



Irish Fiscal Advisory Council

Getting Started: Ireland's Fiscal Advisory Council

Professor John McHale
Chair, Irish Fiscal Advisory Council

November 27, 2013

First meeting of the EU Network of Independent Fiscal Institutions

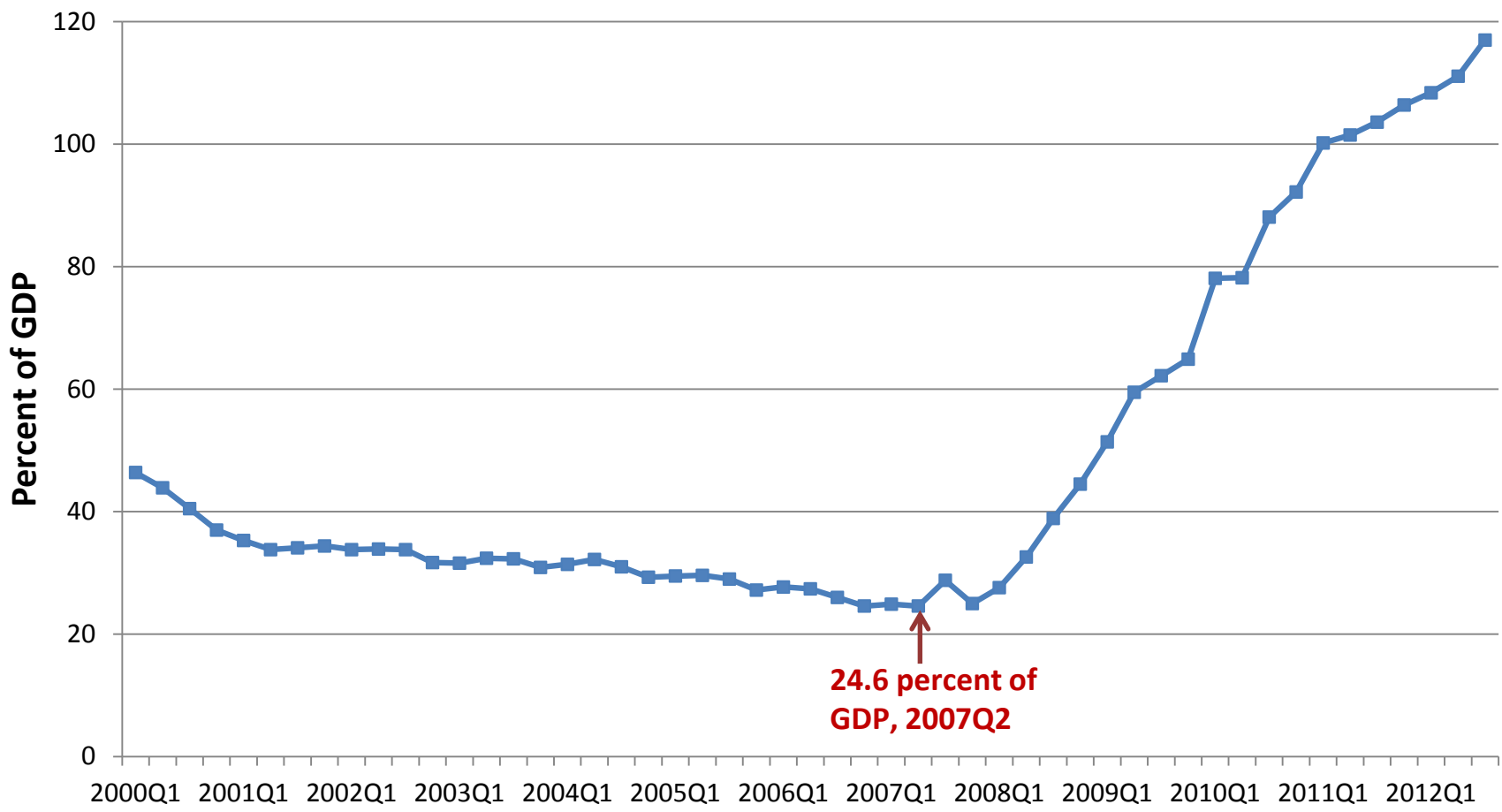


Overview

- Brief background on Ireland's fiscal challenges
- Establishment of IFAC
- Current challenges

