



Irish Fiscal Advisory Council

IFAC: Formative years and the future

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Irish Fiscal Advisory Council

Presentation to the Irish Economic Policy
Conference

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Overview

- Background on the Council
- Mandate:
 - Assessing Macroeconomic and Fiscal Forecasts
 - Compliance with Fiscal Rules
 - Assessing Fiscal Stance
 - Endorsement of Macroeconomic Forecasts
- The Future



Background

- Established on an interim basis, July 2011
- Put on a statutory basis under the *Fiscal Responsibility Act (FRA)*, December 31, 2012
 - Mandate
 - Independent from Government
 - Budget from Central Fund
- FRA amended in July 2013



Production Function for IFAC

Inputs

Expertise:

- Council (5)
- Secretariat (5*)



Information
flow



- *Analytical capacity*
- *Independence*
- *Visibility*
- *Accountability*

Outputs

Reports - mandate:

- Assessment
- Compliance
- Endorsement



Reputational costs of
inappropriate fiscal
policies

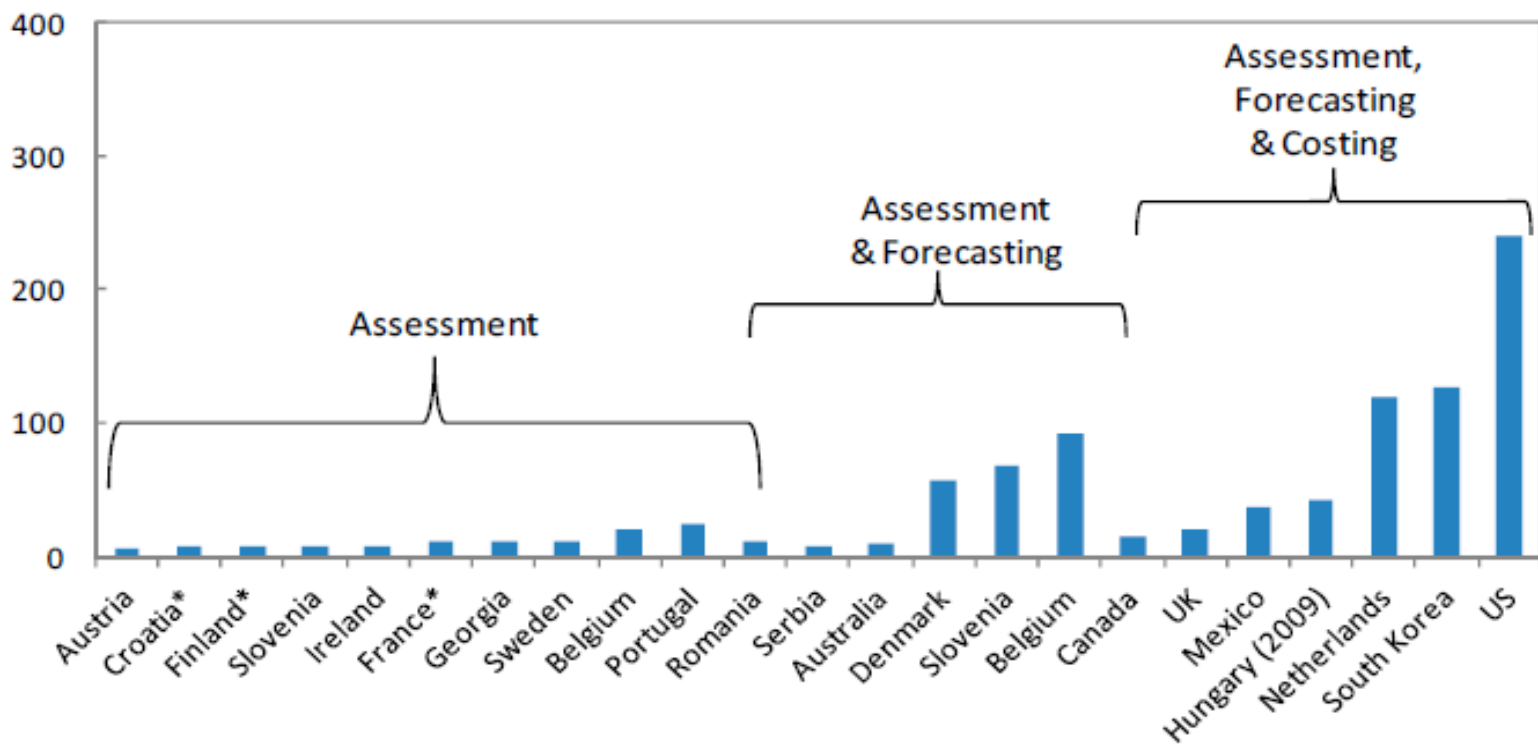


* *As of February 2014*



Fiscal Councils

Figure 14. Number of FTE Staff and Functions



Sources: IMF Fiscal Council Dataset.

