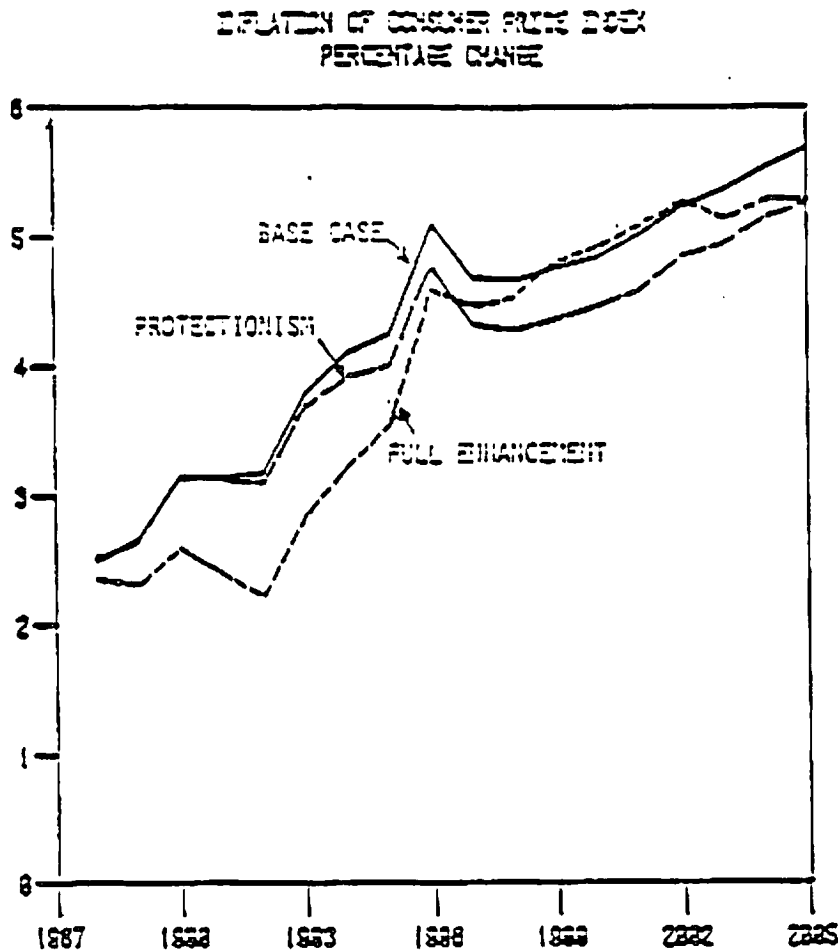


3.2.4 Impact On Inflation -

Figure 4



As Figure 4 displays, inflation is significantly reduced in all years from 1988 through to the mid-1990s as a result of both direct and induced effects of trade enhancement. Tightening labour markets, thereafter, begin to generate increased wage demands that are not fully offset by productivity gains, and inflation accelerates to approximately match that of the base case setting. Again, if mechanisms can be found in later years to relieve the pressure on labour markets, then the acceleration of inflation would be dampened.