FOR AGENDA

SM/83/126
& Corr. 1

CONTAINS CONFIDENTIAL INFORMATION

June 14, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Ireland - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Ireland, which will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Vittas, ext. 76546.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

IRELAND

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Consultation with Ireland

Approved by L. A. Whittome and Subimal Mookerjee

June 13, 1983

I. Introduction

Article IV consultation discussions were held in Dublin from April 14 to 25, 1983. The Irish representatives included officials from the Department of Finance, the Central Bank of Ireland, the Department of Industry and Energy, the Ministry of Trade, Commerce, and Tourism, and other government-funded agencies. The staff team consisted of Messrs. H. Vittas (Head), U. Dell'Anno, M. Hadjimichael (all EUR), G. Spencer (RES), P. van den Boogaerde (TRE, EP), and as secretary Miss R. Bedrossian (OMD). Messrs. R. Joyce and M. Casey, Executive Director and Alternate Executive Director for Ireland, respectively, attended some of the meetings. Ireland has accepted the obligations of Article VIII, sections 2, 3, and 4, and since 1966 has not made use of Fund resources.

II. Background

As a small open economy, Ireland has been hit hard by a steep decline in its external terms of trade in the wake of the surge in oil prices in 1979-80 and the subsequent spreading of recessionary conditions in its major export markets. The adverse effects of these developments on economic performance were exacerbated by the persistence of strong internal cost pressures, which tended to further distort the cost-price structure of domestic industry. In addition, concern about the level of unemployment--which has traditionally been high in Ireland partly as a result of the rapid growth of the labor force--and the perceived pressing need to improve social and economic infrastructure, contributed to delays in introducing appropriate adjustment policies. Thus, by the time of the previous consultation in late 1981, severe imbalances had emerged in the domestic economy and in the external accounts, and the adjustment problem facing the authorities had become acute.

From the middle of 1981, the authorities began to implement strong policies to deal with these imbalances. Fiscal policy became progressively tighter in successive budgets, and credit policy was also designed to support the adjustment effort. Moreover, the Government's stance in pay bargaining within the public sector was toughened, while in the private sector a return to free collective bargaining was allowed, resulting in pay increases that were below the ongoing rate of inflation. Exchange rate policy continued to be framed within the context of Ireland's participation in the European Monetary System and was not used aggressively to promote adjustment in the external position. Nevertheless, on the occasion of the EMS realignment of March 21, 1983, the authorities decided to devalue the Irish pound by 3.5 per cent in order to offset its substantial effective appreciation that had occurred in the preceding months, as the pound sterling--the currency of Ireland's most important trade partner--fell sharply on the foreign exchanges (Chart 1).

The policies pursued since mid-1981 have contributed to a marked improvement in the external position of the Irish economy and an abatement of inflationary pressures, albeit at the cost of continued weakness in domestic activity and a further steep rise in unemployment. The deficit on the current account of the balance of payments fell from £Ir 1.4 billion or 14 1/4 per cent of GNP in 1981 to £Ir 1 billion or 8 1/2 per cent of GNP in 1982 and, on the basis of trade returns, appears to have declined substantially further in the first four months of 1983. The terms of trade improved by about 3 1/2 per cent in 1982--following a cumulative fall of 13 1/2 per cent in the three preceding years--benefiting both from the decline in world commodity prices and the lowering of inflation in trade partner countries (Chart 2). Despite subdued demand in foreign markets, exports of manufactures rose by 10 1/2 per cent in volume terms, reflecting the coming on stream of increased export capacity. 1/ By contrast, agricultural exports fell sharply for the second year in a row, as the large reduction in cattle stocks in 1980 constrained supply. The volume of imports declined by 4 1/2 per cent in 1982. Much of this decline was of a cyclical nature, but tax changes designed to discourage spending on consumer durables (which have a high import content) and progress in conserving energy and developing indigenous energy resources also had a significant impact. Oil imports fell by 8 per cent, in real terms, following an 18 per cent decline in 1981. The improvement on trade account was partly offset by a steep rise in interest payments on the external public debt. Such payments nearly doubled in 1982 to £Ir 650 million (5 1/2 per cent of GNP), reflecting the rapid accumulation of foreign debt since 1978 and the persistence of high interest rates in international financial markets.

The strengthening of the current account position in 1982 did not lead to any reduction in the amount of official borrowing abroad required to sustain external reserves, owing to an exceptionally large negative balancing item. Although part of this item may have concealed current account transactions that escaped statistical recording, the bulk of it

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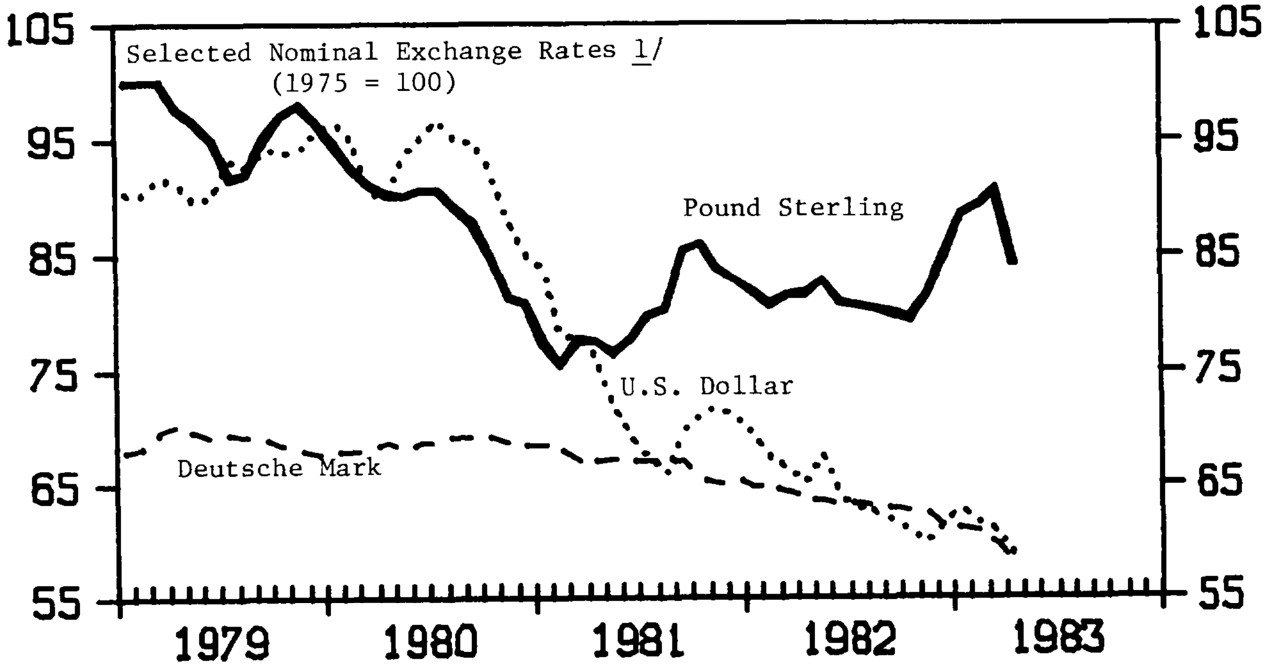
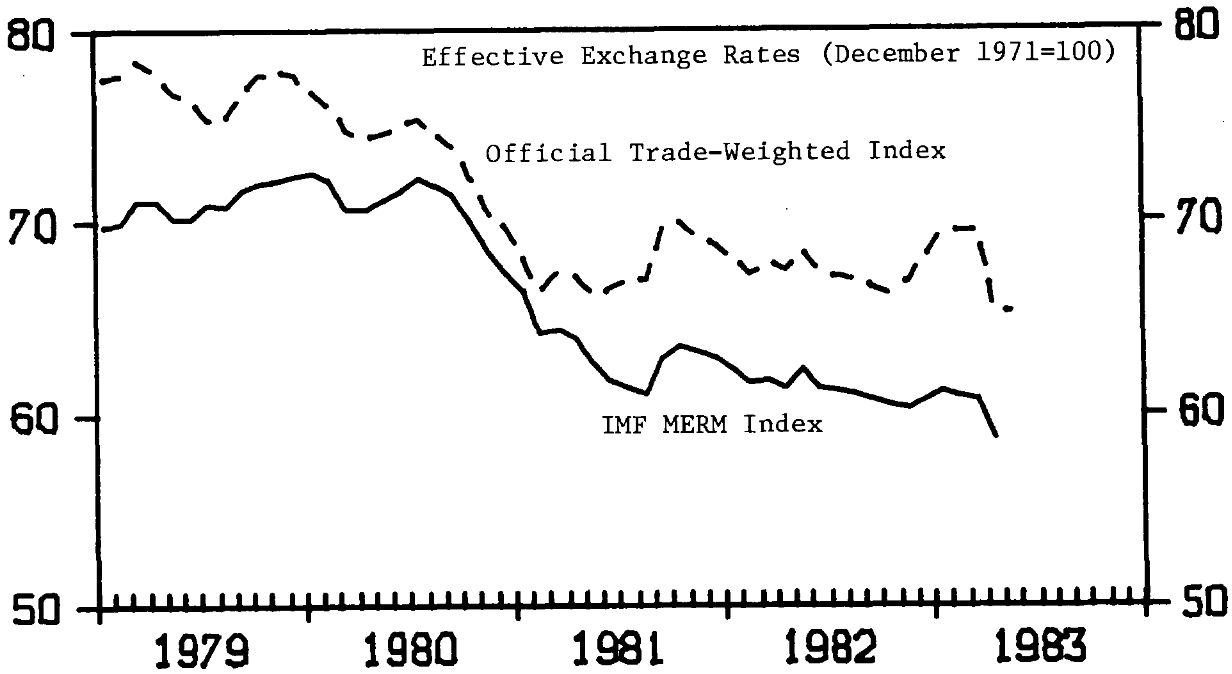
1/ Over the five years to 1982, exports of manufactures increased by 64 per cent, in volume, more than twice as fast as the estimated growth of export markets (30 per cent). Gains in market shares were larger in the EMS countries than in the United Kingdom, which nevertheless remained the main destination of exports of manufactures, accounting for 37 1/2 per cent of the total in 1982 (44 1/2 per cent in 1978).

CHART 1

IRELAND

EXCHANGE RATE DEVELOPMENTS





Sources: Central Bank of Ireland, Quarterly Bulletin; and IMF, International Financial Statistics.

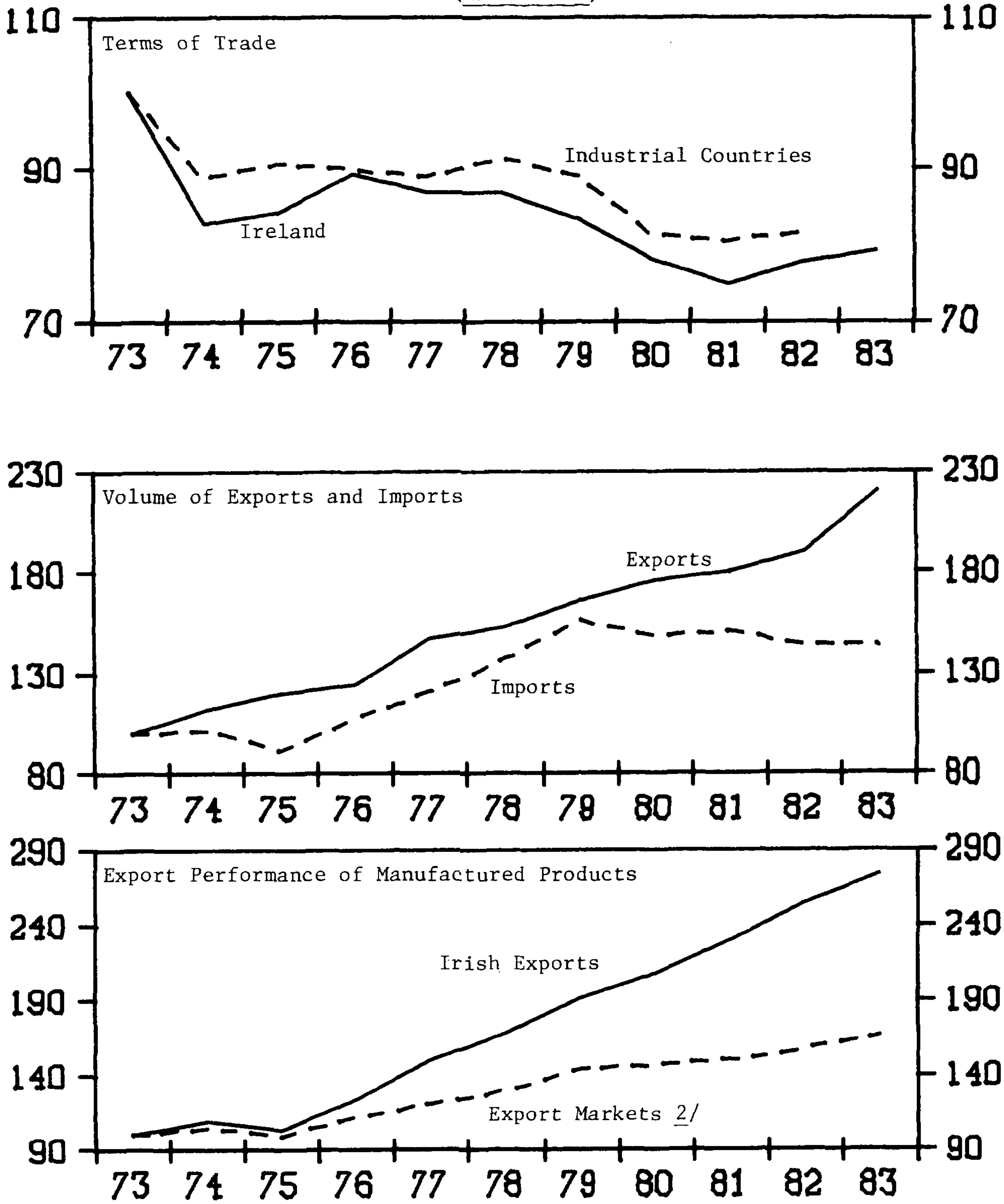
1/ In units of foreign currency per Irish pound.