Source: IMF (2013)



IFAC Focus to Date

- 5 Assessment Reports
 - Most recent on November 22nd
- 5 Oireachtas Appearances
- Endorsement of *Budget 2014* macroeconomic forecasts
- Themed reports
 - State Balance Sheet in 2013
 - Fiscal Institutions in 2012
- Setting up a new Statutory body

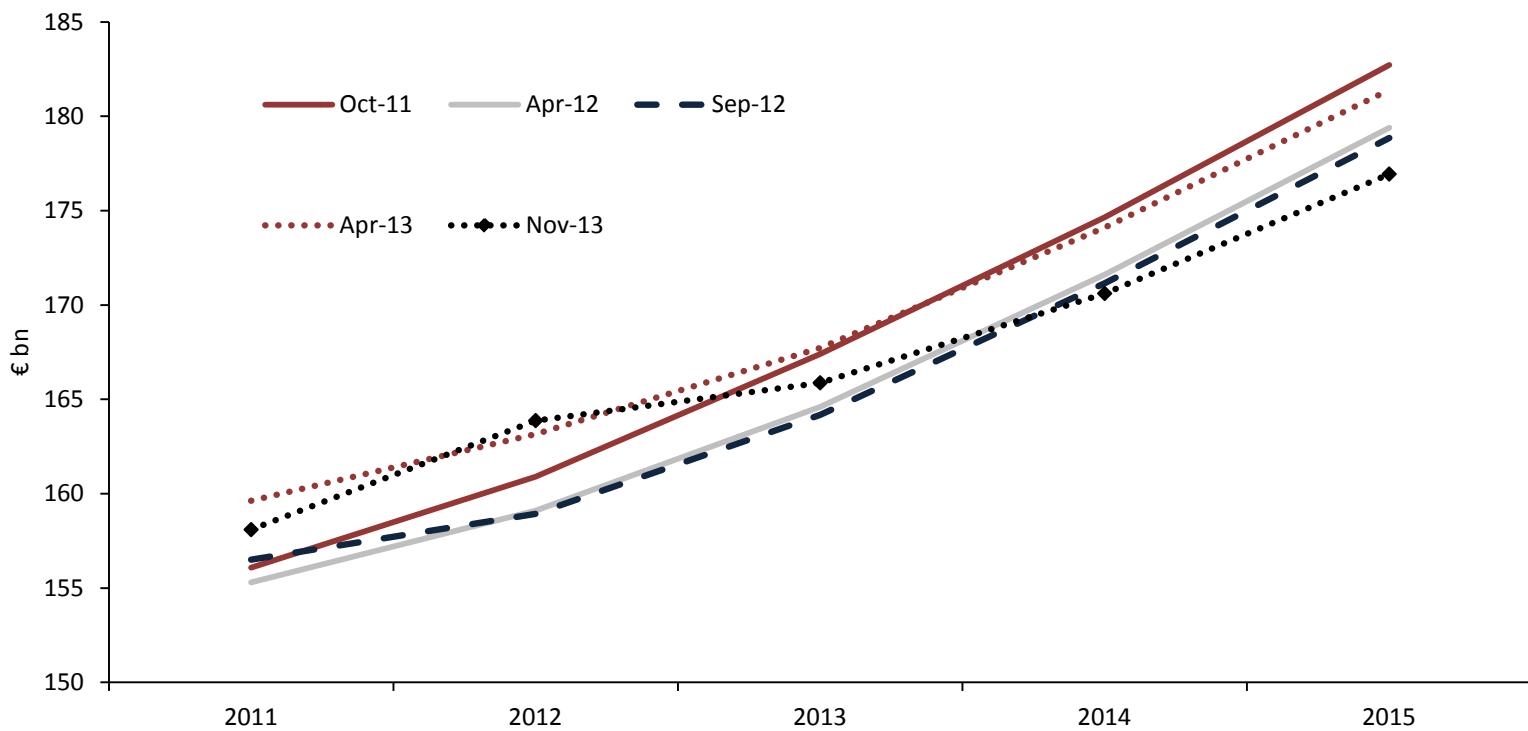
Forecast Assessment: IFAC's Approach

- Document forecasts (*ex post* and *ex ante*)
- Assess sources of error and bias
- Model uncertainty
- Surveyed forecasters
- Development of short-term forecasting capability
- Refining short-term forecasts and the supply side



