

Thus the main requirement of economic policy in the remainder of 1993 is to convince both the markets and the general public that inflation will remain under control and that an effective employment strategy is emerging.

Central to this task is the evolution of a pay policy which will ensure that international competitiveness will be at least maintained, and that when the economic upturn arrives the competitive benefits of devaluation will not be dissipated in a round of inflationary pay increases. To this end, the negotiation of an agreement to follow the PESP, which expires this year, could be helpful, but only if its pay elements are realistically moderate. In the context of current international trends this implies lower annual pay increases than those contained in the current PESP, and a greater potential for flexibility in the face of unforeseen external shocks.

A vital sub-set in overall pay policy is the question of public service pay determination. The application of the existing system of arbitration has resulted in rigidities, inequities and severe pressure on the public finances. Substantial modification to the system is overdue, and the discussions on this issue are among the most important matters facing the government this year. Clearly the principles of arbitration and of outside comparisons remain valid, but the interpretation must be made more flexible, with much greater account taken of productivity considerations in both the applicant and reference groups, of ability to pay, and of market trends as manifested in the level of qualified applicants for job vacancies or the difficulty of retaining staff.

Obviously, pay moderation and reformed bargaining structures do not add up to an employment strategy, and many other measures to improve long-term economic structure are needed. However, in a small open economy with a public finance constraint there is a direct trade-off between pay levels and employment, in both the trading and the public sectors. The guidelines set in 1993 for the determination of pay increases in the coming years could have a considerable influence on the pace of net job creation in those years.

In summary, 1993 still seems likely to be a very difficult year for the Irish economy. The short-term prognosis is full of uncertainties, but it seems most probable that the immediate task of policy will be to limit job losses rather than to achieve an early reduction in unemployment. However, the prospects for succeeding years are much brighter. If there is an up-turn in the world economy, the Irish economy seems competitively well placed to benefit, as it was after the 1986 devaluation. Although it is far too early to be certain, there is a real possibility that 1994 could see the beginning of a sustained period of rapid growth in the Irish economy. Policy decisions in 1993 should be geared to ensuring that this growth is non-inflationary and translates as fully as possible into increased employment.

STATISTICAL APPENDIX

	Output Indicators					Employment		
	1	2	3	4	5	6	7	8
	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Electricity Output	Houses Completed	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing
	1985 = 100	1985 = 100	1985 = 100	G.W.H.	Total Number	'000s	'000s	'000s
1985	100.0	100.0	100.0	11919	23948	186.9	39.4	147.5
1986	102.9	107.1	99.9	12466	22680	184.2	40.2	143.8
1987	113.6	132.7	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	161.9	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	188.9	112.3	13640	18068	187.0	45.3	141.8
1990	149.2	197.9	117.6	14325	19539	193.0	48.3	144.8
1991	153.9	208.6	118.0	14990	19652	194.6	50.4	144.2
1992								

Quarterly Averages or Totals

1989 I	139.2	192.6	102.3	3522	3663	182.5	43.7	138.8
II	147.3	196.5	112.7	3250	4203	184.9	44.5	140.5
III	132.1	166.3	105.6	3160	5467	189.8	46.5	143.5
IV	151.8	195.5	117.8	3708	4735	190.8	46.6	144.2
1990 I	147.6	202.8	108.0	3782	4372	189.2	45.9	143.6
II	153.3	202.6	119.0	3368	4667	191.9	47.2	144.9
III	139.8	180.8	109.5	3272	5313	195.6	49.9	145.5
IV	156.3	200.0	121.8	3903	5187	195.4	50.3	145.2
1991 I	154.2	215.3	110.5	4018	4785	192.6	49.2	143.3
II	156.1	209.3	118.4	3484	4164	193.7	49.4	144.4
III	141.9	186.0	109.8	3455	5228	195.6	50.8	144.8
IV	163.8	218.7	121.2	4033	5475	196.4	52.1	144.1
1992 I	167.6	245.9	113.2	4187	4372	191.9	51.1	141.0
II	173.4	245.6	122.5	3644	5920	193.1	50.8	142.5
III	161.0	227.5	113.9	3602	6284	195.4	52.1	143.4
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1989 I	138.5	182.2	106.2	3243	No Seasonal Pattern.	184.3	44.3	140.0
II	140.9	186.7	108.6	3455		185.8	45.1	140.7
III	143.9	185.0	111.2	3458		188.0	45.9	142.4
IV	146.9	197.1	112.0	3495		189.8	46.0	143.8
1990 I	146.4	191.1	112.4	3488		191.2	46.6	144.9
II	147.3	194.0	114.8	3584		192.8	47.9	145.1
III	152.3	200.9	115.1	3577		193.7	49.2	144.5
IV	151.3	201.1	115.8	3676		194.3	49.6	144.7
1991 I	152.9	202.2	115.1	3708		194.7	49.9	144.7
II	150.8	201.7	114.3	3709		194.6	50.1	144.5
III	154.0	206.2	115.3	3777		193.7	50.1	143.9
IV	158.6	219.7	115.2	3796		195.2	51.4	143.5
1992 I	165.9	230.6	117.9	3864		194.0	51.9	142.4
II	167.6	237.2	118.4	3879		194.1	51.5	142.6
III	174.1	252.0	119.4	3939		193.5	51.4	142.5
IV								