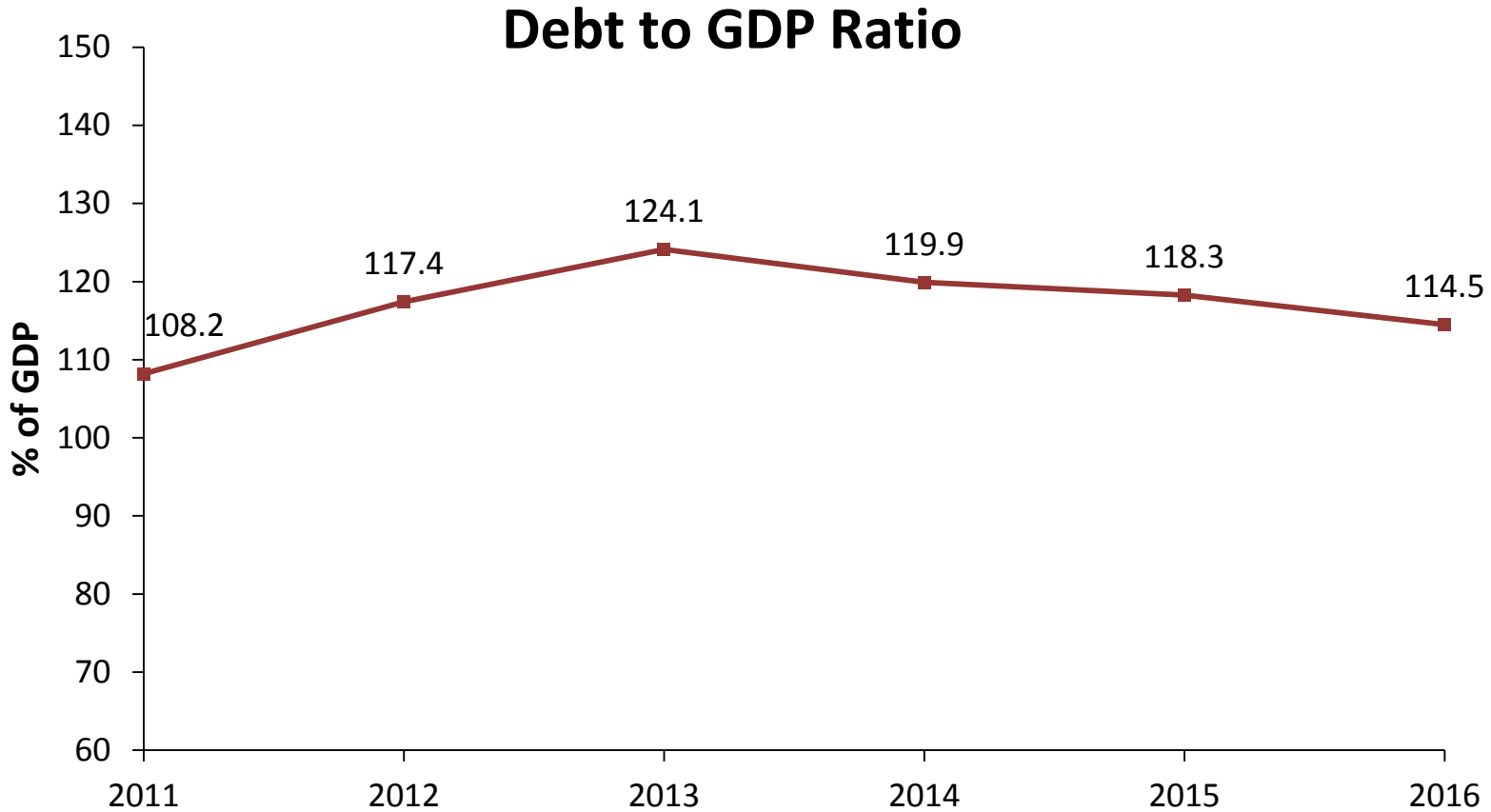


Crisis → Massive debt shock



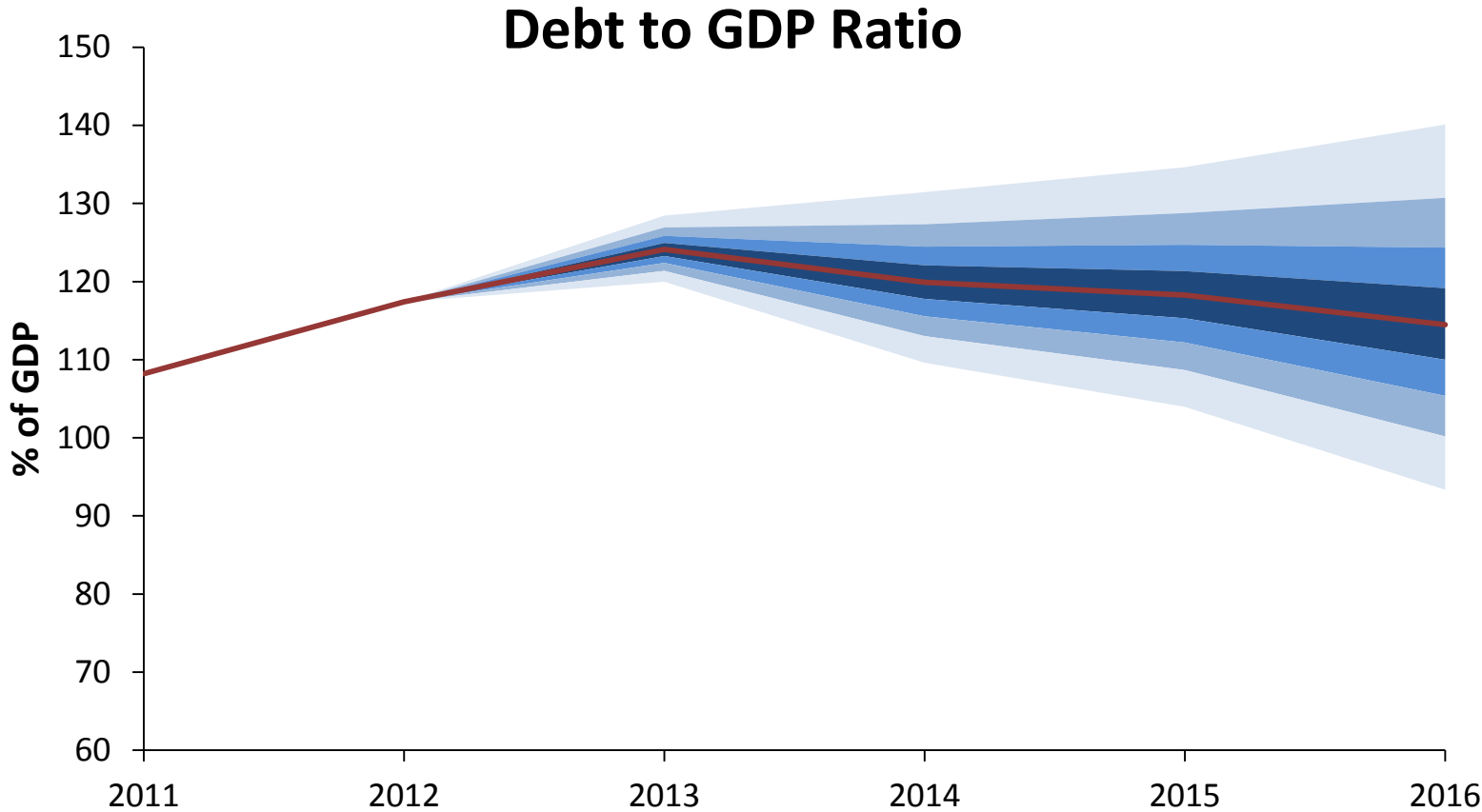


Projected debt to GDP ratio on a declining path





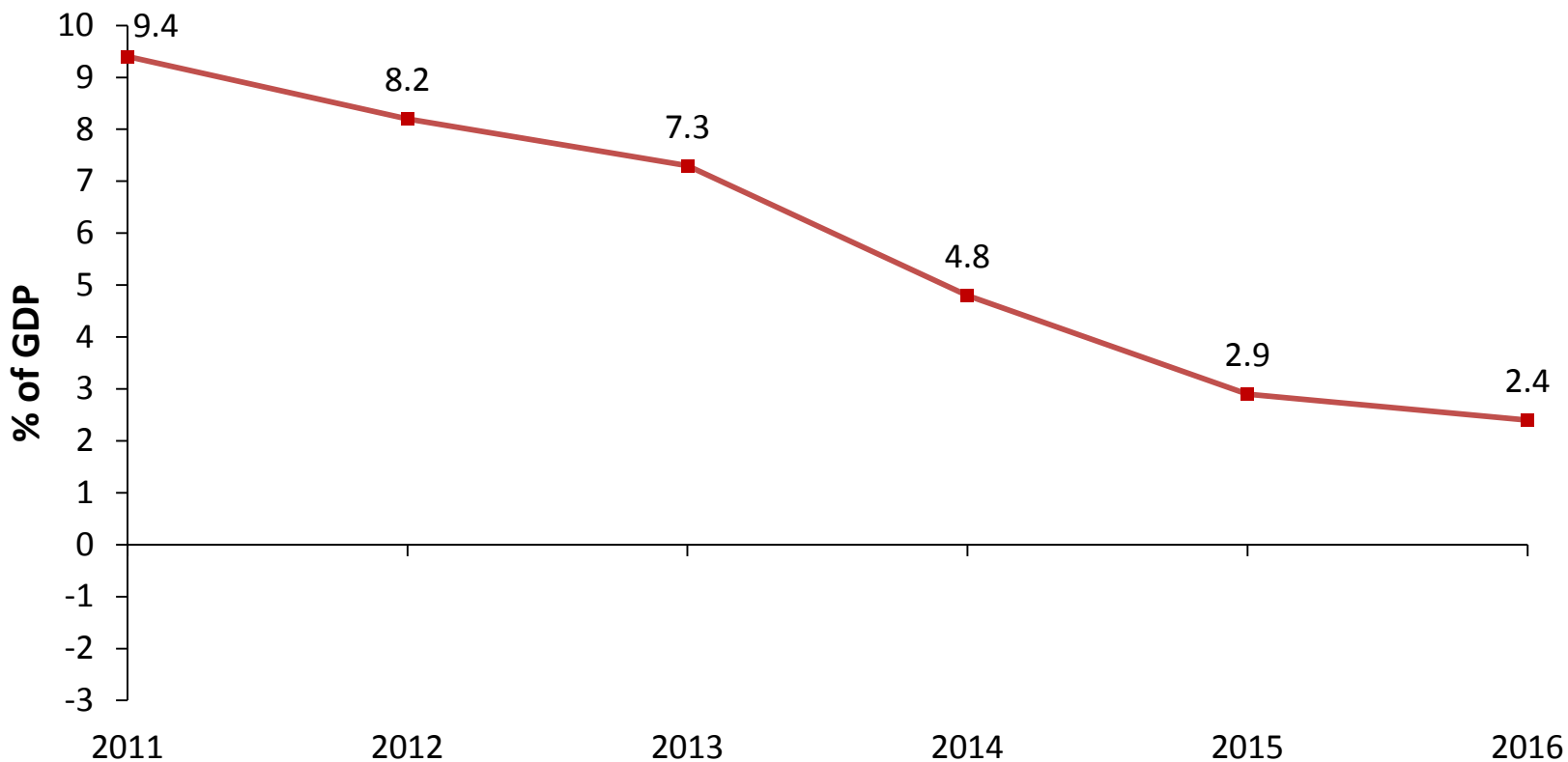
But risks to sustainability remain





Deficit is falling

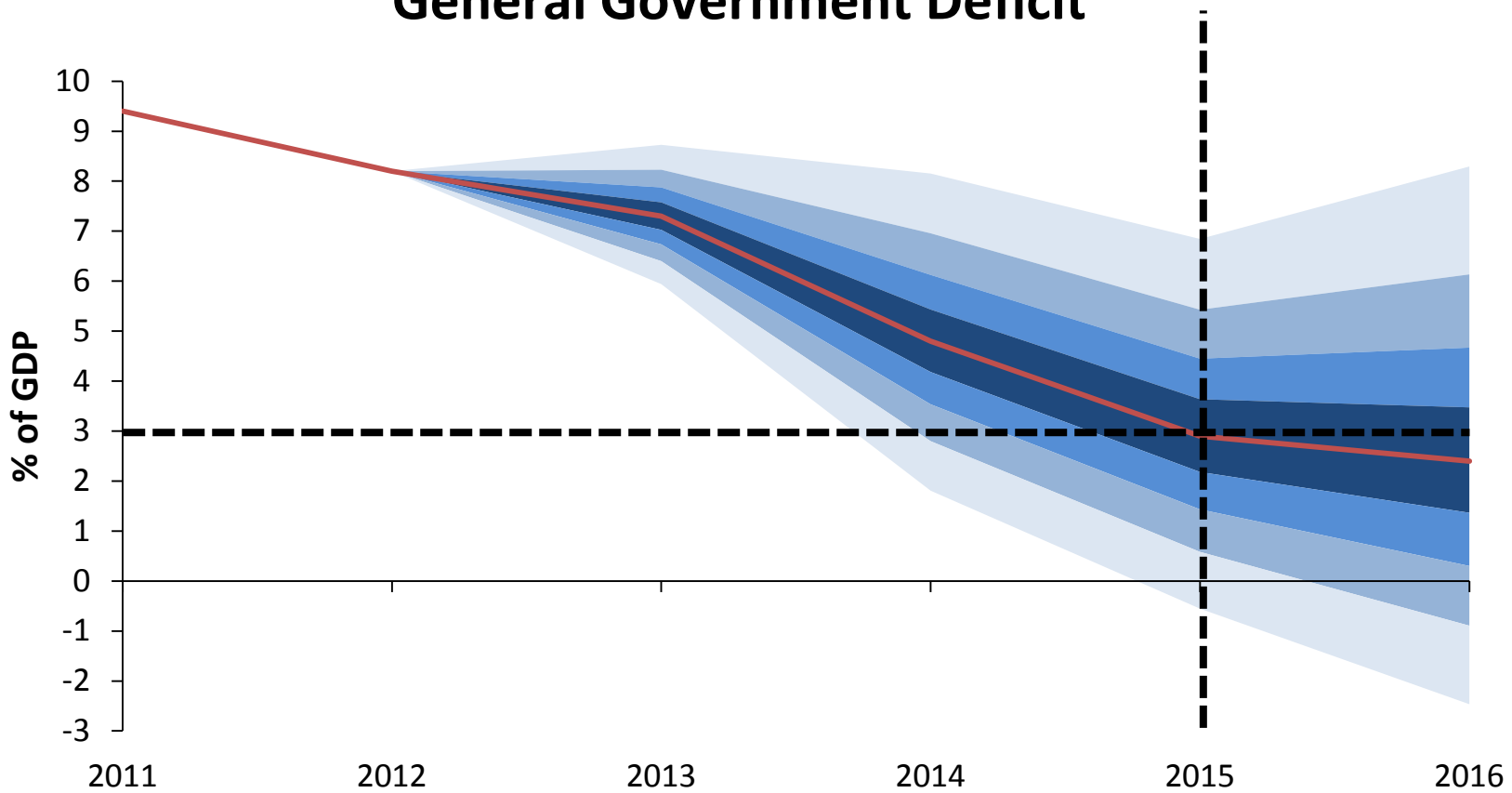
General Government Deficit





But no margin of safety for 2015 EDP target

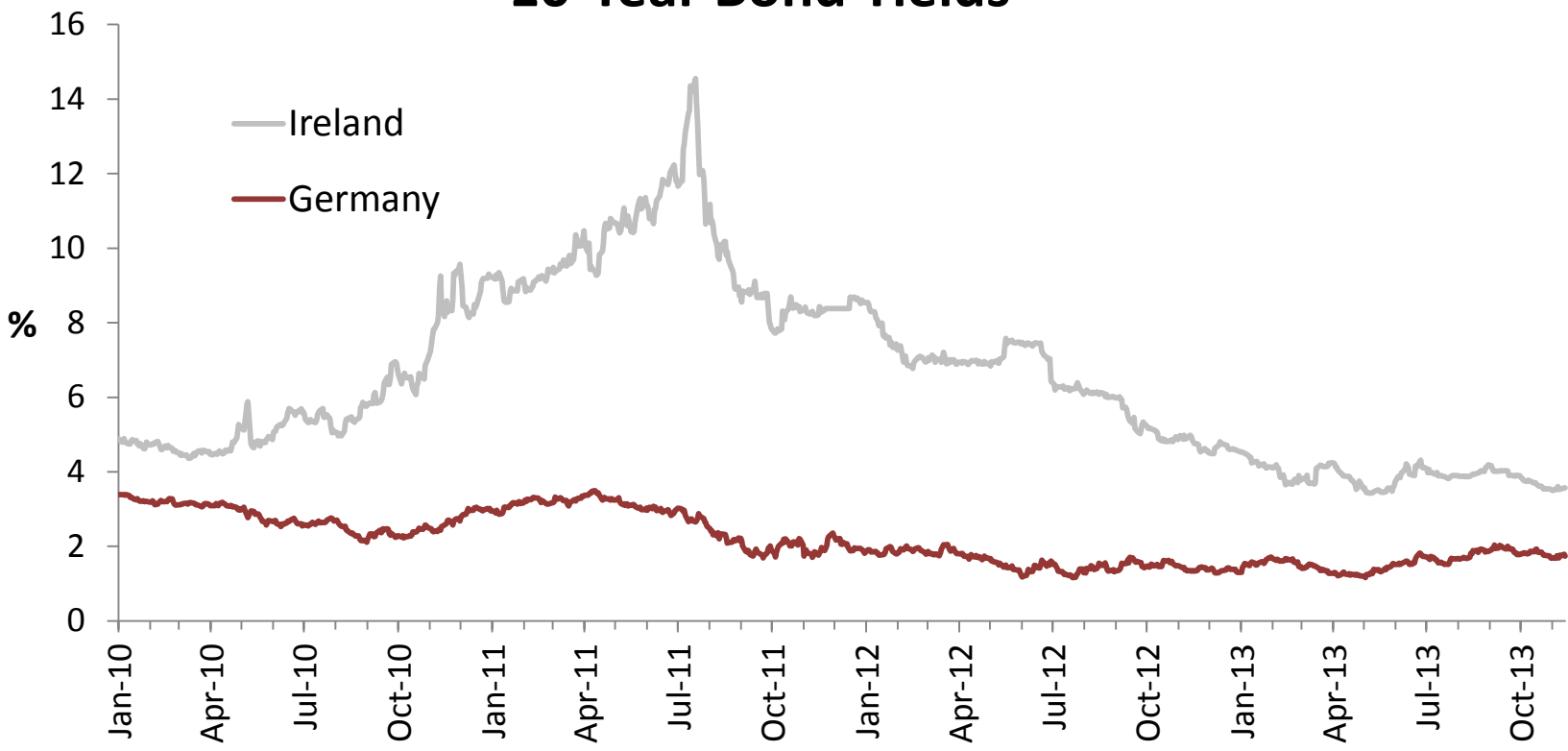