Since IFAC's Inception: Macro Economy

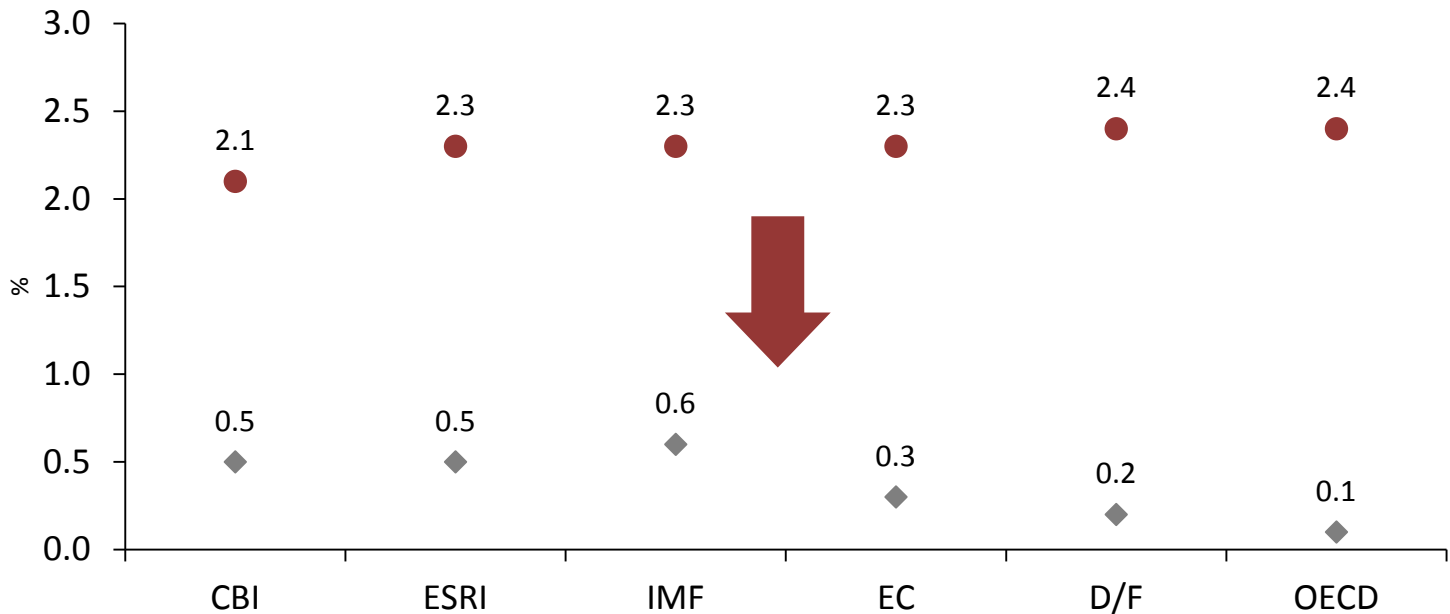
Nominal GDP





Assessing Forecasts: Real GDP

Forecasts for Real GDP in 2013

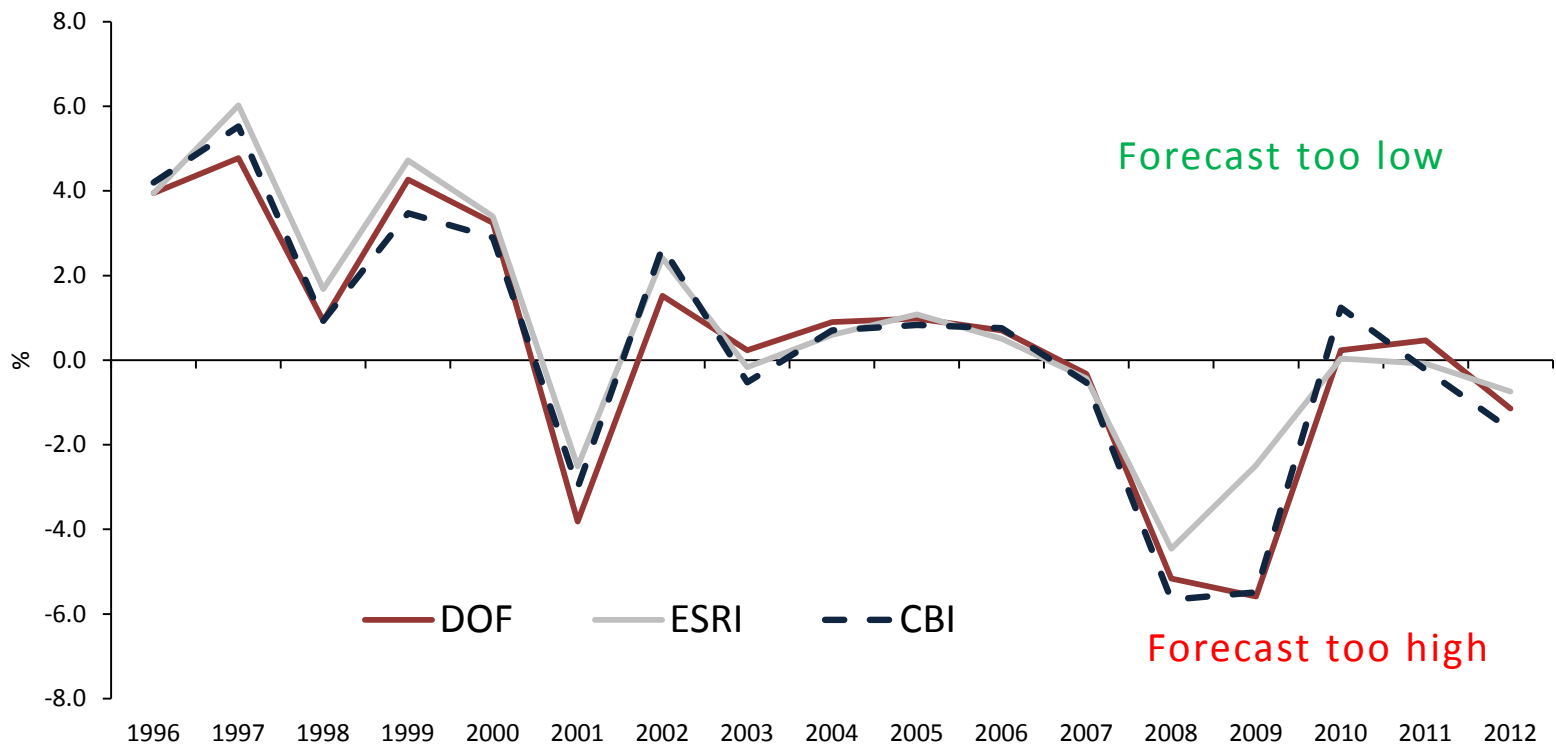


- Forecast end-2011/start 2012
- ◆ Latest Forecast



Assessing Forecasts: Bias?