CHART 2

IRELAND

EXTERNAL TRADE DEVELOPMENTS

(1973 = 100)



Sources: IMF, International Financial Statistics; National Economic and Social Council, Economic and Social Policy 1982; data provided by the Irish authorities; and staff estimates.

1/ Forecasts.

2/ Weighted average of trading partners' imports of manufactures.

is believed to have represented private capital outflows. Such outflows were apparently encouraged by the narrowing of interest rate differentials vis-à-vis the United Kingdom and Germany in the period preceding the December 1982 general elections (Chart 4) 1/ and, more importantly, by widely held expectations that the recovery in the exchange rate of the Irish pound relative to the pound sterling in late 1982 would not prove sustainable. Speculative positions were built up further in the period immediately preceding the March 1983 EMS realignment but began to unwind slowly thereafter. Total foreign borrowing by the Exchequer and semi-state bodies, at £Ir 1.4 billion, was practically the same as in 1981 and, together with valuation changes resulting from exchange rate movements, it served to raise the outstanding amount of external debt to the equivalent of 59 1/2 per cent of GNP at end-1982, compared with 51 per cent of GNP at end-1981 and only 22 per cent of GNP at end-1978 (Chart 3). After increasing by SDR 100 million during 1982, gross official reserves fell sharply in the first five months of 1983 (by SDR 0.6 billion) to SDR 1.76 billion, equivalent to 2.5 months of 1983 merchandise imports.

The annual rate of inflation, at the retail level, came down markedly--from a peak of 23 per cent in November 1981 to 12.5 per cent in February 1983--though it remained higher than the average in the main trade partner countries (Chart 5). Inflation would have come down further were it not for large increases in net indirect taxes. 2/ Lower imported inflation was the main factor contributing to the slowdown in retail price increases, although domestic cost pressures also eased. Real wage earnings in the nonagricultural sector fell by 2 1/2 per cent in 1982, following a 3 1/4 per cent decline in 1981 (Chart 6). Moreover, real wage costs per unit of output in manufacturing fell by 8 1/2 per cent in the two years to 1982, reversing the increase that had taken place in the preceding two years. However, the recovery in the underlying profitability of enterprises was more limited than implied by these figures. As in several other countries, the growth of output per man-hour was exceptionally strong for a period of recession, reflecting large-scale shedding of labor in response to the earlier squeeze on profit margins and the actual and prospective weakness of demand. The incidence of company closures also increased, contributing to the upturn in recorded average productivity growth in industry. In nominal terms, the moderation in the rate of increase in hourly earnings in 1982 was less pronounced than in the most important trade partner countries.

The rate of growth of real GDP, which had slowed down from an annual average of over 4 per cent in 1976-79 to about 2 1/2 per cent in 1980, decelerated further to about 1 1/4 per cent in 1981-82 (Table 1). Most of the increase in output in the latter period was offset by the steep rise in net factor payments abroad; indeed in 1982 GNP fell slightly in real terms (Chart 7). A notable feature of developments in 1982 was the

1/ These elections were the third in less than two years.
2/ Indirect tax revenue rose by 26 per cent in 1982, following an increase of 28 per cent in 1981. The corresponding increases in private consumption were 11 per cent and 19 per cent, respectively.

sharp fall in private consumer spending (5 1/2 per cent in volume). With total investment also weakening markedly, domestic demand declined by 3 per cent and output was sustained only by the large shift of resources to the external sector. Nevertheless, employment in most sectors fell and the unemployment rate rose sharply, reaching more than 14 per cent in early 1983 (Chart 8). As shown in the tabulation below, while the level of unemployment seems high by international standards, the increase in the unemployment rate compared with earlier historical experience was smaller than in some other industrial countries.

Unemployment Rate in Selected Countries

(In per cent of the labor force)

	Average Level in 1982	Increase Compared With 1978	Increase Compared With 1973-77
Ireland	12.2	3.9	5.9
United Kingdom	11.9	6.4	8.6
France	8.6	3.4	4.9
Germany	6.8	3.2	6.0
Netherlands	10.5	6.0	6.8
Belgium	13.7	5.3	8.5
United States	9.7	3.6	3.0

III. Short-Term Prospects

The economic prospects for 1983 are influenced importantly by the implementation of policies aimed at reducing the disequilibrium in the fiscal accounts and achieving a significant measure of pay restraint. These policies are likely to lead to a substantial decline in real domestic spending which, however, is expected to be offset by vigorous growth in exports, partly in response to the recovery of foreign demand.

The primary objective of the 1983 budget is to reduce the current budget deficit and the Exchequer borrowing requirement (EBR) from 8 1/2 per cent and 16 1/2 per cent of GNP, respectively, in 1982 to 6 3/4 per cent and 13 per cent, respectively, in 1983 (Chart 9). To this end, the budget provides for increased rates of direct and especially indirect taxation and a significant scaling down of the public capital expenditure program. In addition, the restraint on recruitment for the public services initiated in mid-1981 is being continued, pay-related unemployment benefits have been reduced, and no provision has been made for pay adjustments in the civil service other than those stemming from special awards agreed upon earlier and the deferment of a 5 per cent general increase from October 1982 to January 1983. 1/ Allowing for

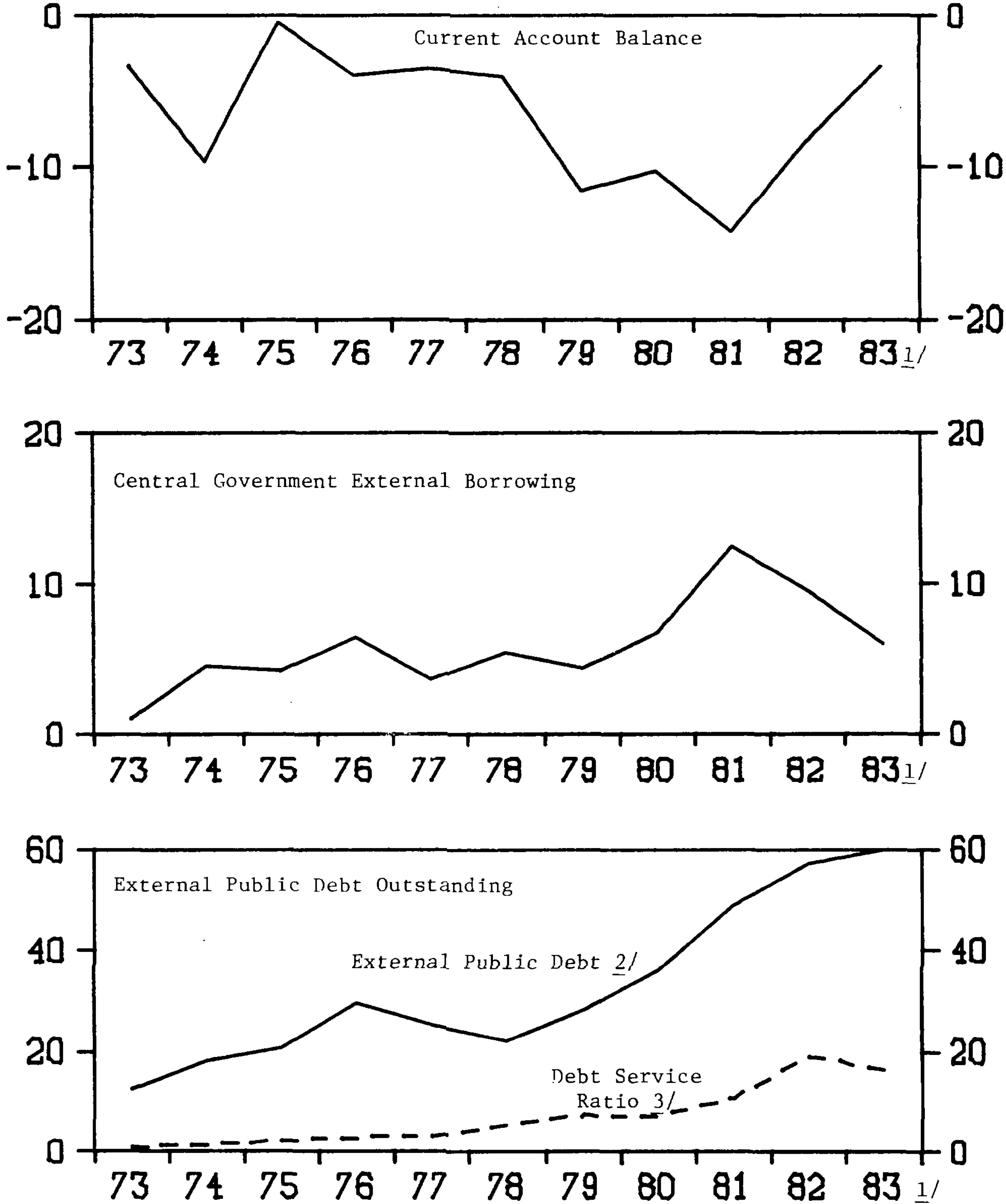
1/ Nevertheless, remuneration of employees is budgeted to increase by 11 1/4 per cent.

CHART 3

IRELAND

EXTERNAL DEVELOPMENTS

(In per cent of GNP)



Sources: Central Bank of Ireland, Quarterly Bulletin; and data provided by the Irish authorities.

1/ Forecasts.

2/ External debt of the Central Government and net external liabilities of the state-sponsored bodies.

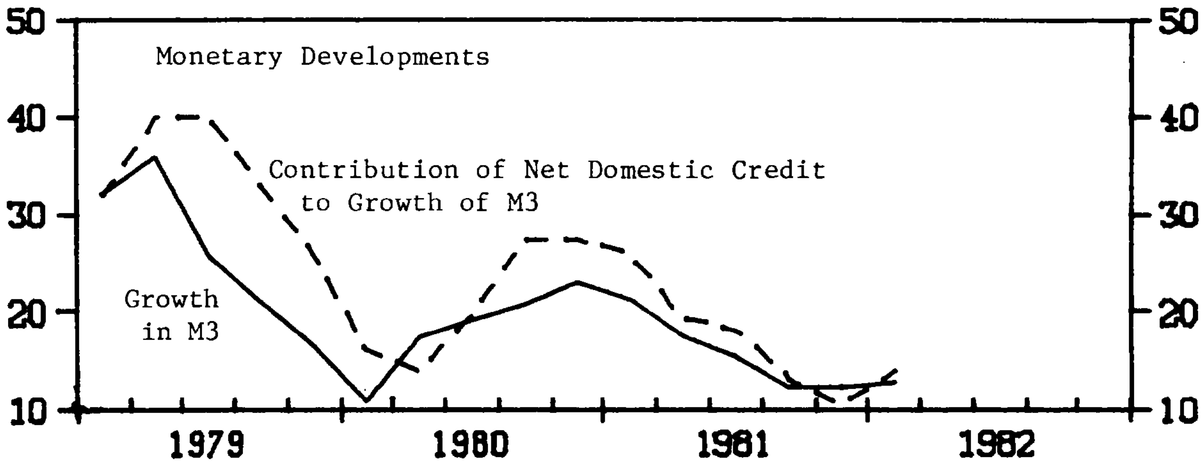
3/ Ratio to exports of goods and services.