General Government Deficit





Restoration of borrowing capacity

10-Year Bond Yields



Source: Datastream



Establishment of IFAC

- Established on an interim basis, July 2011
 - Physically based at the Economic and Social Research Institute (ESRI), an independent research organisation
- Put on a statutory basis under the *Fiscal Responsibility Act*, December 31, 2012



Mandate

- Endorsement of macroeconomic forecasts underlying budget and SPU
- Assess macroeconomic forecasts and budgetary projections
- Compliance with national Budgetary Rule and Correction Mechanism
- Assessment of fiscal stance (with reference to requirements of SGP)



Fiscal Responsibility Act

- Statutory independence
- Budget from Central Fund (ceiling of €800,000, indexed for inflation)
- Appointments: Minister for Finance
- Requirement of appropriate macroeconomic/budgetary expertise
- Requirement of independence from politics
- Dismissals: Requires resolution of parliament
- Requirement to publicly report twice a year
- Requirement to appear before parliamentary committee



Structure and personnel

- Council membership (Part-time)
 - Sebastian Barnes (Senior advisor to Chief Economist and former head of Ireland desk, OECD)
 - Alan Barrett (Professor, ESRI)
 - Donal Donovan (Former Deputy Director, IMF)
 - John McHale, Chair (Professor, NUIG)
 - Roisin O’Sullivan (Professor, Smith College)
- Secretariat (Full-time)
 - Diarmaid Smyth (Head of Secretariat and Chief Economist)
 - John Howlin (Economist)
 - Rachel Joyce (Administrator)
 - New Hire 2013 (Economist)
 - New Hire 2013 (Research Assistant)



Key published outputs