Output per Head			Money Earnings	Real Earnings	Unemployment			
9	10	11	12	13	14	15	16	
Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Manufacturing	Manufacturing	Live Register Male	Live Register Female	Live Register Total	
1985 = 100	1985 = 100	1985 = 100	1989 = 100 Av. Weekly	1989 = 100 Av. Weekly	'000s Av. Monthly	'000s Av. Monthly	'000s Av. Monthly	
100.0	100.0	100.0	81.3	92.5	170.2	60.4	230.6	1985
104.4	104.8	102.5	87.3	95.7	172.0	64.4	236.4	1986
116.4	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.6	111.7	96.1	100.0	169.7	71.7	241.4	1988
142.4	164.1	116.9	100.0	100.0	160.0	71.6	231.6	1989
144.5	161.2	119.9	103.9	100.5	152.1	72.6	224.7	1990
147.8	163.0	120.8	108.4	101.7	170.5	83.5	253.9	1991
					187.2	96.0	283.1	1992
Quarterly Averages								
142.6	173.5	108.7	97.9	99.6	169.5	73.0	242.6	1989 I
148.9	173.8	118.3	99.1	99.8	159.7	70.9	230.7	II
130.1	140.9	108.6	100.9	100.1	155.9	72.7	228.6	III
148.7	165.2	120.6	102.1	100.5	154.7	69.7	224.4	IV
145.8	174.0	110.9	100.9	98.5	158.3	71.7	230.0	1990 I
149.3	169.0	121.2	103.1	100.3	148.2	71.2	219.4	II
133.6	142.6	111.1	105.1	101.3	149.7	75.0	224.7	III
149.5	156.6	123.8	106.3	101.9	152.1	72.6	224.7	IV
149.7	172.3	113.8	105.5	100.3	165.8	77.9	243.7	1991 I
150.6	166.9	120.9	108.7	102.6	167.2	81.1	248.3	II
135.6	144.2	111.9	108.6	101.1	173.1	88.7	261.8	III
155.9	165.3	124.1	110.9	102.6	175.7	86.3	262.0	IV
163.3	189.5	118.4	109.6	100.6	186.7	91.4	278.1	1992 I
167.9	190.3	126.9	112.5	102.5	183.9	93.1	277.0	II
154.0	171.9	117.1	112.3	101.7	188.5	101.8	290.2	III
					189.5	97.6	287.2	IV
Quarterly Averages (Seasonally Corrected)								
139.9	162.9	111.8	98.8	100.6	164.0	72.7	236.8	1989 I
142.3	163.0	113.8	99.1	99.7	161.4	71.9	233.2	II
142.1	158.5	115.2	100.6	99.9	158.0	70.7	228.6	III
145.9	168.8	115.0	101.4	99.7	156.4	71.2	227.6	IV
142.8	162.2	114.3	102.0	99.5	152.9	71.4	224.4	1990 I
143.3	159.8	116.8	103.0	100.1	149.9	72.1	222.0	II
145.9	160.5	117.5	104.8	101.2	151.4	72.8	224.2	III
146.4	159.6	118.1	105.5	101.1	154.1	74.3	228.3	IV
146.3	159.9	117.3	106.7	101.5	160.4	77.6	238.0	1991 I
145.0	158.9	116.7	108.5	102.3	169.0	82.0	250.9	II
148.0	161.9	118.2	108.4	101.1	174.7	86.3	260.9	III
152.6	168.4	118.4	110.1	101.8	177.9	88.1	266.0	IV
159.4	175.5	122.2	111.0	101.8	181.4	91.1	272.5	1992 I
161.9	181.7	122.5	112.3	102.1	185.6	93.9	279.6	II
167.9	192.9	123.6	112.1	101.7	189.9	99.3	289.2	III
					191.8	99.6	291.3	IV