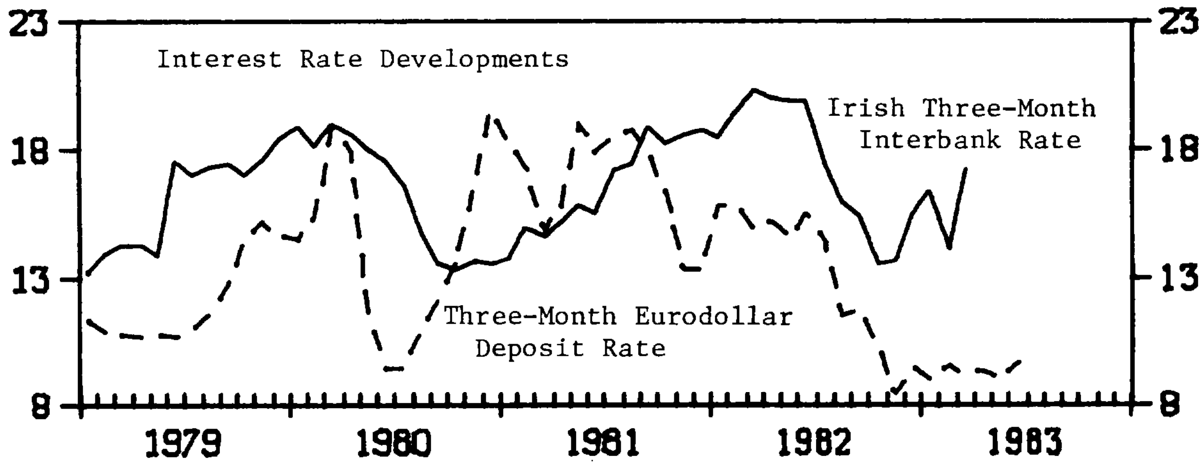
CHART 4

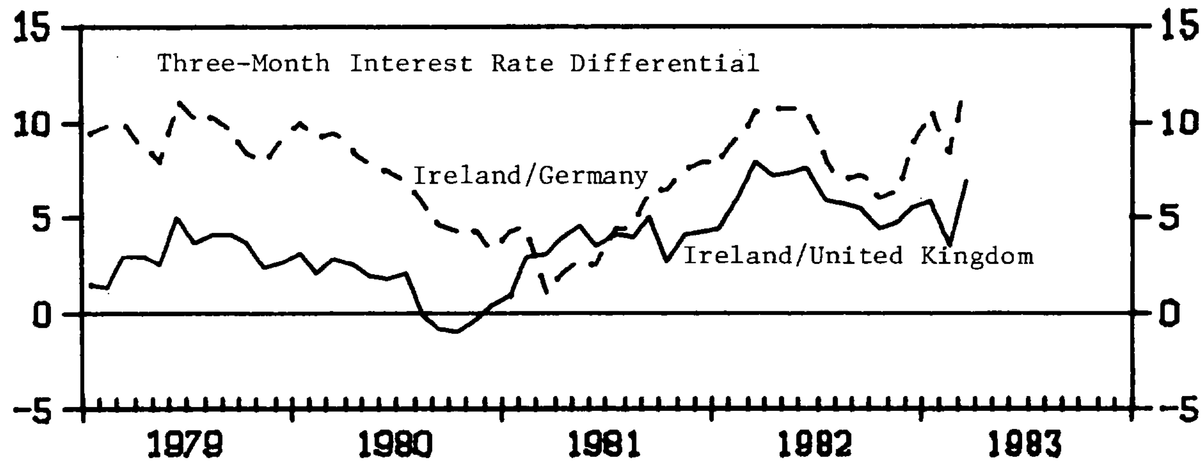
IRELAND

MONETARY AND INTEREST RATE DEVELOPMENTS

(In per cent)





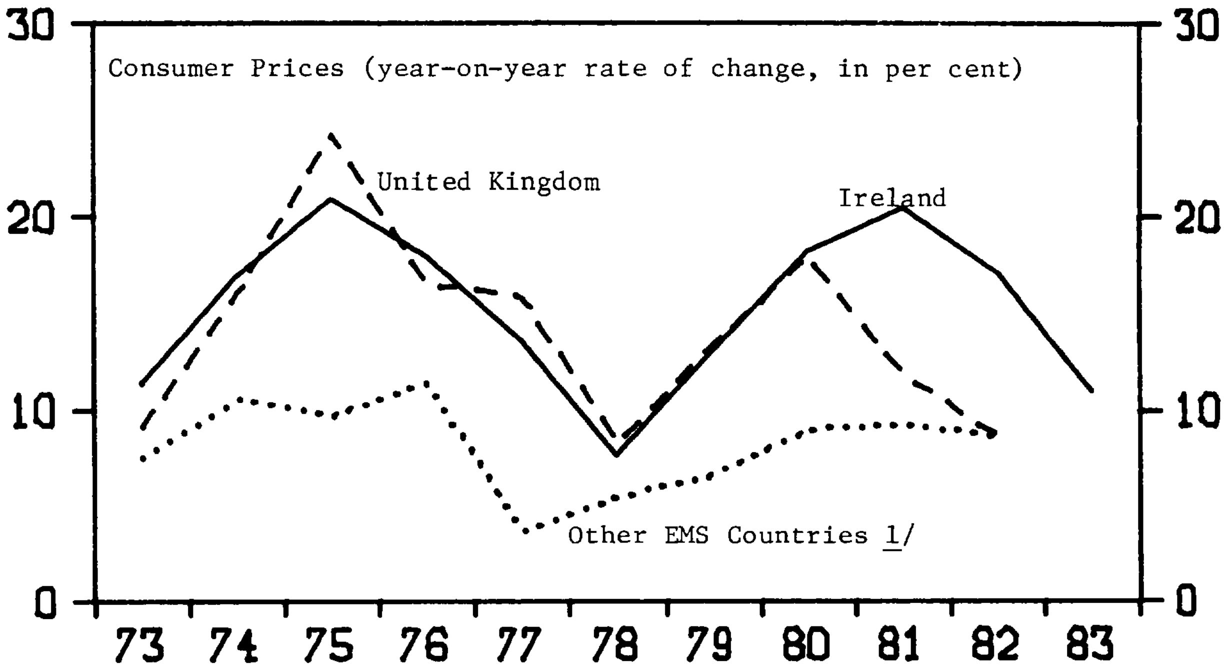


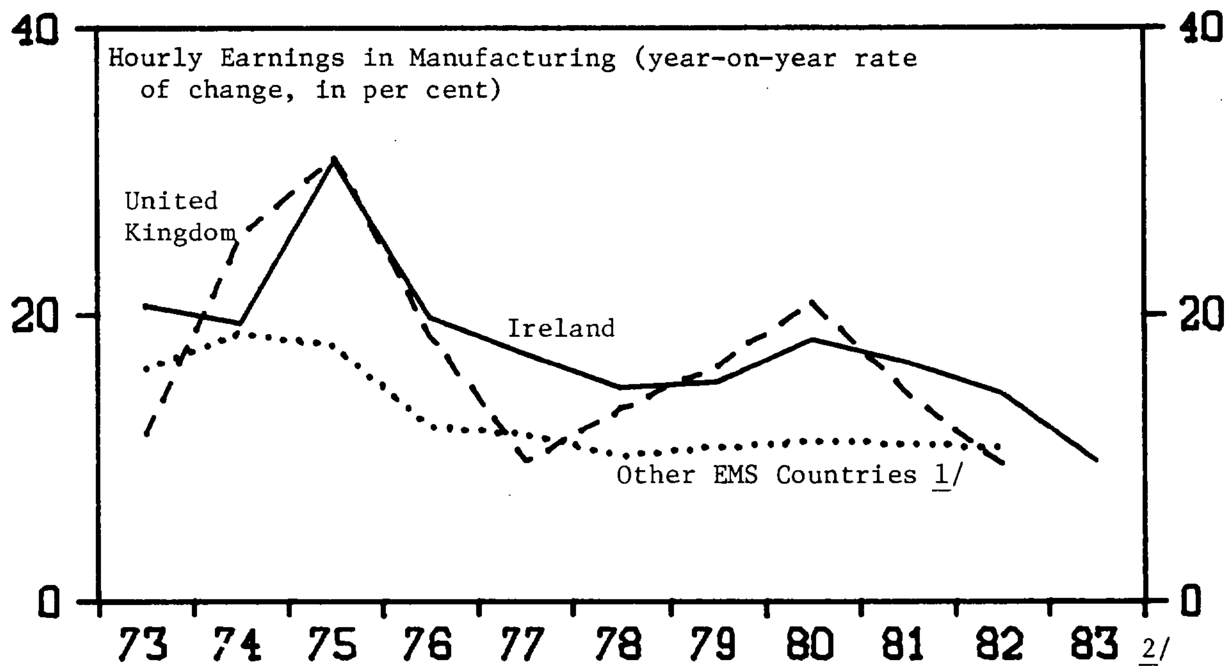
Sources: Central Bank of Ireland, Quarterly Bulletin; and IMF, International Financial Statistics.

CHART 5

IRELAND

RELATIVE PRICE AND EARNINGS DEVELOPMENTS





Sources: IMF, International Financial Statistics; and IMF, Research Department.

1/ Weighted according to the share of each country in Ireland's manufactured exports in 1977.

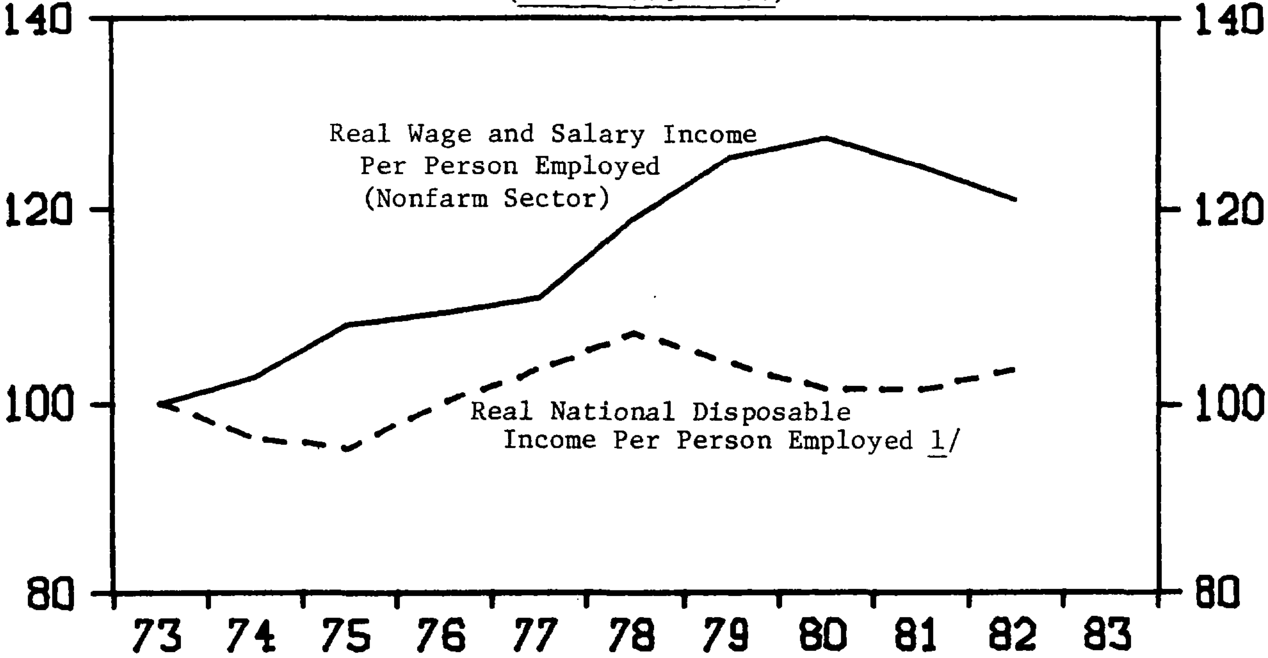
2/ Forecast.

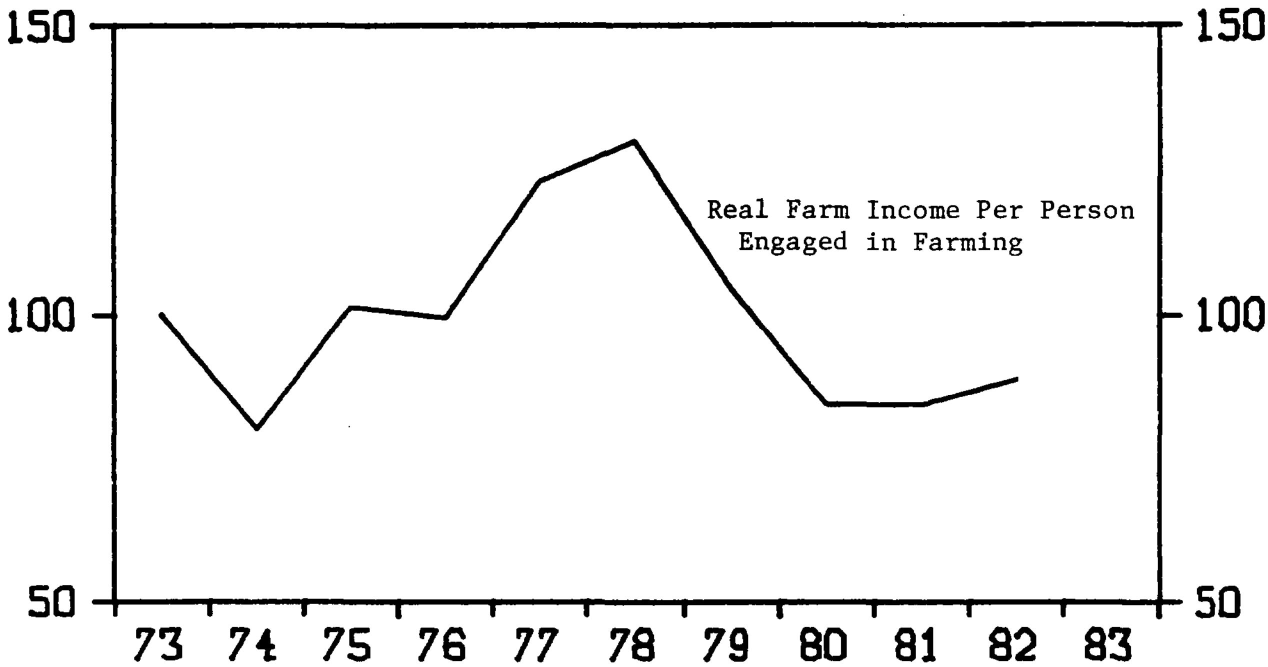
CHART 6

IRELAND

INCOME DEVELOPMENTS

(Index 1973 = 100)