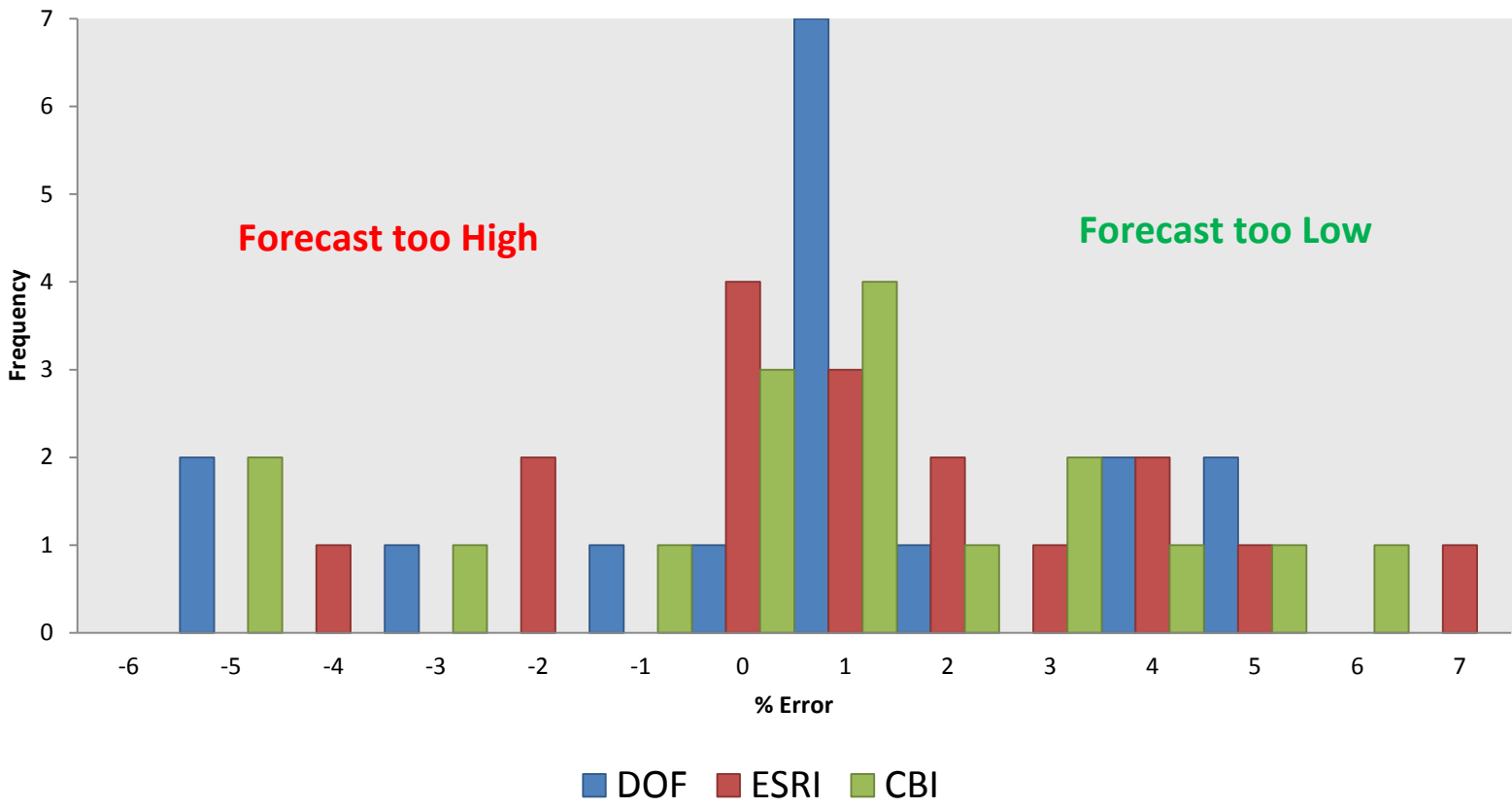
**Real GDP Growth:
Forecast Error for the Year Ahead**





Assessing Forecasts: Bias?