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural Price Index	Import Unit Value	Export Unit Value	Terms of Trade	Price of Stocks + Shares (ISEQ)
	Nov. 1989 = 100	1985 = 100	1985 = 100	1985 = 100	1985 = 100	1985 = 100	1985 = 100	Jan. 1988 = 1000
1985	86.5	100.0	100.0	100.0	100.0	100.0	100.0	580.4
1986	89.8	98.8	97.8	99.5	88.8	92.7	104.3	907.7
1987	92.6	100.4	98.4	103.5	88.8	92.7	104.4	1326.2
1988	94.6	104.5	102.4	114.4	94.6	99.3	105.0	1294.6
1989	98.5	109.5	108.1	120.1	100.7	105.9	105.1	1633.6
1990	101.7	107.8	105.1	106.5	95.7	95.9	100.2	1562.2
1991	105.0	108.7	106.4	103.1	97.9	95.2	97.2	1382.4
1992	108.2	110.5		106.1				1311.1

Quarterly Averages

1989 I	96.8	108.2	107.2	121.2	100.9	104.3	103.4	1473.5
II	97.8	109.7	108.4	125.1	101.4	106.4	104.9	1638.9
III	99.2	110.5	109.0	121.0	101.7	108.0	106.2	1710.6
IV	100.0	109.7	107.7	116.7	98.7	104.3	105.6	1711.3
1990 I	100.9	108.4	105.8	115.6	95.4	100.0	104.8	1813.2
II	101.2	107.9	104.6	111.4	92.3	97.9	106.1	1673.2
III	102.1	108.0	105.4	103.4	96.5	95.8	99.3	1523.7
IV	102.7	106.7	104.7	101.2	97.8	92.5	94.6	1238.8
1991 I	103.5	107.3	105.1	104.9	96.7	93.0	96.1	1241.3
II	104.3	108.8	106.4	106.1	97.2	93.8	96.5	1466.9
III	105.7	109.2	106.9	101.6	98.4	95.6	97.1	1413.3
IV	106.4	109.5	107.3	103.6	98.5	96.1	97.6	1408.3
1992 I	107.3	110.2	107.8	107.4	97.7	95.2	97.4	1426.9
II	108.1	111.3	108.3	109.7	97.0	97.9	101.0	1389.8
III	108.7	110.6	107.2	106.7	94.7	93.4	98.7	1263.1
IV	108.9	109.8		104.5				1164.5

Quarterly Averages (Seasonally Corrected)

1989 I	96.7	108.4	107.4	119.4	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	97.8	109.4	108.4	122.8				
III	99.1	110.2	108.7	122.7				
IV	100.1	110.1	107.8	119.0				
1990 I	100.8	108.7	106.0	114.0				
II	101.3	107.6	104.6	109.2				
III	102.0	107.7	105.1	104.9				
IV	102.8	107.0	104.8	103.1				
1991 I	103.5	107.6	105.3	103.6				
II	104.4	108.5	106.4	104.1				
III	105.6	108.9	106.7	103.1				
IV	106.4	109.8	107.4	105.5				
1992 I	107.3	110.5	108.0	106.0				
II	108.2	110.9	108.2	107.5				
III	108.6	110.3	106.9	108.3				
IV	108.9	110.2		106.4				