- Five Fiscal Assessment Reports (most recent on November 21st)
- Report on *Reforming Fiscal Institutions*, February 2012
- Report on *The Government's Balance Sheet After the Crisis: A Comprehensive Perspective*, October 2013



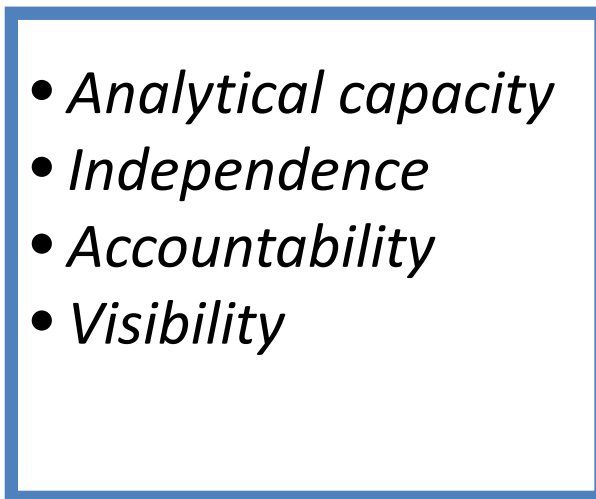
Production function for a fiscal council

Inputs

Expertise:
-- Council
-- Secretariat



Information
flow



Outputs

Analysis:

- Forecast endorsement
- Rule compliance
- Fiscal stance



Political costs of
inappropriate fiscal
policies





Irish Fiscal Advisory Council

Challenges



Capacity

- **Administrative capacity**
 - Single administrator plus head of secretariat/chief economist
 - Significant administrative demands associated with being a statutory body
 - Support from ESRI has been extremely valuable
- **Analytical capacity**
 - Currently two economists (including chief economist)
 - In the process of recruiting an additional economist and a research assistant
 - Significant input from Council members in report writing
 - Demanding for a part-time Council



New endorsement function

- Needed to quickly develop our own forecasting capacity
- Availed of a part-time secondment from National Treasury Management Agency (NTMA)
- Developed a suite of forecasting tools
 - Benchmark forecasts provided anchors for our “endorsable ranges”
 - Ranges also informed by fan-chart analysis and judgement
- Memorandum of Understanding with Department of Finance
- Completed our first endorsement process for Budget 2014
 - Process worked well
 - One “significant reservation” in relation to DoF forecasts was dealt with smoothly

Date	
23-24 September	Benchmark projections were finalised in advance of receiving forecasts for <i>Budget 2014</i> from the Department of Finance.
24 September	The Council received the preliminary set of “provisional final” forecasts from the Department in line with requirements under the MOU.
25 September	These forecasts were presented by Department of Finance staff to the Council’s Secretariat explaining the underlying reasoning and answering clarifying questions. Two Council members also participated in the meeting.
29 September	The Council met to discuss the Department of Finance forecasts.
30 September	Department of Finance staff met with the full Council and Secretariat to present and answer substantive questions on the “provisional final” forecasts. These forecasts were unchanged from those provided to the Council the previous week. The Council raised questions on a number of issues.
	Following the meeting, the Department provided further clarification on their forecast for consumption. The Council subsequently decided that a “ significant reservation ” (as per the MOU, section 5) remained over the consumption forecast.
1 October	As specified in the MOU, the Council Chair communicated its “significant reservation” to Department staff.
1-3 October	The Department provided further clarification on its consumption forecast and committed to including information on the potential for upward revisions to Quarterly National Accounts personal consumption data for the first half of 2013 in the Budget documentation.
4 October	The Chair of the Council issued a letter to the Department of Finance endorsing the set of macroeconomic forecasts for 2013 and 2014 in <i>Budget 2014</i>. This letter was published on 9 October.



Information

- Some early teething problems in accessing information from Department of Finance
 - Now much improved with a central point of contact
- Good working relationships with other agencies, CBI, NTMA, CSO, etc.
- Require better access to the Commission's analysis and data to fulfil our mandate to assess compliance with fiscal rules



Communications

- Good interest from and relationships with media
 - Influential champions
 - Significant coverage of reports in print and broadcast media
 - Have streamlined our report-launch strategy following advice from media consultants and media stakeholders
- Appear before parliamentary committee following each report
 - Has proved extremely valuable
 - Need to build cross-party trust that we are not pursuing an ideological agenda



Communications continued

- Some key recommendations not adopted by Government
 - Recommendation not to reduce planned adjustments in Budget 2014 to maintain a margin of safety around key EDP targets
 - Recommendation to pursue a post-programme precautionary credit line
- Led to accusations that we are being ignored and thus ineffective
- Challenge to be able to provide a graduated level of criticism
 - Focus on key requirement in the Fiscal Responsibility Act that we must assess if the Government's fiscal stance is “conducive to prudent economic and budgetary management”
 - Concluded that the fiscal stance has met this condition in each report since the Bill was published . . . Gives scope to scale up criticism



Upcoming challenges for 2014

- Administrative
 - Ensure all requirements are in place for a statutory body
 - First annual report and audit exercise
 - Conduct quality review by external experts
 - Value of network in this exercise
- Analysis
 - Reinforce reputation for valuable macroeconomic and fiscal analysis
 - Ensure we have the capability to raise political costs of serious deviations from good fiscal policy
 - Meet expectations that we can provide effective surveillance in post-Troika programme era