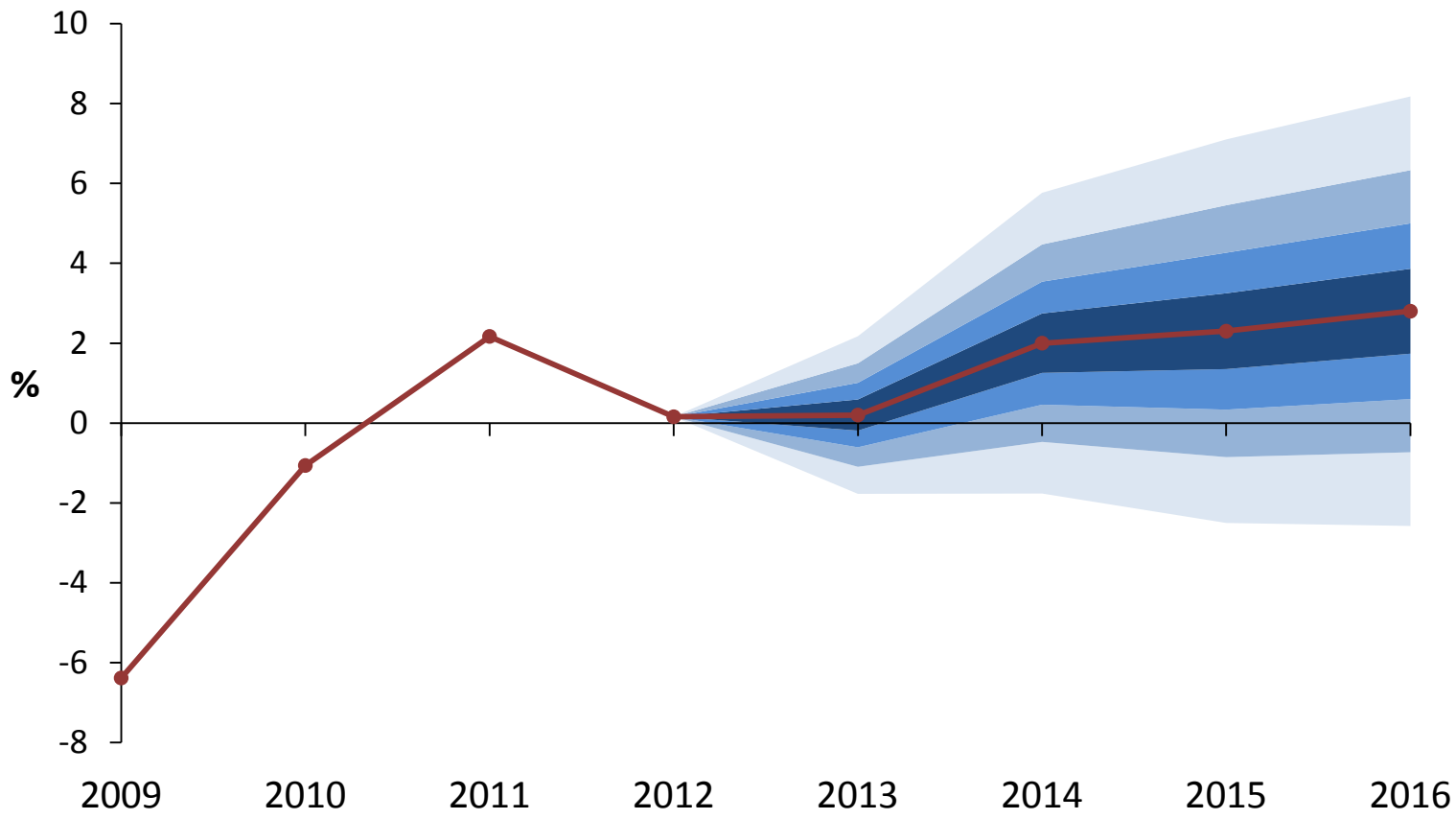
Histogram: 1 Year Ahead Forecasts





Macro Outlook: Uncertainty

Real GDP Growth Rate





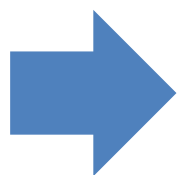
Fiscal Forecasts

- Public finances are complex
- Data / forecast revisions
- Analytical work:
 - Fiscal Feedbacks model
 - Fan Charts
 - Sensitivity Analysis

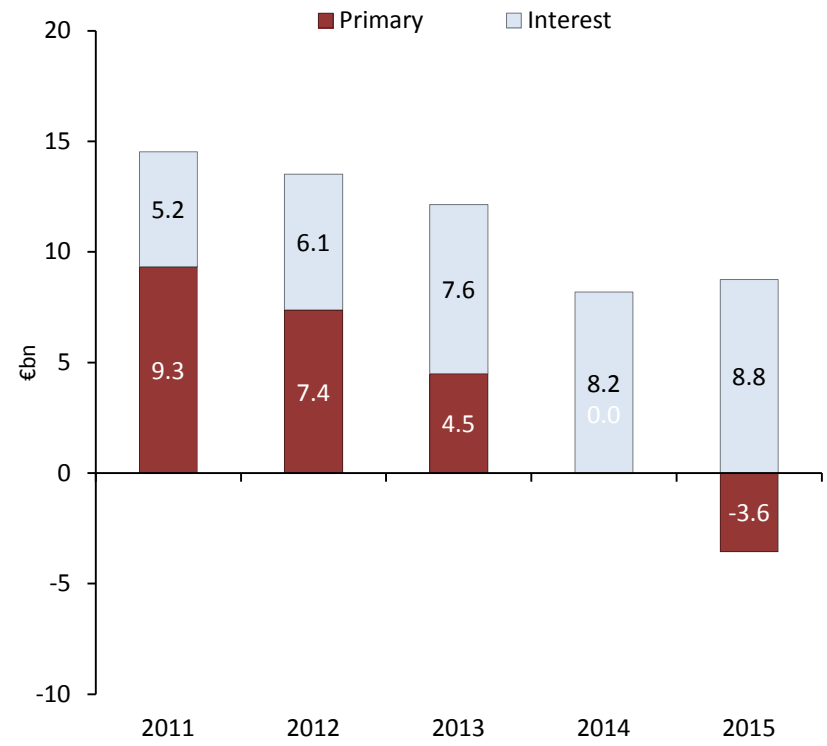
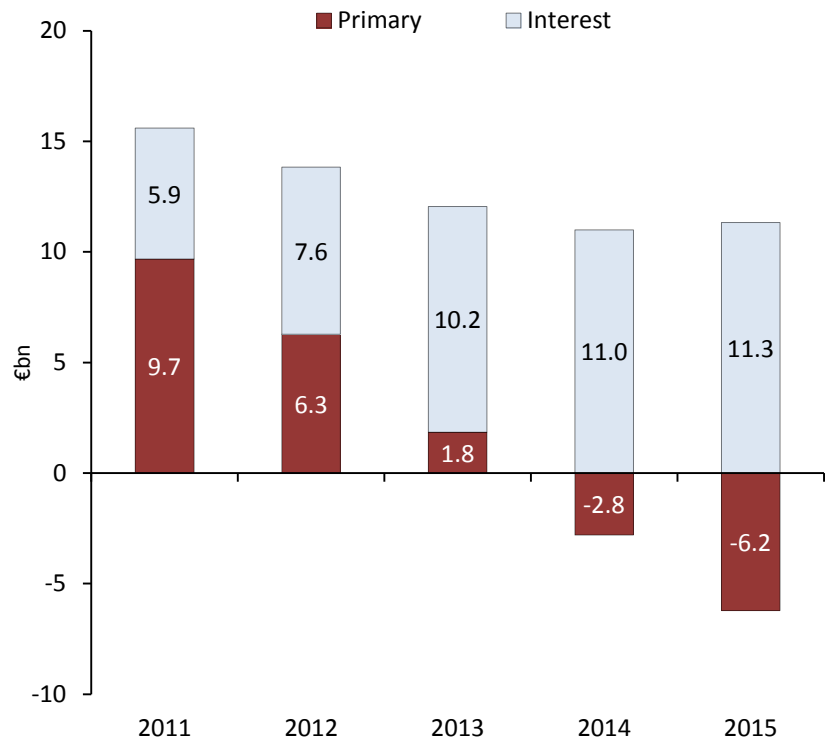