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
New Cars Regis-tered	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter bank Rate	Long term Gilt Rate	
Total	1980 = 100	1980 = 100	£m	£m	£m	Per cent per annum	Per cent per annum	
59592	155.9	91.0	6331	7615	1284	11.9	12.6	1985
58760	158.8	90.5	6709	8104	1395	12.4	11.1	1986
54341	161.3	89.3	7152	8332	1180	10.8	11.3	1987
61888	169.1	91.1	7690	8006	317	7.8	9.5	1988
78383	184.5	95.4	7756	8019	263	9.6	8.9	1989
83407	193.5	98.0	8269	8421	152	11.1	10.1	1990
68533	197.0	97.8	8776	9076	300	10.4	9.3	1991
67745			9360	9806	446	15.2	9.1	1992
Quarterly Averages or Totals								
25672	177.1	93.2	1807	2057	250	7.8	8.7	1989 I
25536	182.3	94.6	1812	2011	199	9.2	9.1	II
18192	181.4	93.2	2008	1924	– 84	9.8	8.8	III
8983	195.9	99.8	2129	2027	– 102	11.4	9.2	IV
27830	189.9	96.6	1872	2236	364	11.9	10.2	1990 I
27883	189.8	96.8	2004	2036	32	11.0	10.0	II
18928	190.9	96.9	2101	1970	– 131	10.8	10.2	III
8766	201.6	100.8	2293	2180	– 113	10.6	10.0	IV
23797	191.8	95.9	1886	2313	427	11.1	9.3	1991 I
22979	191.2	95.5	2074	2390	316	10.3	9.1	II
15051	194.4	96.3	2295	2071	– 224	9.7	9.6	III
6706	208.7	102.6	2521	2302	– 219	10.4	9.0	IV
24058	200.6	98.2	2055	2538	483	10.6	8.7	1992 I
20193	203.4	99.0	2299	2374	75	10.2	8.8	II
16802	206.7	100.3	2473	2307	– 166	14.0	9.3	III
6692	215.6		2533	2587	54	25.8	9.6	IV
Quarterly Averages or Totals (Seasonally Corrected)								
19257	179.9	94.7	2017	1951	– 66	No Seasonal Pattern	No Seasonal Pattern	1989 I
19698	184.5	95.7	1847	2019	172			II
19805	184.5	94.6	2032	2055	23			III
20095	187.8	95.9	1879	2007	127			IV
20926	192.6	98.1	2074	2109	35			1990 I
21311	191.8	97.7	2069	2047	– 22			II
20584	194.5	98.5	2089	2104	15			III
20025	193.3	96.9	2048	2168	120			IV
17913	194.4	97.3	2080	2171	91			1991 I
17459	193.3	96.4	2155	2405	250			II
16337	198.1	97.9	2253	2216	– 37			III
15529	200.3	98.7	2270	2289	19			IV
18134	203.2	99.5	2264	2377	114			1992 I
15280	205.8	100.0	2391	2389	– 2			II
18245	210.5	102.0	2415	2474	59			III
15578	207.2		2294	2570	276			IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
	Money Supply M3	Licensed Banks Domestic Credit		External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
		Gov.	Non-Gov.					
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971 = 100	Per IR£	Per IR£	Per IR£
1985	8924.8	2514.1	8441.1	2271.9	62.41	0.8234	1.0659	3.1134
1986	8836.9	2725.7	9065.5	2205.3	66.65	0.9147	1.3424	2.9080
1987	9799.5	2754.9	9494.5	2821.4	66.15	0.9089	1.4879	2.6717
1988	10421.0	2636.4	10853.4	3161.0	65.08	0.8568	1.5249	2.6743
1989	10945.0	2417.7	12538.3	2521.0	64.39	0.8665	1.4175	2.6650
1990	12540.7	2506.0	13855.9	2891.7	68.31	0.9302	1.6585	2.6729
1991	13024.6	2502.2	13553.2	3256.0	67.33	0.9131	1.6144	2.6710
1992	14203.3	2946.7	14410.7	2112.8	69.48	0.9692	1.7073	2.6562
	End-Period Totals				Quarterly Averages			
1989 I	10231.7	2435.4	11057.8	2735.8	63.49	0.8262	1.4440	2.6708
II	10506.9	2302.0	11764.9	2497.5	63.64	0.8500	1.3831	2.6698
III	10712.5	2350.7	11815.0	2886.7	64.21	0.8693	1.3877	2.6691
IV	10945.0	2417.7	12538.3	2521.0	66.32	0.9226	1.4621	2.6490
1990 I	11289.9	2526.0	12681.5	2457.8	68.07	0.9475	1.5703	2.6539
II	11381.6	2506.6	13082.8	3097.3	68.73	0.9542	1.5981	2.6809
III	12421.6	2454.7	13230.6	3705.6	67.85	0.9046	1.6850	2.6828
IV	12540.7	2506.0	13855.9	2891.7	68.65	0.9154	1.7817	2.6735
1991 I	12187.3	2382.0	13776.7	3200.9	68.28	0.9126	1.7429	2.6646
II	12306.1	2288.9	13928.7	3422.0	66.55	0.9038	1.5430	2.6753
III	12650.2	2380.5	13973.3	3471.2	66.68	0.9108	1.5355	2.6740
IV	13024.6	2502.2	13553.2	3256.0	67.87	0.9257	1.6433	2.6693
1992 I	12555.4	2399.4	13614.2	3495.8	67.97	0.9303	1.6479	2.6663
II	12960.9	2449.1	13685.4	3223.6	67.63	0.9156	1.6555	2.6691
III	12998.8	2792.2	14010.9	2130.2	69.81	0.9538	1.8160	2.6528
IV	14203.3	2946.7	14410.7	2112.8	72.50	1.0784	1.7053	2.6363
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1989 I II III IV	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
1990 I II III IV								
1991 I II III IV								
1992 I II III IV								