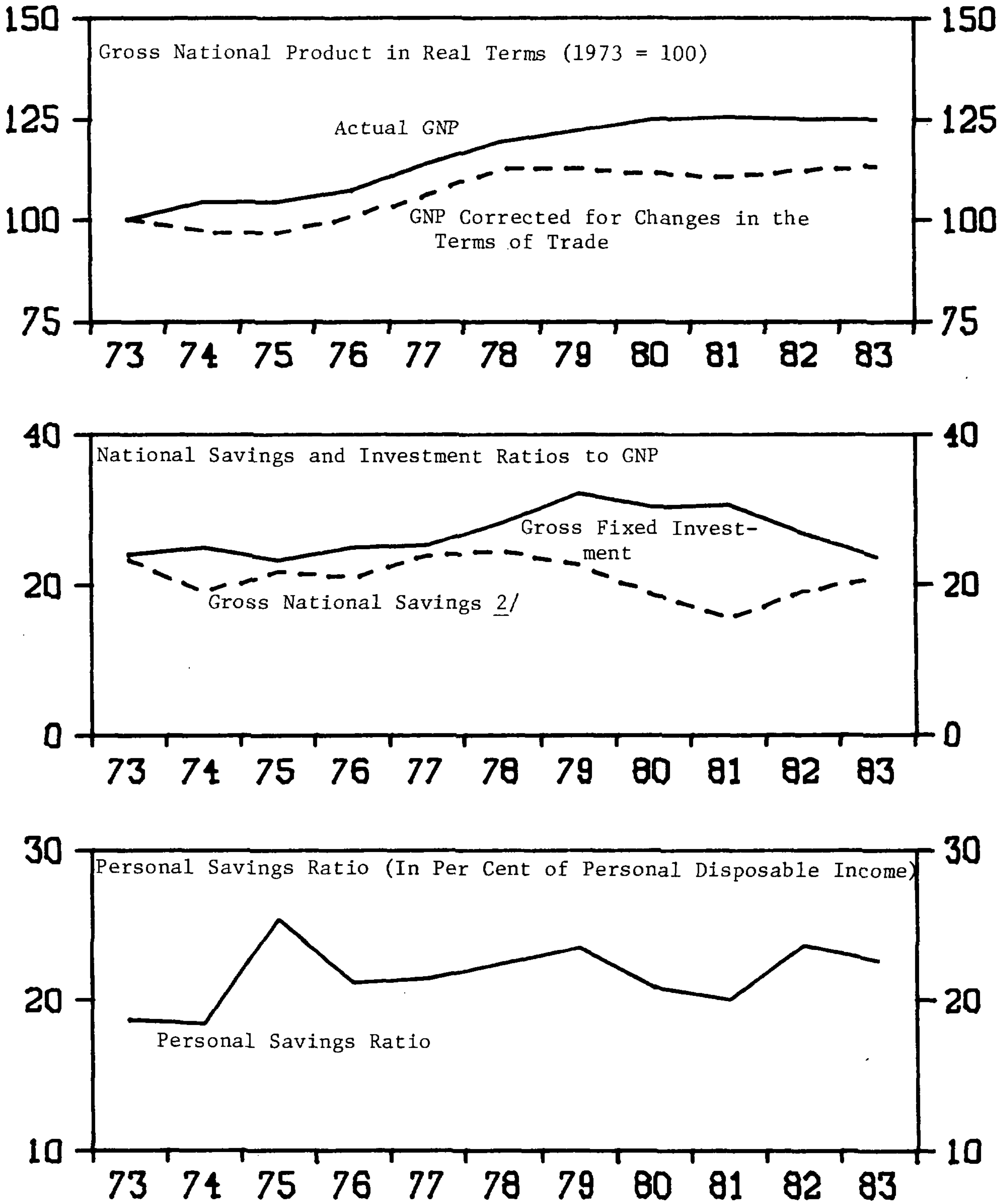
Sources: Department of Finance, National Income and Expenditure, 1980, and Current Economic Trends, March 1983; and staff estimates.

1/ GNP at constant 1975 prices corrected for changes in the terms of trade.

CHART 7

IRELAND

SELECTED ECONOMIC INDICATORS



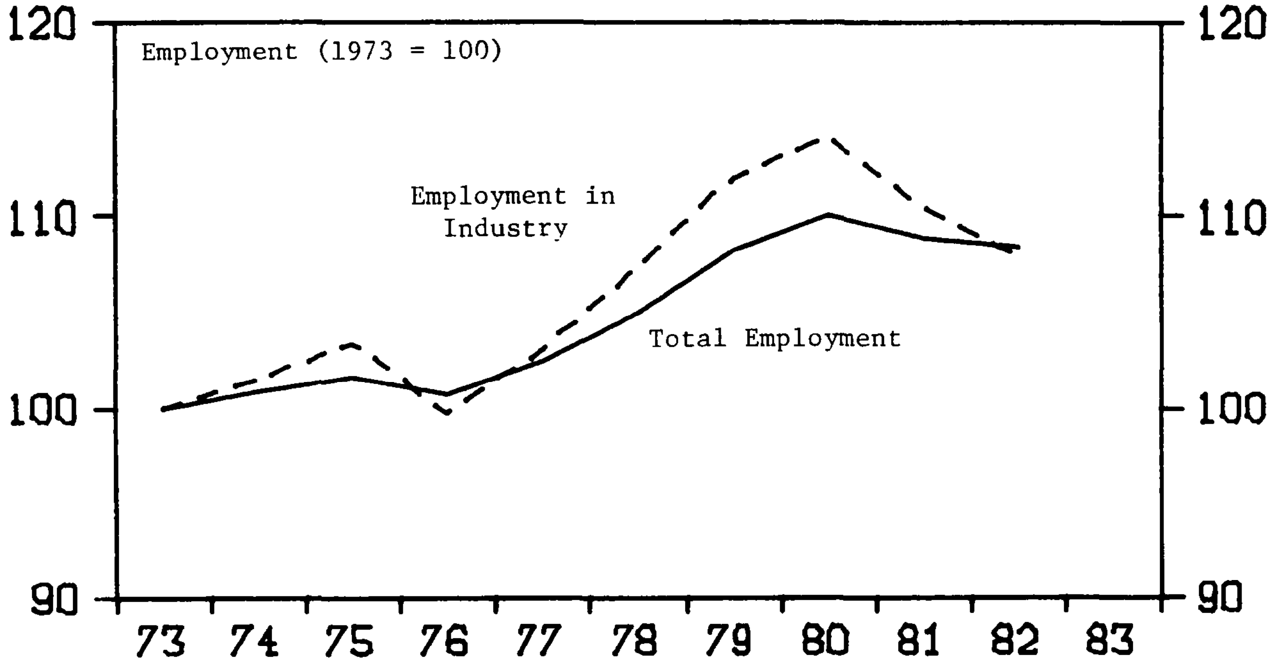
Sources: Department of Finance, National Income and Expenditure, 1980; and Current Economic Trends, March 1983.

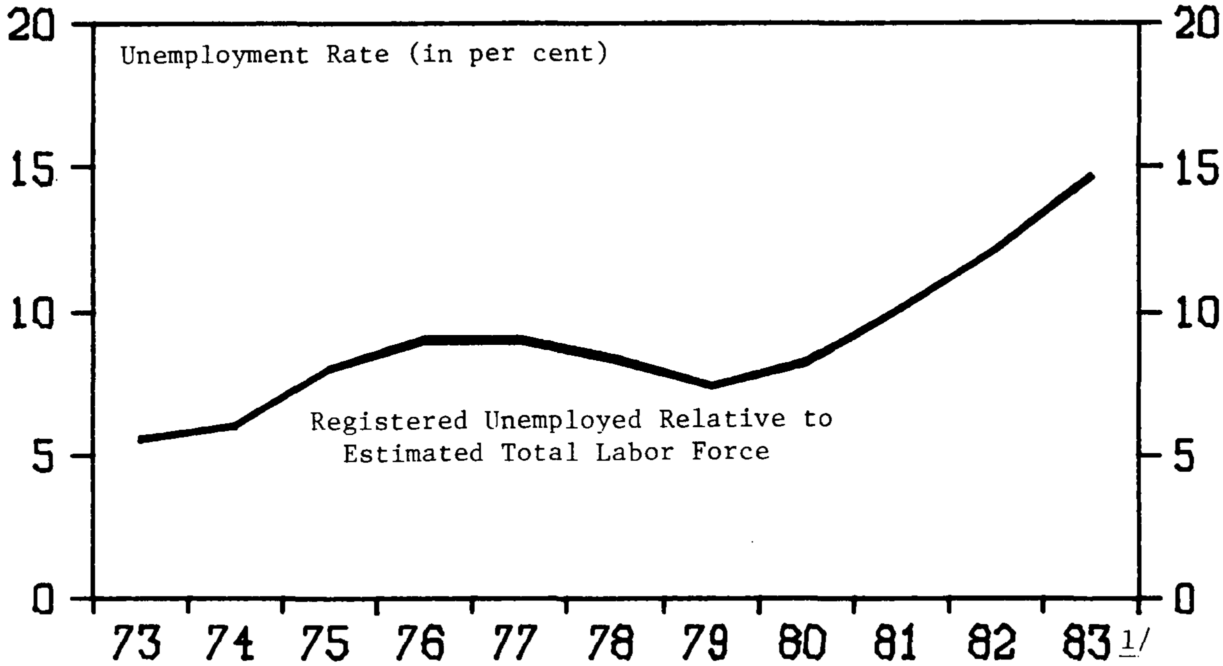
1/ Forecasts.
2/ Gross national disposable income minus total consumption expenditure.

CHART 8

IRELAND

LABOR MARKET INDICATORS





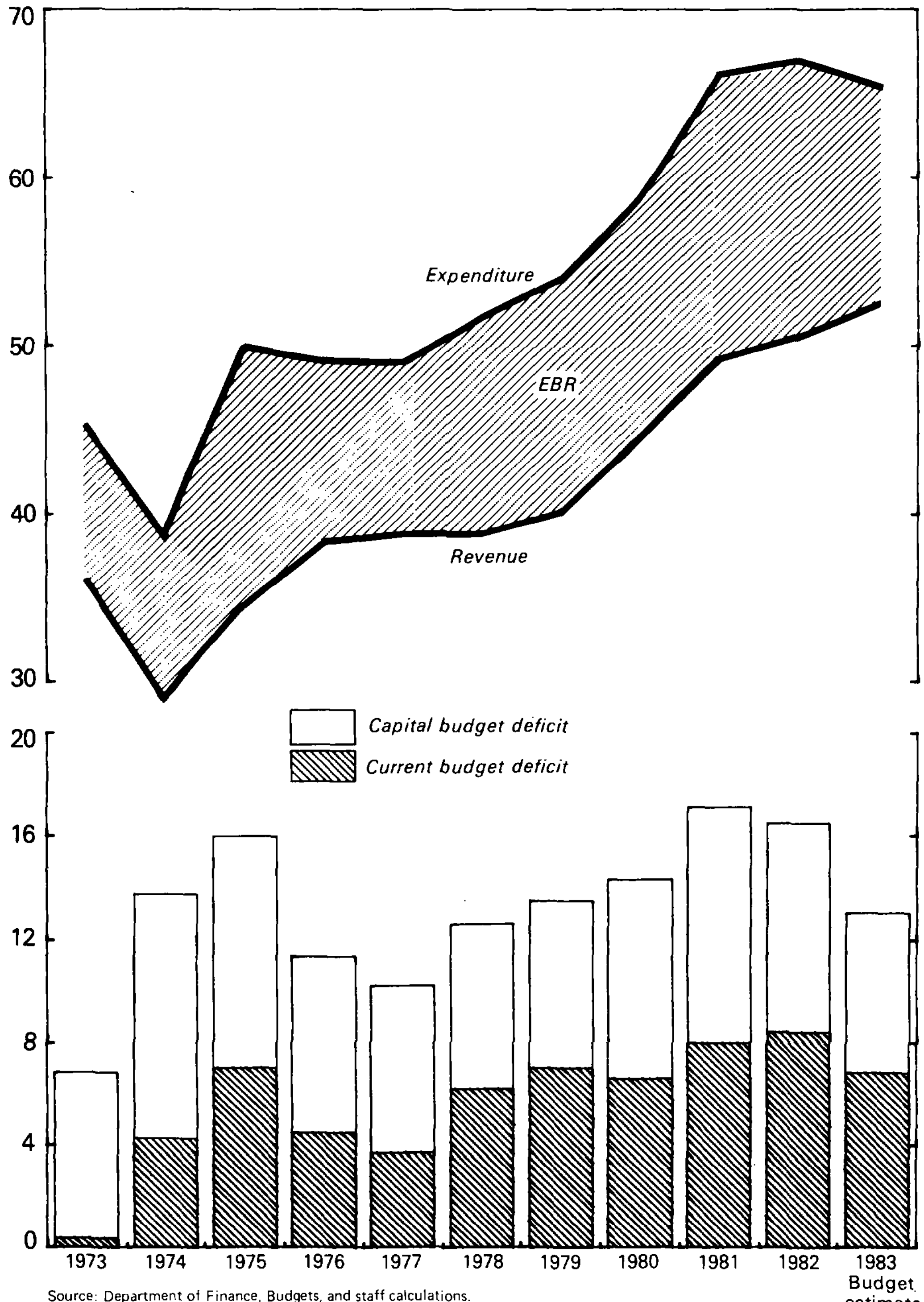
Sources: Department of Finance, Current Economic Trends, March 1983, and Economic Review and Outlook, Summer 1982.