Evolution of the GGB

**FAR 1: GGB Decomposition
(October 2011)**



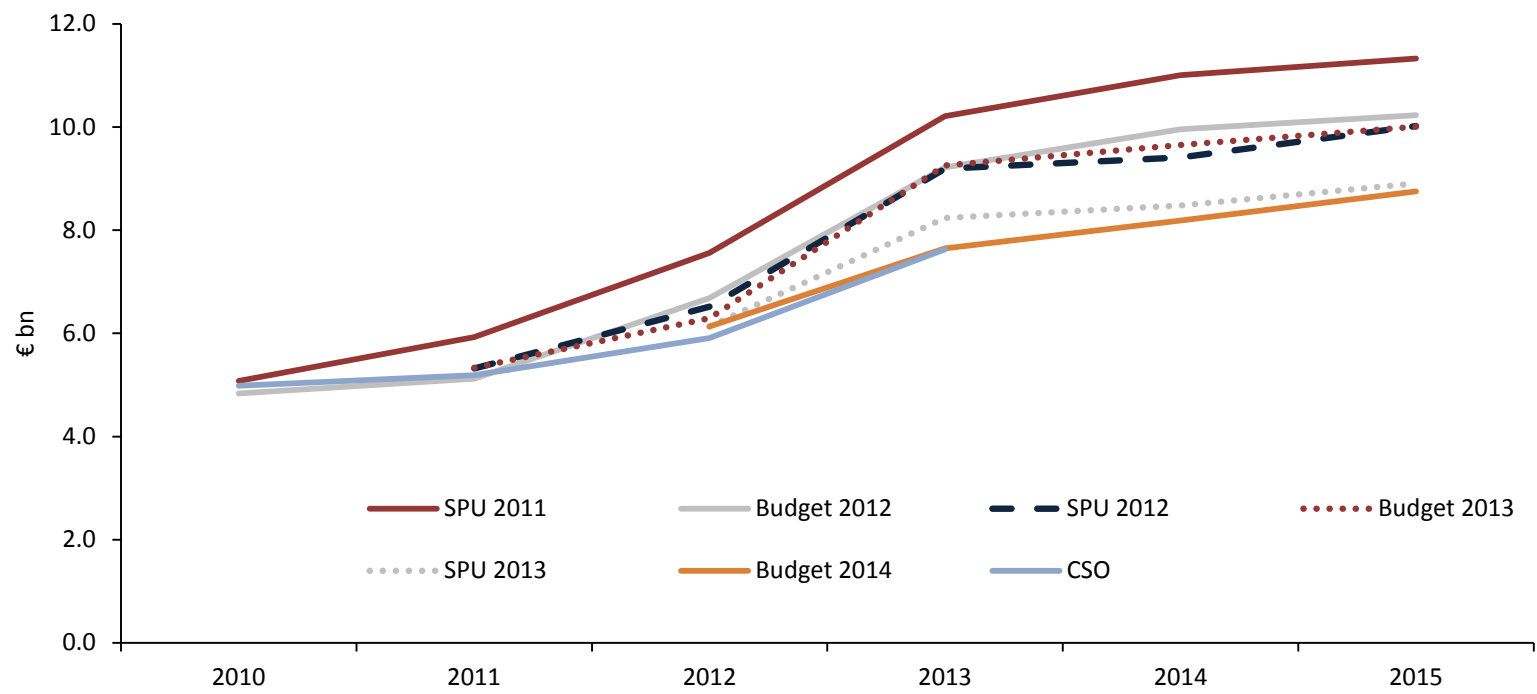
**FAR 5: GGB Decomposition
(November 2013)**