Visible Trade Indicators					Balance of Payments		
41	42	43	44	45	46	47	
Imports (Value)	Exports (Value)	Trade Surplus (Value)	Imports (Volume)	Exports (Volume)	Net Factor Flows	Current Account	
£m	£m	£m	1985 = 100	1985 = 100	£m	£m	
9428.2	9743.0	314.8	100.0	100.0	-1967	-650	1985
8621.3	9374.3	753.0	103.0	104.0	-2017	-611	1986
9155.2	10723.5	1568.3	109.4	118.8	-2113	-60	1987
10214.8	12304.8	2090.1	114.5	127.1	-2663	62	1988
12284.3	14597.0	2312.8	129.3	141.4	-3233	-348	1989
12479.5	14343.0	1863.5	138.3	153.5	-3131	37	1990
12853.4	15024.6	2171.3	139.2	162.0	-2864	925	1991
13199.3	16624.5	3425.2					1992
Av. Monthly Totals			Quarterly Averages or Totals				
1003.0	1118.7	115.7	126.5	131.8	-660	-2	1989 I
1042.8	1270.6	227.8	130.7	146.9	-972	-204	II
974.5	1214.9	240.4	121.9	138.3	-607	217	III
1075.7	1261.4	185.8	138.5	149.1	-994	-359	IV
1043.7	1218.1	174.4	138.7	149.9	-773	61	1990 I
1048.0	1257.2	209.2	144.4	158.1	-818	-56	II
995.8	1110.4	114.7	131.3	142.7	-630	190	III
1071.1	1195.2	124.1	139.4	159.2	-910	-158	IV
1073.4	1173.5	100.1	141.4	155.4	-655	-16	1991 I
1072.2	1258.6	186.4	140.5	165.2	-845	-90	II
1036.1	1228.0	191.8	134.0	158.2	-550	751	III
1104.0	1347.8	243.8	142.6	172.6	-814	279	IV
1109.1	1347.2	238.1	144.4	174.3	-713	418	1992 I
1106.9	1453.5	346.7	145.2	182.7	-832	333	II
1060.5	1338.6	278.1	142.5	176.7			III
1122.7	1402.9	280.2					IV
Av. Monthly Totals (S.C.)			Quarterly Averages or Totals (S.C.)				
981.9	1164.5	182.7	124.1	137.8	No Seasonal Pattern	No Seasonal Pattern	1989 I
1046.6	1231.3	184.7	130.4	142.1			II
1036.8	1237.0	200.2	130.5	141.9			III
1043.3	1240.1	196.8	134.2	145.1			IV
1021.7	1244.5	222.8	136.1	153.6			1990 I
1049.2	1219.7	170.5	143.8	153.1			II
1058.8	1149.3	90.5	140.4	148.9			III
1028.5	1176.6	148.2	133.8	155.3			IV
1068.2	1201.4	134.9	140.6	159.4			1991 I
1072.3	1215.7	143.8	139.6	159.4			II
1085.5	1277.7	192.2	141.7	166.4			III
1062.7	1317.0	254.3	136.3	166.9			IV
1084.6	1369.7	285.1	141.6	177.7			1992 I
1106.0	1405.2	299.1	144.3	176.3			II
1106.9	1379.4	272.4	150.8	183.8			III
1098.5	1379.1	280.6					IV