1/ Forecast.

CHART 9
IRELAND

CENTRAL GOVERNMENT: EXPENDITURE, REVENUE AND EXCHEQUER BORROWING REQUIREMENT[1] 1973-83

(Per cent of GNP)



Source: Department of Finance, Budgets, and staff calculations.

[1]The year 1973 is a fiscal year (April/March), 1974 covers April to December, and the following years equal calendar years.

automatic stabilizers, the 1983 budget is estimated to imply a withdrawal of fiscal stimulus equivalent to some 5 per cent of GNP. Monetary policy is also designed to support the adjustment being pursued through fiscal retrenchment, without itself imparting an independent deflationary bias to macroeconomic policy. An 11 per cent guideline for the growth of bank credit to the private sector during 1983 has been set; this is broadly in line with the expected growth in nominal GNP and the broad money stock.

Against this background and on the usual assumptions of unchanged interest rates and exchange rates during the rest of the year, real personal disposable income is projected to fall in 1983 by about 3 per cent. Most of this fall reflects the operation of fiscal drag and higher tax rates. Consumer spending, however, is expected to fall rather less as the savings ratio is unlikely to remain at the exceptionally high level reached in 1982, when it was boosted in part by a shift in the distribution of income in favor of farmers. The decline in public capital spending, the existence of excess capacity in industry, and a slowdown in direct foreign investment are expected to lead to a 9 per cent fall in fixed investment. Since stock changes are also likely to exert a negative influence on growth, domestic demand is expected to fall by 4 per cent. However, the expansion of production in newly established export-oriented industries together with the projected pickup in the growth of foreign demand are expected to contribute to continued buoyant performance of industrial exports. Moreover, a recovery in farm exports is in prospect. With imports likely to stagnate, the foreign balance is expected to strengthen markedly in real terms and to allow a small increase in GDP sufficient to finance the projected further, albeit limited, rise in net factor payments abroad. The current external deficit is likely to fall sharply to the equivalent of less than 3 1/2 per cent of GNP, partly on account of improved terms of trade stemming from lower oil prices and the moderation of inflation in other industrial countries (Table 2). Despite increased indirect taxes, which are estimated to raise the consumer price index directly by 3.5 per cent, the rate of inflation is expected to fall to about 11 per cent in 1983 and less than 8 per cent by early 1984.

The forecasts are predicated on wage developments that do not deviate significantly from official objectives. For the public sector, the aim is to delay settlements until late in the year, which would raise only slightly the budgetary allocation for the public sector wage bill in 1983. Pay in the private sector will continue to be determined by free collective bargaining, but the authorities have called for a pay pause of about six months to be followed by settlements in the low single figures. The forecasts assume that pay in the private sector will increase in 1983 by just under 10 per cent, nearly half of which represents carryover from 1982. As productivity in manufacturing is expected to rise by about 5 per cent, the implied increase in unit wage costs in 1983 is of the order of 4 1/2 per cent, which is in line with the weighted average of the main trade partners. After appreciating by 7 per cent between end-October 1982 and mid-March 1983, in effective (trade-weighted) terms, the Irish pound fell by more than 10 per cent in the subsequent 2 1/2 months to a level about 5.5 per cent lower than the average in 1982. In the light of this development, the relative cost position of Irish industry could improve noticeably in 1983 (Chart 10). However, the wage forecasts for 1983 are subject to a wide margin of uncertainty as there have been few settlements in the current pay round and no firm trend has yet been established.

IV. Main Policy Issues

Despite the high and rising level of unemployment, the authorities have come to the conclusion that policies in the years ahead will have to continue to be directed at consolidating the improvement in the external position, restoring appropriate balance in the budgetary accounts, and addressing other problems of a structural nature that inhibit a return to the satisfactory economic performance of the 1960s and early 1970s. Such problems include the distortions in relative factor prices stemming from developments in energy prices and wage costs in the late 1970s, which have not yet been fully corrected; the rapid increase in public sector expenditure over the last decade; and actual or perceived inequities of the tax system. In addition, increased attention is being paid to industrial policies in an effort to enhance their contribution to reducing structural unemployment.

1. The fiscal imbalance

Abstracting from cyclical influences, the current budget had been close to balance up to the early 1970s while the overall EBR fluctuated around a level equivalent to some 7 per cent of GNP, reflecting the important role of the public sector in investment activity. Both the budget deficit and the EBR have since risen sharply, reaching 8 per cent and 17 per cent of GNP, respectively, in 1981 (Table 3). This increase was more than fully accounted for by the rising ratio of government expenditure to GNP from some 40 per cent in the early 1970s to 49 per cent in 1975 and 65 1/2 per cent in 1981. All the components of current spending, but particularly transfer payments and the cost of servicing the national debt, have increased rapidly in recent years.

Government Expenditure

(In per cent of GNP)

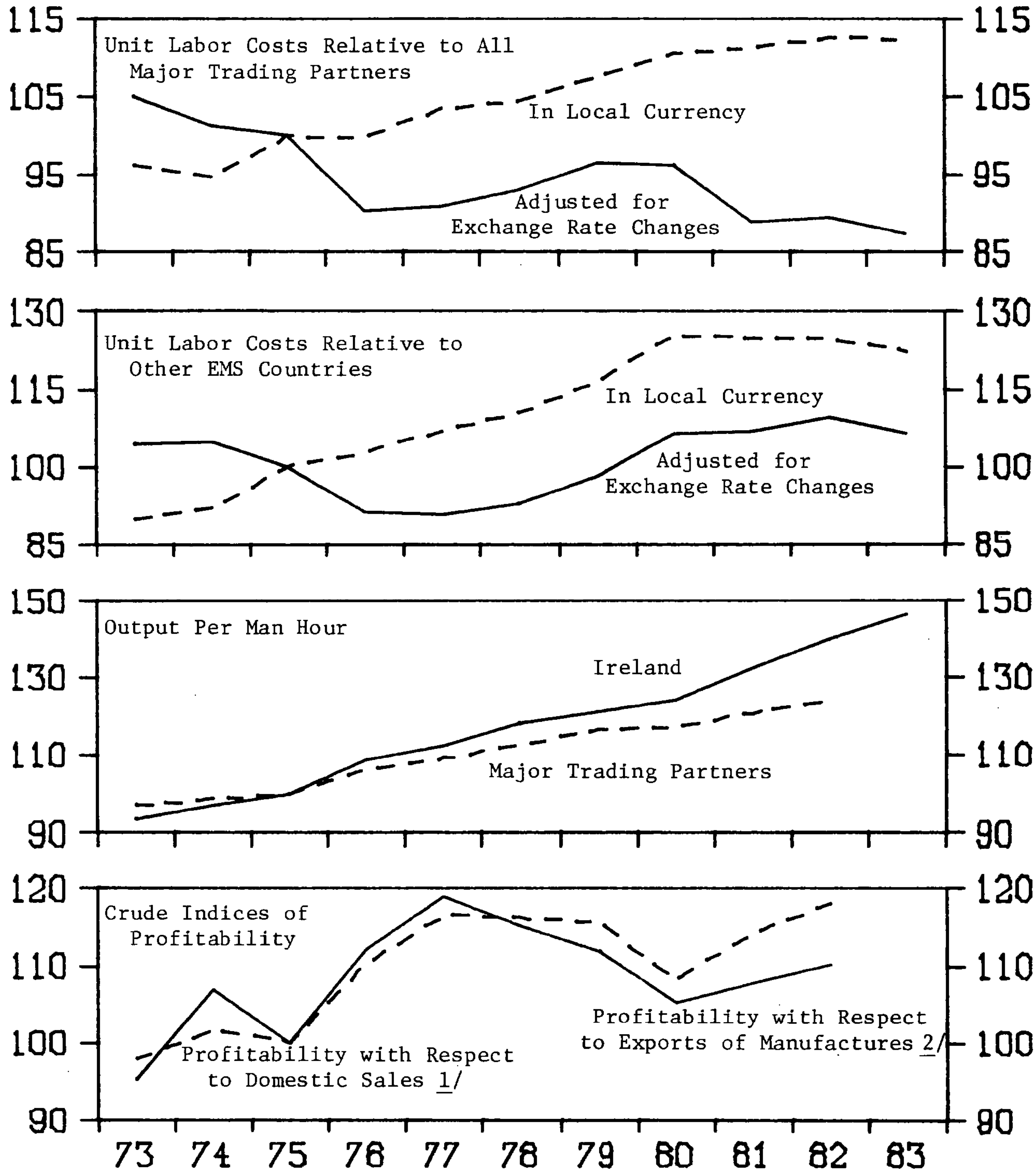
	1975	1979	1981	1982	1983
Capital expenditure	13	14	18	17	15 1/2
Current expenditure	36	40	47 1/2	50	51
Of which:					
Public service remuneration	12	13 1/2	16 1/2	16	16
Interest payments	5	7 1/2	9	11	12
Transfers to residents	12	11 1/2	14	16	16
Subsidies	3	4	4	4	4
Other	4	3 1/2	3 1/2	3	3
Total	49	54	65 1/2	67	66 1/2

CHART 10

IRELAND

INDICATORS OF INTERNATIONAL COMPETITIVENESS

(In the manufacturing sector, 1975 = 100)



Sources: Department of Finance, Current Economic Trends, March 1983; IMF, International Financial Statistics; IMF, Research Department; and staff estimates.

1/ Wholesale price index of manufacturing output, relative to unit labor costs.
2/ Export prices of manufactured goods relative to unit labor costs.
3/ Forecasts.

As already noted, the authorities have recently introduced strong measures to arrest and gradually reverse the deterioration in the public finances. Apart from the steps taken to curb the growth in expenditure, control procedures have been tightened in order to resolve the recurrent problem of substantial overruns of budgetary appropriations and in 1982, for the first time in many years, spending was kept below the initial estimates. Nevertheless, the main burden of fiscal adjustment has fallen on taxpayers. Government revenue as a proportion of GNP has risen to 42 per cent in 1982 and a prospective 43 1/2 per cent in 1983, compared with 39 1/2 per cent in 1981 and about 30 per cent in the mid-1970s. Taxation policy may have contributed to the recovery of the national savings ratio in 1982 (to 19 per cent from a ten-year low of 15 1/2 per cent in 1981), which in turn accounted for about 60 per cent of the improvement in the external current position. However, it has also exacerbated the recessionary conditions in the economy which, together with the increase in interest payments on the national debt, tended to obscure the strengthening of the underlying budgetary position. As a ratio to GNP, the EBR fell only slightly in 1982 to 16 1/2 per cent, although it is expected to decline sharply in 1983 to 13 per cent.

The authorities' objective is to eliminate the current budget deficit by 1987. In so doing their general approach will be to rely more on expenditure reductions than on tax increases. While a further significant rise in the overall tax burden is viewed as undesirable, there is considerable room for improvements in the tax system and in tax administration. A problem of particular concern is the unusually high share of direct taxes borne by the PAYE sector (about 75 per cent of the total in 1982) reflecting the low taxation of property and other wealth, tax evasion by the self-employed, and the wide range of tax reliefs granted to the business and farming sectors to promote economic development. Some measures to alleviate this problem, including the abolition of some tax reliefs and the extension of income tax to all farmers, were taken in the 1983 budget. In addition, stiff penalties for tax evasion and other measures to improve tax collection are being introduced. However, the authorities have decided that, for the time being at least, the more far-reaching recommendations of the Commission on Taxation--which called for a single, relatively low rate of taxation on all personal and corporate incomes--could not be implemented as they would involve a significant loss of government revenue. Another important limitation of the present system is the narrow base of indirect taxation. In part, this is related to the fact that about 30 per cent of consumer spending is not subject to VAT. By contrast, the tax rates for items that are subject to VAT are very high (the standard rate is 35 per cent) tending to encourage spending across the border with Northern Ireland and the growth of the underground economy. At present, no action in this area is envisaged pending the submission of a detailed report on the indirect tax system by the Commission on Taxation.

The authorities have already announced that expenditure adjustments will be the primary focus of the budget in 1984. Although specific decisions have yet to be made, it is recognized that expenditure restraint will have to be extended beyond pay and employment in the public sector. The areas of expenditure that are considered likely to be affected, either directly or through increased charges, include the provision of certain public services, in particular health and tertiary education, food subsidies, and perhaps also income maintenance payments, which have increased by over a third since 1978 in relation to average take-home pay. In addition, increased attention is being paid to the need to improve the efficiency and financial position of public enterprises and the need to rationalize the capital expenditure program.

The scale of the adjustments in public spending that will be required to phase out the current budget deficit by 1987 will be determined in the light of the official medium-term economic program, which is currently under preparation. Nevertheless, work at the technical level has already been carried out to identify the main parameters of the problem. The results of this work underscore the difficulty of the task that the authorities are faced with, but also the significance of satisfactory economic growth in making this task more manageable. It is considered likely that Central Fund expenditures (consisting largely of interest payments on the national debt) will stabilize at about 12 per cent of GNP provided that the budget deficit is indeed phased out at a steady pace over the period and that interest rates fall gradually as progress is made in lowering inflation. If current government revenue were to remain stable in terms of GNP at about the present level of 44 per cent, the decline in the volume of other public spending that would be required to restore current budget balance by 1987 would depend crucially on the rate of growth in GNP, as shown below:

	In per cent		
Average rate of growth of real GNP in 1984-87	1	3	4
Required cumulative decline in volume of discretionary spending from 1983 to 1987	13 1/2	6 1/2	2 3/4

If budgetary equilibrium were to be sought at a reduced burden of taxation, the necessary decline in public spending would obviously be higher. For example, if current revenue were to fall to 40 per cent of GNP by 1987, a 15 per cent volume reduction in the supply of noncapital services would be necessary to balance the budget, even if GNP were to grow by as much as 4 per cent per annum, on average.