Evolution of GGB: Role of Interest

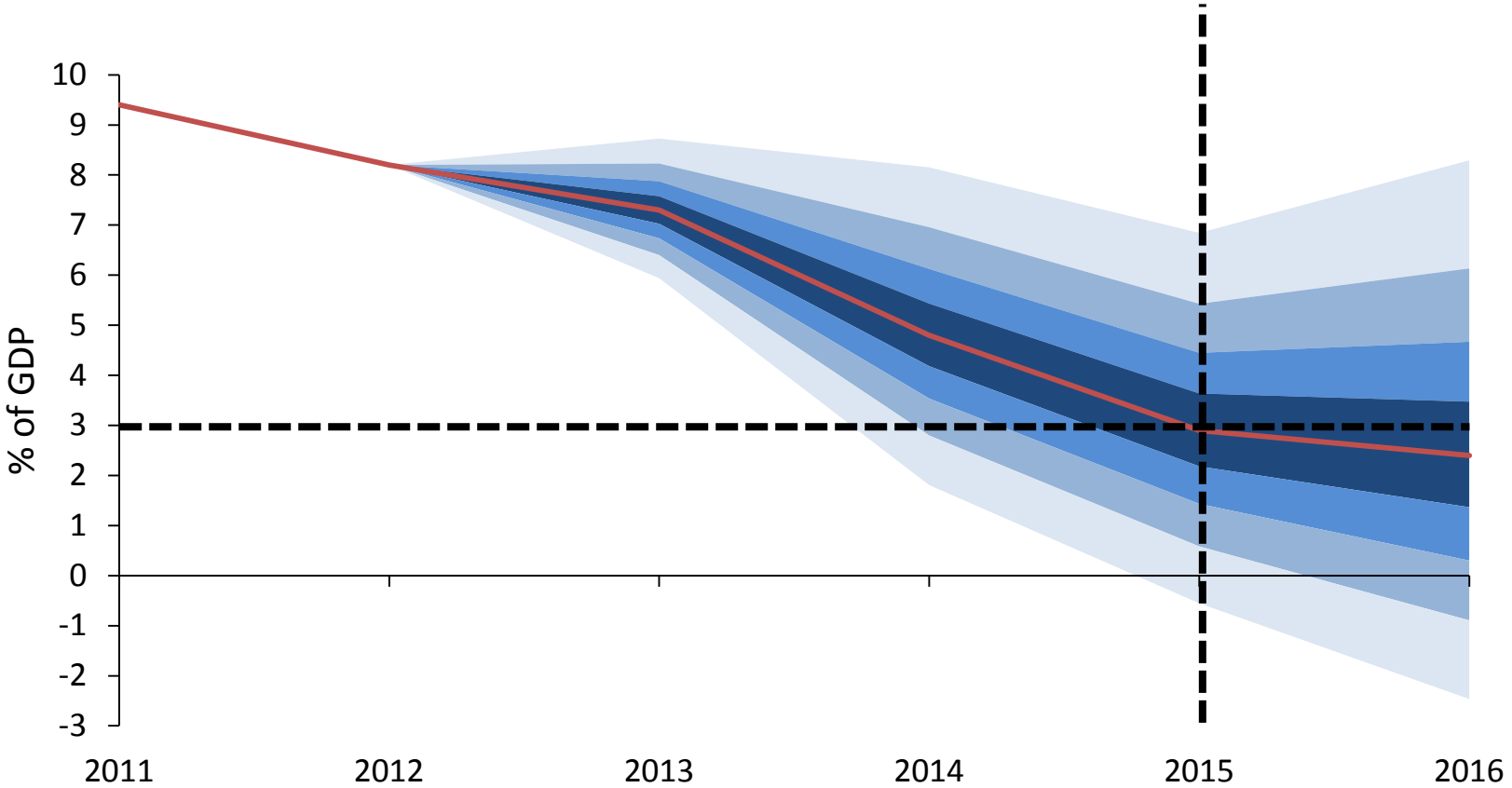
Interest Forecasts





No Margin of Safety for 2015 Target

General Government Deficit





A Difficult Balancing Act

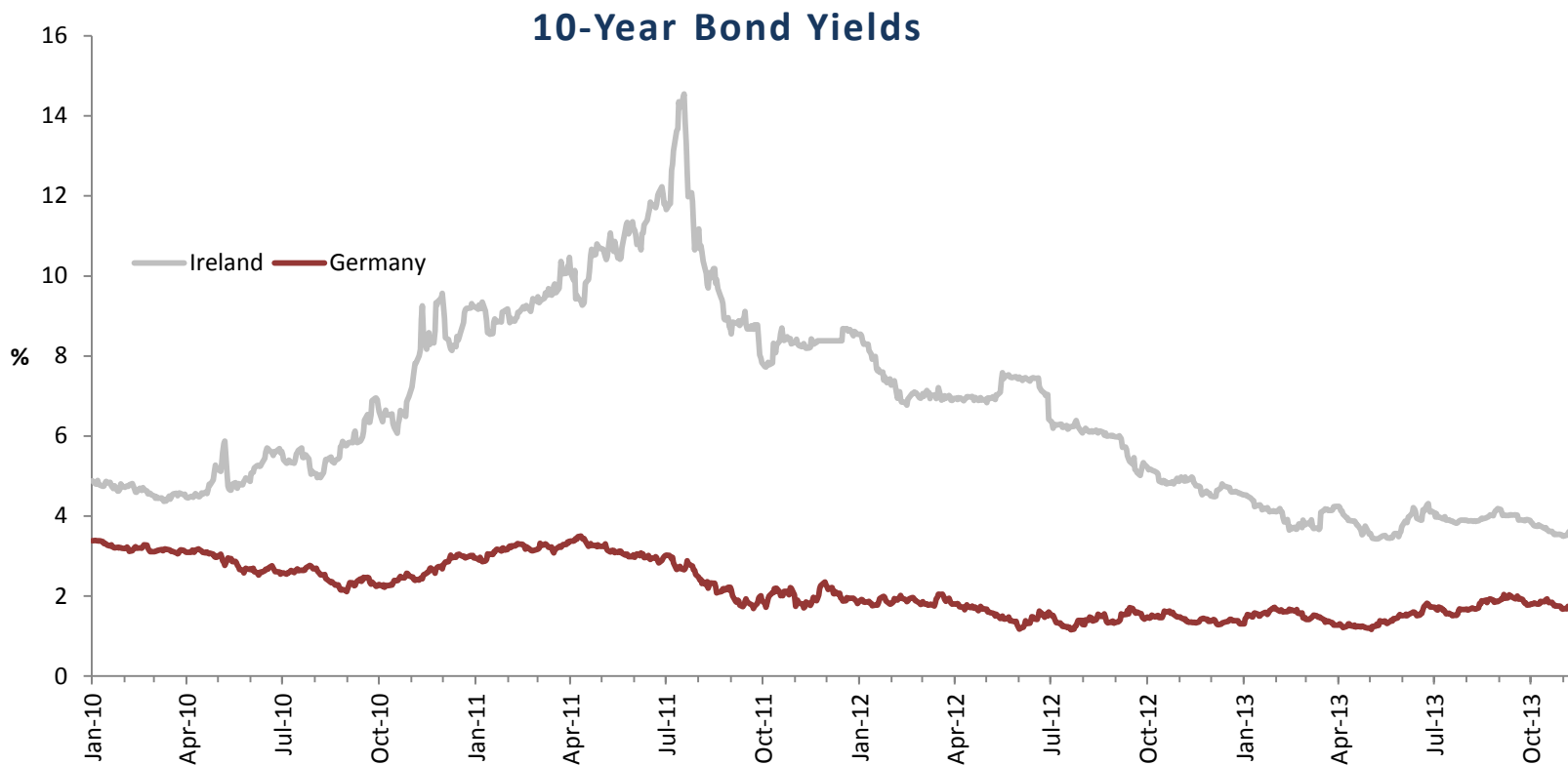
Fiscal adjustment measures do slow the economy in
the short run