2. Competitiveness

International competitiveness, as measured by trends in relative unit labor costs in manufacturing, has generally tended to strengthen since the mid-1970s (Chart 10). 1/ Up to 1981, this was the result of

1/ Wholesale prices and export unit values of manufactures have also tended to decline relative to the weighted average of trade partner countries, although less markedly than relative unit labor costs.

exchange rate movements, largely fortuitous, which more than offset Ireland's comparatively poor record in containing domestic cost increases. In 1982, the adverse differential in cost inflation narrowed, but the effective exchange rate was stable and cost competitiveness worsened somewhat. This loss in competitiveness became more marked in late 1982 and early 1983 as a result of the appreciation of the Irish pound against the pound sterling. However, the March 1983 devaluation of the Irish pound and the subsequent strengthening of the pound sterling have more than reversed this loss; on present exchange rates and wage forecasts, competitiveness would improve in 1983 by about 3 per cent. The improvement would be larger to the extent that the Irish pound moved down from its present position at the top of the EMS band (Chart 11).

Components of Relative Unit Labor Costs (RULC) Manufacturing 1/

(Changes, in per cent)

	1975-81 Cumulative	1982	1983 Forecast
1. Difference in hourly earnings growth	24	4.2	2
2. Difference in productivity performance	8	3	2
Change in RULC in terms of national currencies (1 - 2)	14.5	1.2	--
3. Exchange rate movements	-26.5	-0.6	-3
Total change in RULC	-9	0.6	-3

1/ Changes in unit wage costs in Ireland relative to a weighted average of unit labor costs in 14 trade partner countries; the weights reflect the importance of each country in Ireland's exports of manufactures, its significance as competitor to Ireland in "third" markets, and the relative size of each market.

However, indicators of competitiveness need, as always, to be interpreted with caution. Apart from difficulties related to the quality of the data and the lack of strict international comparability of the component series, it is important to note that there are important differences in the relative cost position with respect to individual trade partners as well as across industries. In particular, the overall figures conceal the significant worsening in competitiveness relative to the EMS partners, which Ireland had experienced up to 1982 and, more importantly, the difficult position facing many of the traditional industries, which are relatively labor intensive. These industries have experienced a rate of productivity growth that has been much lower than the average for the entire manufacturing sector; although they do not account for a large proportion of total exports, it is felt that their competitive strength will have an important influence on employment prospects over the medium term.

In any case, the authorities recognize that further gains in price as well as nonprice competitiveness would be desirable to sustain rapid growth in the output of the traded goods sector and thus offset the restraining effects of continuing fiscal retrenchment on domestic demand and activity. However, they continue to believe that devaluation is not a viable option for achieving gains in competitiveness, noting that because of the low price elasticity of imports and the close link between wage and price movements, exchange rate flexibility tends to have only small and ephemeral effects on foreign trade performance but large and sustained effects on price performance. In addition, there is concern that devaluation would undermine rather than strengthen the adjustment effort by weakening the resolve of the authorities to rectify the fiscal position and the willingness of unions to accept wage moderation. In view of these considerations, their objective is to maintain the external value of the Irish pound as stable as possible, given the constraints imposed by Ireland's membership of the EMS, and to seek gains in competitiveness primarily through increased income restraint and high growth in productivity. While the deceleration in wage inflation had been lagging behind that in other countries, the prospects for the period ahead were more encouraging as there appears to have been a de facto pay pause since the end of the previous pay round (in December 1982 for most wage earners) and the unions still seem willing to accept cuts in living standards. Moreover, Ireland's productivity performance compares favorably with that of its trade partner countries.

The authorities are continuing to put considerable emphasis on supply side policies in order, inter alia, to maintain the good productivity performance of recent years and improve nonprice aspects of competitiveness. In recognition of the fact that the resolution of the country's economic difficulties will take several years of concerted policy action, the institutional structure for medium-term planning has been strengthened, and a new medium-term plan is being prepared. This is expected to reaffirm the long-standing strategy of fostering economic growth through export expansion in preference to domestic demand growth, coupled with import restraint. In addition, a number of studies have been undertaken to identify ways in which the contribution of specific sectors to output and employment creation can be enhanced. Industrial development policies are also being reviewed in the light of recent detailed studies of these policies by independent bodies. While efforts to attract foreign investment in Ireland are being intensified, it is considered desirable that the emphasis of industrial policies should shift toward the promotion of medium-size indigenous firms, including firms supplying intermediate inputs and support services for the foreign-owned export industries. 1/

3. Exchequer financing and monetary policy

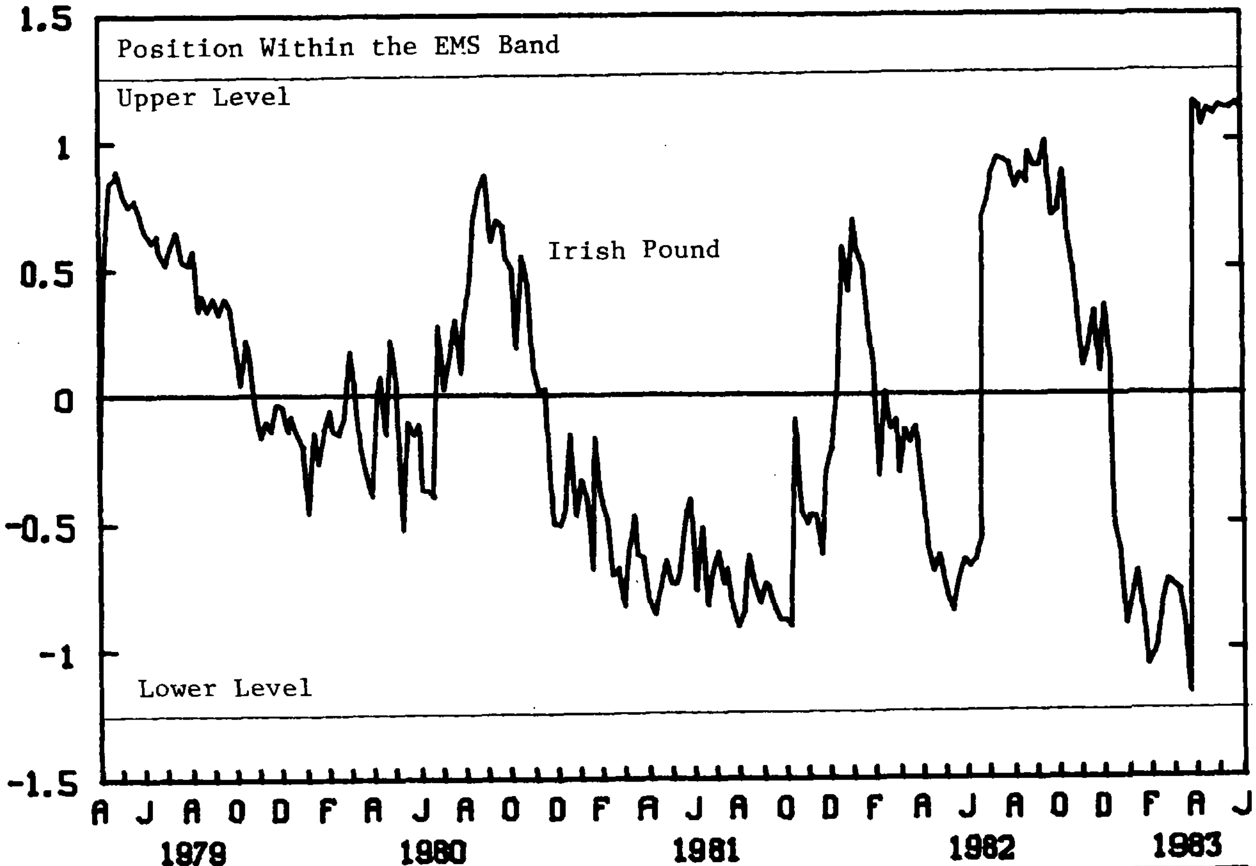
The large imbalance in the public sector accounts in recent years has been accompanied by substantial monetary financing of the Exchequer,

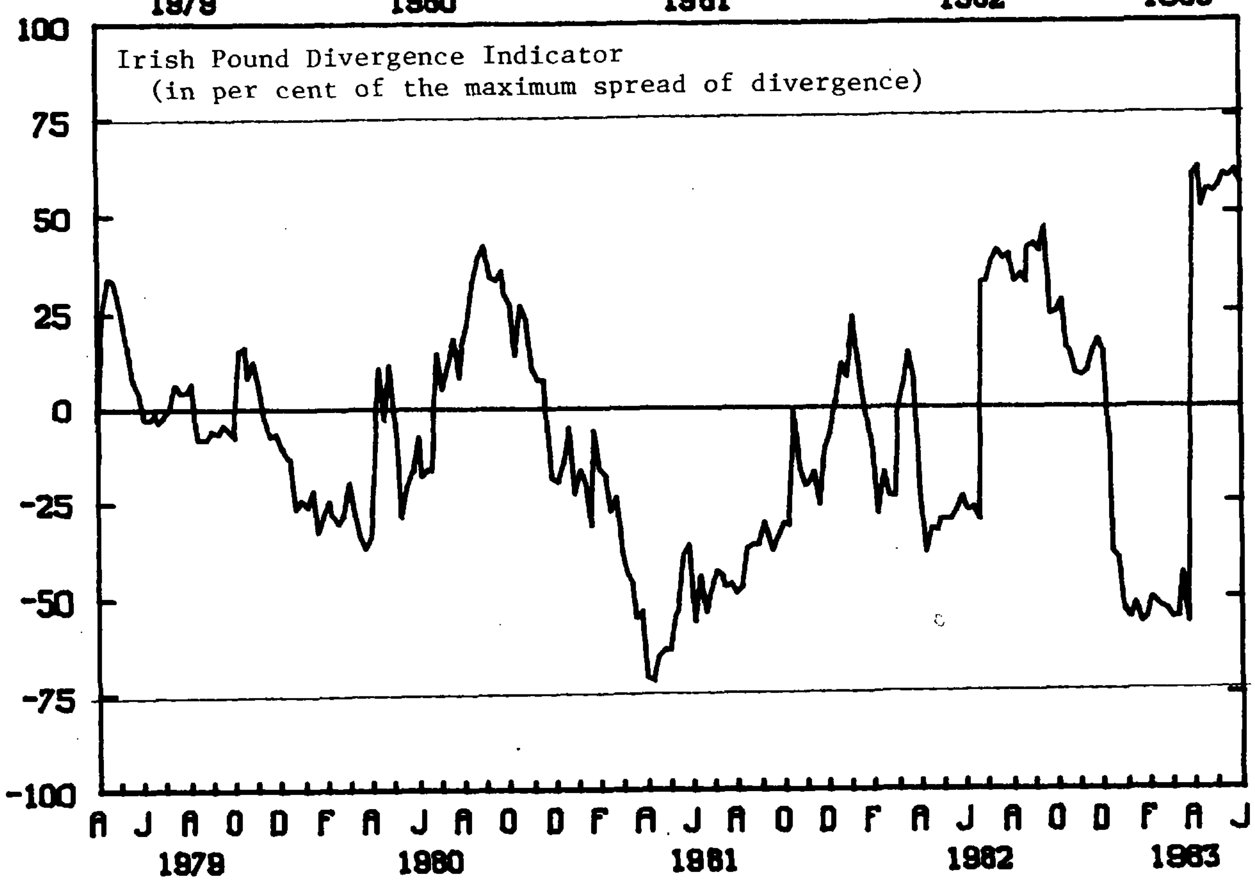
1/ Policies for industrial development are discussed in greater detail in Chapter I, section 5, of the recent economic developments paper.

CHART 11

IRELAND

EXCHANGE RATE MOVEMENTS WITHIN THE EMS





Source: IMF staff calculations.

largely in the form of external borrowing. Total monetary financing of the EBR averaged close to 70 per cent of the total in 1975-80 and rose to 83 1/2 per cent in 1981. In 1982, however, the weak demand for private credit and the declining trend in interest rates in the second half of the year enabled the Exchequer to double the amount of funds raised from the domestic nonbank sector; thus, the share of the monetary financing of the EBR fell back to 69 1/2 per cent. Nevertheless, external borrowing by the Exchequer and by the semi-state bodies remained large and the total outstanding external public debt continued to rise rapidly.

In the discussions, it was noted that the maturity structure of external debt was well balanced. There was no government debt with an original maturity of less than one year, and only about 5 per cent of the total had an original maturity of less than two years. Most of the remainder was repayable fairly evenly over the next decade, with about 8 per cent of the total falling due in the rest of the 1990s and beyond. The maturity profile of the foreign debt of the semi-state bodies (less than 25 per cent of the total) was also well spread, although some of these bodies made limited use of short-term credits, usually backed up by medium-term stand-by facilities. The gross debt service ratio had risen from 11 per cent in 1981 to 19 per cent in 1982, as a result of the rolling over of some one- to two-year credits previously arranged, the high level of interest rates internationally, and the strength of the currencies in which a large part of the debt is denominated. In 1983 the debt service ratio was expected to fall perceptibly. Ireland had not experienced any undue difficulties in gaining access to foreign capital markets, as its creditworthiness continued to be highly regarded. 1/ Even so, the authorities shared the view that the debt to GDP ratio was too high, but felt that progress in reducing external borrowing was contingent on a reduction in the EBR as access to domestic sources of finance was limited by the small size of the domestic capital market. However, the importance attached by the authorities to the objectives of minimizing the total cost of borrowing to the Exchequer and avoiding disruptive fluctuations in domestic interest rates would also seem to constrain domestic government borrowing. It was expected that in 1983 the funds that could be raised domestically to finance the EBR would be about the same as in 1982, and the target for net external borrowing had been set at about £Ir 800 million. Most of this borrowing had already been arranged, although drawings would be spread over the year, depending on need.

The Irish officials expressed serious doubts about the usefulness of medium-term external debt scenarios and noted that, in any case, official projections of the debt profile were not available. Illustrative staff projections suggest that, on the assumptions used, the external debt position would improve over the next several years, with the net debt service ratio falling from 16 1/2 per cent in 1982 to less than

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1/ A recent syndicated loan had been well received by the market, and the amount of the loan had been raised to US$500 million from US$300 million that the authorities had sought initially.

13 per cent in 1987 (Table 4). These estimates allow for a recovery in economic growth and thus in the demand for imports after 1984 and incorporate the assumption that gains in export market shares will continue, albeit at a much lower rate than in the past. This assumption allows for the effects on export capacity of the recent slowdown in investment, including investment by foreign companies, but also for the expected buildup of production of some newly established export-oriented industries. An alternative scenario which assumes no gains in market shares still suggests a prospective decline in the net debt service ratio to about 14 1/2 per cent in 1987. 1/

The large size of the EBR and the obligation to defend the exchange rate in the context of the EMS continue to impose important constraints on the ability of the authorities to control total domestic credit expansion and the money supply. Accordingly, the main objective of monetary policy remains that of maintaining an adequate level of external reserves to cover fluctuations in the demand for foreign currencies. The target level of official external reserves has been raised from 2 1/2 months of merchandise imports, which was conventionally regarded as adequate, to 2.9 months for end-1982 and 3 1/4 months for end-1983. This reflects the view that higher reserves are needed in the light of the rapid growth of external indebtedness in recent years, the increasing need for official intervention in the exchange markets during periods of speculation against the currency, and the need to guard against the possibility of reduced access to international capital markets in the event of a major shock to the system.

As an operational target for monetary policy, the authorities announce guidelines for the expansion of bank credit to the private sector having regard to the broad objectives of economic policy, the stance of fiscal policy, and macroeconomic forecasts for each policy period. Noncompliance with the guidelines is penalized by calls for supplementary deposits from the banks. In the 1982 policy year (ended February 1983), a 14 per cent guideline for the growth in private sector credit was set, but owing to the weak state of demand in the economy and high interest rates, the actual increase in credit was only about 10 per cent, compared with 15 1/2 per cent in the previous policy year. The rate of growth in broad money also decelerated from 15 per cent to 11 per cent, respectively (Table 5). As noted earlier, an 11 per cent credit guideline has been decided upon for the current policy year.

The authorities would prefer to move away from quantitative controls on private credit in favor of more market-oriented instruments of monetary policy. However, this course of action was not followed in 1983, because it was felt that the abolition of the system of credit guidelines might have been misconstrued as an indication that monetary policy was

1/ The real interest rate is assumed to fall from about 4 per cent in 1983 to 3 per cent in 1984-87. Every percentage point change in interest rates changes the debt service ratio by about 1/2 percentage point, as some two thirds of the foreign debt is on a floating rate basis.

becoming expansionary. Nevertheless, improved methods of official intervention in the money market are being envisaged. In the past, foreign exchange swaps with the banks were the principal instrument used for smoothing the intermittent large swings in domestic liquidity conditions, but there has been growing awareness of the disadvantages of overreliance on this instrument at times of unsettled conditions in the exchange market. Accordingly, the authorities are actively considering making increased use of other instruments of liquidity management and are continuing their progress in developing a secondary market for government securities.

4. Other policy issues

As a member of the European Communities, Ireland no longer operates an autonomous foreign trade policy. The Irish representatives indicated that no major changes had occurred under the EC common commercial policy since the last Article IV consultation, except for the renewal of the Multifiber Agreement and the implementation of surveillance on imports from Japan; this requires EC member states to monitor developments in the volume and value of imports from Japan of some 12 groups of goods. In 1982 the authorities had also decided to charge VAT on imports at the time of entry rather than at the time of sale; this measure had been motivated by tax policy considerations rather than trade policy objectives. The authorities recognized the problems that the measure had caused for business, but could not dismantle the new system; however, in the 1983 budget, imports of raw materials and components by firms that export 75 per cent or more of their output were exempted from the payment of VAT.

With respect to the effects on Ireland of restrictive practices by other countries, the Irish representatives indicated that, although as much as 70 per cent of its trade was with EC partners and thus free of formal restrictions, there was concern that the dispute between the U.S. Government and the EC Commission on trade in agricultural products could have repercussions on Irish exports.

Ireland's official development assistance (ODA) in 1982 amounted to 0.22 per cent of GNP, remaining well below the UN target of 0.7 per cent. The allocation for 1983, despite the stringent economic situation, was increased by £Ir 4.4 million to £Ir 30.1 million (0.23 per cent of estimated GNP). Of the total allocated in 1983, some 35 per cent was bilateral aid. The Government's medium-term objective is to increase development aid by 0.05 per cent of GNP each year until the UN target is reached.

Ireland relies heavily on imported energy resources, which currently account for approximately 73 per cent of total domestic energy requirements, compared with 78 per cent in 1980 and 82 per cent in 1978. The Irish representatives noted that the 1979/80 oil price increase had been fully reflected in domestic energy prices and this had contributed to a fall in consumption of petroleum products. In addition, there had been a significant shift away from oil usage and greater exploitation of indigenous energy resources, notably natural gas. The share of the latter in total energy usage had increased to 11 per cent in 1981 from 6 per cent in 1980; it was expected to approach 20 per cent in 1985 before falling back to 14 per cent in 1987 as supplies were depleted. Therefore, additional conservation efforts were being considered. Opportunities for reducing Ireland's dependence on imported energy lie with the increased reticulation of natural gas for direct consumption and greater exploitation of peat and coal reserves.

V. Staff Appraisal

Over the last two years, the Irish authorities have introduced belated but strong and courageous policies aimed at redressing the severe internal and external imbalances that had previously emerged. These policies have achieved a notable degree of success in terms of a rapid decline in the balance of payments deficit on current account and a significant deceleration in the underlying rate of inflation. They have also helped reverse the excessive gains in real wage incomes that had been experienced in the late 1970s. It is noteworthy that the broad thrust of the adjustment policies has been maintained by three successive governments despite the generally unsatisfactory external and domestic economic environment. It is also encouraging that the need for adjustment has found increasing popular acceptance. Nevertheless, the moderation of nominal pay increases has been less pronounced than, on average, in Ireland's main trade partners, and it seems that at least in some parts of Irish industry cost-price relativities have not yet been fully restored to a level compatible with the maintenance of employment levels. In view of this and the deepening recession, labor shedding has occurred on a sizable scale, contributing to a rapid rise in unemployment.

The improvement in the external current account position is likely to continue in 1983, with the deficit probably falling to the equivalent of some 3 1/2 per cent of GNP as against 14 per cent of GNP only two years ago. While this progress is certainly impressive, it is important to note that the fall in the deficit is expected to come about partly as a result of cyclical developments, including in particular the prospective further increase in unemployment. For this reason, it is unlikely to prove fully sustainable in the absence of further corrective action. The staff therefore agrees with the authorities that policies in the period ahead should continue to aim at consolidating the improvements in the balance of payments position while, at the same time, restoring conditions conducive to adequate growth in output and employment. Essential ingredients for the attainment of these aims are a further correction of relative factor prices in the economy and a continued phased but sizable reduction in the EBR.

Considerable action has already been taken to restore order to the public finances, although because of the recession the results have only partly become apparent in the budgetary accounts. However, while progress has been made in curbing the growth in public expenditure and improving control procedures, the brunt of the fiscal adjustment has so far been borne on the taxation side. This may have contributed to a modest recovery in the national savings ratio, following the steep decline previously experienced, but at the cost of a slower abatement in the rate of inflation than would have been warranted by the deceleration in the rate of increase in import prices and domestic factor incomes. Moreover, the increased tax burden has exacerbated the squeeze in real personal disposable income, while probably also strengthening incentives for noncompliance with the tax code. In light of these considerations, the staff welcomes the intention of the authorities to shift, in the coming years, the burden of fiscal retrenchment to public expenditure. In this context pay restraint in the public sector will obviously be of paramount importance. Nevertheless, reductions in the volume of government spending will also be necessary if the official objectives of eliminating the current budget deficit by 1987 and reducing the EBR to a level that can be sustained are to be achieved. In particular, there is a need for streamlining the financial position of public enterprises by improving efficiency and cutting back projects that do not yield adequate rates of return. In addition, increased charges on services provided by the public sector, especially in the fields of health and education, would help contain the demand for these services, while contributing to the decline in the fiscal imbalance. Recipients of income maintenance payments obtained increases in benefits over the last several years which were well in excess of inflation and the growth in national income. Given the difficult state of the public finances, it seems important that they too should participate to some extent in sharing the burden of adjustment. With the room for tax increases severely limited, the task of broadening the tax base, including the VAT base, has assumed added urgency. Together with the steps now being taken to improve tax administration and collection, a broader tax base would open the possibility for lowering tax rates. These, in turn, would reduce the incentive for diverting spending power across the border, or to the underground economy, dampen perceptions of tax inequity, and sustain the wage earners' willingness to accept sacrifice of real income.

Monetary and financing policies had some success in maintaining reserves at a reasonably high level and in increasing in 1982 the share of the EBR financed from domestic nonmonetary sources. However, further progress in mobilizing domestic resources for Exchequer financing is highly desirable as it would enable total official borrowing abroad to be lowered to a level that does not exceed the current external deficit plus the desired accumulation of foreign reserves. Owing to a large outflow of private capital, official external borrowing in 1982 was substantially larger than the amount necessary to cover the current balance of payments deficit. The staff believes that more flexible interest rate and debt management policies can help avoid a repetition of this experience in the future without necessarily impinging on the legitimate financing needs of the private sector. In the short run, such policies may increase to some extent the average cost of Exchequer borrowing and may also narrow the scope for Irish interest rates to respond quickly to any downward movement in foreign interest rates. However, increased domestic nonbank financing of the Exchequer, at the same time as progress is made in reducing its total borrowing needs, can be expected to facilitate control over domestic credit and monetary expansion, thus leading over time to a lowering of inflation, interest rates, and the cost of servicing the national debt. External debt is high by international standards and has risen unduly rapidly in recent years, but its maturity structure is quite favorable and the debt service ratio is modest and likely to fall. Moreover, Ireland's creditworthiness continues to be highly regarded in international capital markets. Nevertheless, the staff believes that the authorities should exercise considerable self-restraint in setting foreign borrowing targets, in order to curb further the drain on domestic resources from interest payments on the external debt. In view of the unsettled and uncertain climate in international financial markets, the staff also welcomes the authorities' intention to raise the level of official external reserves.

The adjustment in the exchange rate of the Irish pound on the occasion of the recent EMS realignment was, in the opinion of the staff, timely and appropriate. Together with the subsequent developments in the exchange rate vis-à-vis the pound sterling, this adjustment has offset the losses in cost competitiveness experienced during 1982 and the early months of 1983. Indeed, if the authorities' ambitious guidelines for income restraint in the current pay round were broadly adhered to, Ireland would experience a gain in competitiveness in 1983. This would be of considerable assistance to the traditional labor-intensive sectors of Irish industry and would also bring within reach a convergence of the rate of inflation in Ireland to the average of its most important trade partners. The staff appreciates the authorities' reluctance to use exchange rate policy aggressively and supports their aim to achieve further gains in competitiveness through wage restraint and, in the longer term, also by strengthening the policies of industrial development. The staff, however, believes that a failure to obtain the necessary degree of wage restraint should not be allowed to jeopardize the adjustment effort and encourages the continuation of a pragmatic approach to the management of the exchange rate, taking into account developments in non-EMS currencies of special importance to Ireland as well as actual movements in relative costs.

It is recommended that the next Article IV consultation with Ireland be held on the standard 12-month cycle.

Table 1. Ireland: Expenditure on GNP

(Changes in per cent)

	1976-79 Average 1/	1980	1981	1982	1983 2/
GNP at current market prices	18.2	16.6	18.1	16.7	11.2
GNP deflator	14.1	14.0	17.7	17.0	11.2
Real GNP	3.6	2.3	0.3	-0.3	--
Real GNP adjusted for changes in the terms of trade 3/	3.5	-1.5	-1.1	1.7	0.8
Components of demand at constant prices					
Private consumption	4.7	0.2	-0.4	-5.5	-2.0
Public consumption	4.9	6.1	--	3.3	0.5
Gross fixed investment	11.0	-6.9	5.5	-7.5	-9.0
Stockbuilding 4/	...	-2.9	0.2	1.5	-0.6
Total domestic demand	6.9	-3.2	1.2	-3.0	-3.8
Exports of goods and services	10.3	6.4	1.6	4.5	7.2
Imports of goods and services	14.4	-4.2	1.7	-4.0	-0.5
Foreign balance 4/	...	6.6	-0.2	5.3	4.3
GDP	4.3	2.7	1.1	1.5	0.5
Net factor income from abroad 4/	...	-0.5	-0.9	-2.0	-0.5
Memorandum items:					
Consumer prices	13.0	18.2	20.4	17.1	11.0
Real personal disposable income	4.3	-3.7	-2.0	-1.1	-3.0
Real net farm income	-1.1	-22.2	-5.2	2.4	...
Nonagricultural wage bill	19.7	22.3	16.7	13.2	...
Profits 5/	22.6	4.0	15.2	20.0 6/	...
Manufacturing production	7.9	-1.9	2.4	0.1	1.5
Average weekly earnings in manufacturing	15.8	18.2	16.7	13.3	9.7
Output per manhour in manufacturing	5.1	1.4	5.9	5.5	5.0
Unit wage costs in manufacturing	10.3	19.5	9.8	8.5	4.5

Sources: Department of Finance, Economic Review and Outlook; Central Statistical Office, National Income and Expenditure, 1980; Central Bank of Ireland, Quarterly Bulletin: IMF, International Financial Statistics; and data provided by the Irish authorities.

1/ Compound annual average.
2/ Forecast.
3/ By deflating exports of goods and services by the deflator of imports of goods and services.
4/ Contribution to growth in GNP.
5/ Trading profits, professional earnings, interest, dividends, and rents before adjustment for stock appreciation.
6/ Estimate.

Table 2. Ireland: Balance of Payments Summary

	1978	1979	1980	1981	1982	1983 1/
	(In millions of Irish pounds)					
Merchandise exports, f.o.b.	2,922	3,395	4,004	4,787	5,621	6,480
Merchandise imports, c.i.f.	-3,656	-4,760	-5,346	-6,484	-6,719	-7,015
Trade balance	-735	-1,365	-1,342	-1,697	-1,098	-535
Other services and unrequited transfers	478	530	468	265	108	105
Current balance	-257	-835	-874	-1,432	-990	-430
Net capital inflows	308	558	1,245	1,559	1,111	...
Nonbank private sector 2/	-131	34	-159	62	-520	...
Financial sector	118	130	481	78	218	...
Public sector	322	395	921	1,419	1,413	...
Overall balance 3/	51	-277	371	127	121	...
	(In millions of SDRs)					
Trade balance	-1,083	-2,122	-2,172	-2,357	-1,416	-842
Current balance	-379	-1,298	-1,410	-1,989	-1,276	-539
Overall balance	75	-431	599	176	156	...
	(Percentage change)					
Memorandum items:						
Volume of exports	10.3	8.4	8.1	0.8	6.0	7.7
Volume of imports	14.5	14.4	-4.5	2.1	-4.5	-0.5
Unit value of exports	6.5	8.8	8.8	16.1	12.0	7.0
Unit value of imports	4.9	13.5	17.9	18.8	8.5	5.0
Terms of trade (1975 = 100)	1.5	-4.1	-7.7	-2.3	3.5	1.9
Current deficit (in per cent of GNP)	-4.1	-11.5	-10.3	-14.2	-8.4	-3.3
Foreign reserves (in SDR millions)	2,064	1,693	2,255	2,291	2,389	1,760 4/
Reserve coverage (months of imports)	4.4	2.7	3.2	3.0	3.3	2.4
Effective exchange rate (1970 = 100)						
MERM	2.6	2.6	-0.3	-10.8	-3.1	...
Official index	0.5	-0.6	-4.0	-8.5	-0.6	...
Relative unit labor costs 5/						
Relative to 14 industrial countries	2.3	3.6	--	-7.8	0.6	-3.0
Relative to EMS participants	2.3	6.0	8.6	0.1	2.7	-3.0

Sources: IMF, Balance of Payments Yearbook and International Financial Statistics; Central Bank of Ireland, Quarterly Bulletin; and data provided by the Irish authorities.

1/ Official forecasts.
2/ Including allocation of SDRs, other capital transactions, and errors and omissions.
3/ Including valuation adjustments.
4/ As at end-May, with gold valued at SDR 35 per ounce.
5/ Adjusted for exchange rate changes (staff estimates).

Table 3. Ireland: Summary of Current and Capital Budgets

(In millions of Irish pounds)

	1978	1979	1980	1981	1982		1983
					March budget estimate	Cash outturn	Budget estimate
Current revenue	2,023	2,384	3,155	3,973	5,270	4,908	5,758
Current expenditure	2,420	2,906	3,702	4,775	5,949	5,896	6,655
Current deficit	397	522	547	802	679	988	897
Capital expenditure, net	413	487	670	920	1,004	957	825
Exchequer borrowing requirement (EBR)	810	1,009	1,217	1,722	1,683	1,945	1,722
Memorandum items:							
Current budget deficit as per cent of GNP	6.3	7.2	6.4	8.0	5.6	8.2	6.9
EBR as per cent of GNP	12.8	13.8	14.3	17.1	13.7	16.6	13.2
Direct external borrowing by the Government, net	353	459	583	1,255	...	1,130	...
Domestic bank financing	232	228	240	175	...	235	...

Sources: Department of Finance, Budgets; and data provided by the Irish authorities.

Table 4. Ireland: Illustrative Medium-Term External Public Debt Scenario

(In per cent)

	1982	1983	1984	1985	1986	1987
	Actual	Projected				
Current account balance, in per cent of GNP	-8 1/2	-3 1/4	-1 1/2	-1	-1/2	--
External public debt in per cent of GNP:						
Gross	59 1/2	61 3/4	60	58 1/4	56	53 1/2
Net 1/	43 1/2	46 3/4	45	42 3/4	40 1/4	37 1/4
Debt service payments, net, in per cent of exports of goods and services 2/	16 1/2	14 3/4	13 1/4	11 1/4	11	12 3/4
Debt service payments, gross, in per cent of exports of goods and services	19	16 1/2	15	13	12 3/4	14 1/2
Of which:						
Interest payments	10	9 1/2	7 3/4	6 3/4	6	5

Source: Staff estimates. The main assumptions behind this scenario are as follows: Estimates for 1983 reflect the forecasts outlined in section II above. For the period 1984-1987 exports of goods and services are assumed to rise in real terms by 6 per cent per annum on the basis of growth in export markets averaging about 4 per cent per year and the fuller utilization of existing export capacity. The implied gains in market shares are, however, lower than those experienced in recent years. GNP growth is assumed to recover gradually over the period to an average of about 3 per cent per year leading to a corresponding recovery in import growth to an average of 5 3/4 per cent per annum. The annual increase in the GNP deflator is assumed to be 6 per cent and the terms of trade are assumed to remain stable. Import prices are assumed to be moving in line with world inflation (6 per cent per annum). External public sector borrowing covers the balance of payments deficit on current and private sector capital accounts and allows for a desired accumulation of reserves, with official reserves maintained at the equivalent of 3 1/4 months of merchandise imports. All new borrowings are assumed to be on floating interest rate (with an assumed 3 per cent real interest rate) and to be repayable in eight years, including a four-year grace period.

1/ External debt of the Government and the state-sponsored bodies, net of official reserves.

2/ Net of interest income on official reserves. About 95 per cent of official reserves are assumed to be invested abroad in short-term assets, bearing yields 1 percentage point lower than the interest rate on new borrowing.

Table 5. Ireland: Monetary Survey

(End of period data)

	1983 Feb.	1980	1981	1982	1982 Feb.	1982 May	1982 Aug.	1982 Nov.	1983 Feb.
	In millions of Irish pounds	Percentage changes from the corresponding period in previous year							
Net foreign assets	445	15.1	10.2	20.1	-21.0	64.2	40.7	14.9	19.6
Domestic credit, net	8,816	18.6	18.0	12.9	16.6	11.7	9.5	13.4	12.8
To government, net	2,038	29.1	11.0	20.0	21.3	-3.7	-1.5	25.2	19.5
To nongovernment	6,778	16.1	19.9	11.2	15.3	16.3	12.9	10.2	10.9
Other items, net	-1,451	22.6	18.0	16.1	8.0	13.8	20.4	-4.3	28.2
Broad money (M3)	7,810	17.7	17.4	12.9	15.1	13.2	10.1	16.5	10.7
Narrow money (M1)	1,644	10.3	8.2	7.1	7.8	2.6	4.2	8.8	8.8
Memorandum items:									
Velocity of circulation (M3) 1/	--	1.60	1.56	1.60	--	--	--	--	--
		(Credit policy years ending February)							
Private sector credit									
Central Bank guideline	--	18.0	13.0	15.0	--	--	--	--	14.0
Actual outcome	6,619	19.3	13.4	15.3	--	--	--	--	10.2
Broad money (M3)	7,810	15.7	25.0	15.1	15.1	13.2	10.1	16.5	10.7

Source: Central Bank of Ireland, Quarterly Bulletin.

1/ Ratio of GNP to average broad money stock.

SM/83/126
Corrected: 7/19/83

Fund Relations with Ireland 1/

Date of membership	August 8, 1957
Quota	SDR 232.5 million
Proposed quota under Eighth General Review of Quotas	SDR 343.4 million
Fund holdings of Irish pounds	SDR 157.3 million, or 67.7 per cent of quota
Reserve tranche position	SDR 75.2 million
SDR holdings	SDR 92.1 million (105.5 per cent of net cumulative allocation)
Gold distribution (four distributions)	103,554.980 ounces
Exchange system	Since March 13, 1979 Ireland has participated, together with Belgium, Denmark, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands, in the exchange rate mechanism of the European Monetary System. Under this system, Ireland maintains spot exchange rates of the currencies of the other participants within margins of 2.25 per cent (in the case of the Italian lira, 6 per cent) above and below cross rates derived from central rates expressed in ECUs. The central rate of the Irish pound is currently ECU 1 = £Ir 0.717050. The one-to-one parity relationship with the pound sterling was discontinued on March 30, 1979.
Last consultation	The staff report for the 1981 Article IV consultation (SM/81/218, 11/10/81) was considered by the Executive Board on December 2, 1981 (EBM/81/149).

1/ As of May 31, 1983.

Ireland--Basic Data

Area and Population

Area	70,282 sq. km.
Population (as at April 1981)	3,443,000
Total labor force (as at April 1982)	1,283,000

National Accounts	1982	1980	1981	1982
	In millions of £Ir	Percentage change in real terms		
Private consumtpion	7,335	0.2	-0.4	-5.5
Public consumption	2,647	6.1	--	3.3
Gross domestic fixed capital formation	3,135	-6.9	5.5	-7.5
Change in stocks 1/	78	-2.9	0.2	1.5
Gross domestic expenditure	13,195	-3.2	1.2	-3.0
Exports of goods and services	6,493	6.4	1.6	4.5
Imports of goods and services	7,363	-4.2	1.7	-4.0
Net factor income from abroad 1/	-870	-0.5	-0.9	-2.0
Gross national product (at market prices)	11,725	2.3	0.3	-0.3
Gross national product per capita in 1981	2,919	SDR 4,002		

Central Government Accounts	1980	1981	1982
	In millions of £Ir		
Current revenue	3,155	3,973	4,908
Current expenditure	3,702	4,775	5,896
Capital expenditure (net)	670	920	957
Exchequer borrowing requirement	1,217	1,722	1,945
(In per cent of GNP)	(14.5)	(17.1)	(16.6)

1/ Changes express contribution to GNP growth.
2/ Supplementary budget estimates.

Basic Data (cont'd.)

Balance of Payments	1980	1981	1982
		In millions of £Ir	
Merchandise exports, f.o.b.	4,004	4,787	5,621
Merchandise imports, f.o.b.	-5,346	-6,484	-6,719
Net services and transfers	468	265	108
Current balance	-874	-1,432	-990
(In per cent of GNP)	(-10.3)	(-14.2)	(-8.4)
Total capital (including errors and omissions)	1,245	1,559	1,111
Overall balance	371	127	121
(In per cent of GNP)	(4.4)	(1.3)	(1.0)
		(In millions of SDRs)	
Level of reserves (end of year)	2,255	2,291	2,389

Other Economic Indicators	1980	1981	1982			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
(Per cent change over corresponding period, previous year)						
Volume of industrial production	-1.8	1.4	1.5	1.3	-1.8	0.7
Volume of retail sales	-0.8	-0.6	-4.4	-6.6	-8.8	-1.7
Registered unemployed 1/	8.2	10.1	11.5	11.6	12.4	13.4
Consumer prices	18.2	20.4	18.9	21.0	17.0	12.3
Weekly earnings in manufacturing	18.4	16.4	13.6	11.9	13.0	13.0
Volume of merchandise exports	8.1	0.8	6.2	11.7	3.7	3.7
Volume of merchandise imports	-4.5	2.1	5.9	-1.6	-13.5	-7.3
Money supply (M3) 2/	17.7	17.4	15.5	13.2	12.3	13.0
Domestic credit 2/	18.6	18.0	16.5	12.0	11.6	12.3

1/ Registered unemployed as per cent of labor force.
2/ End-period.