Vs

Need to stabilise the public finances and restore
Ireland's borrowing capacity



Restoration of Borrowing Capacity

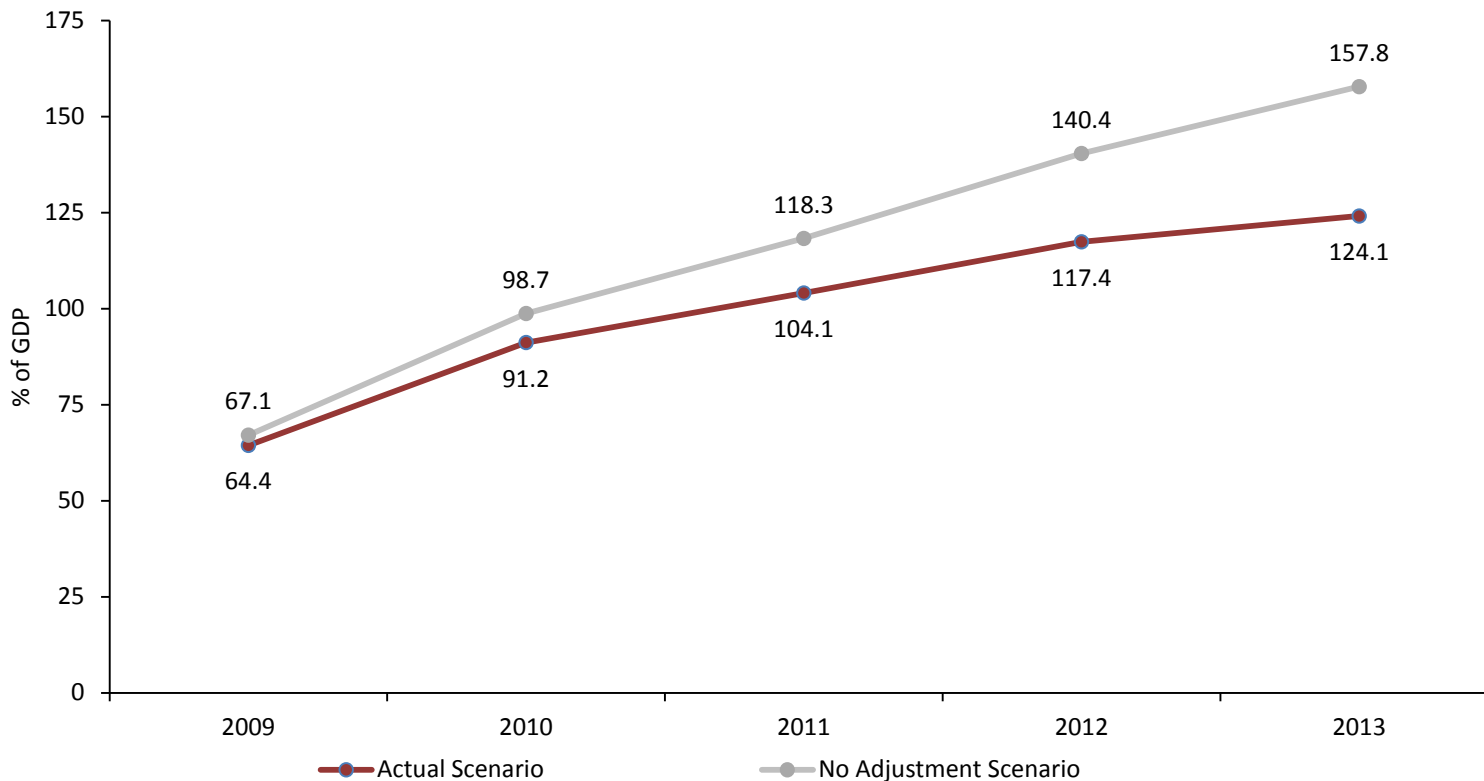


Source: Datastream



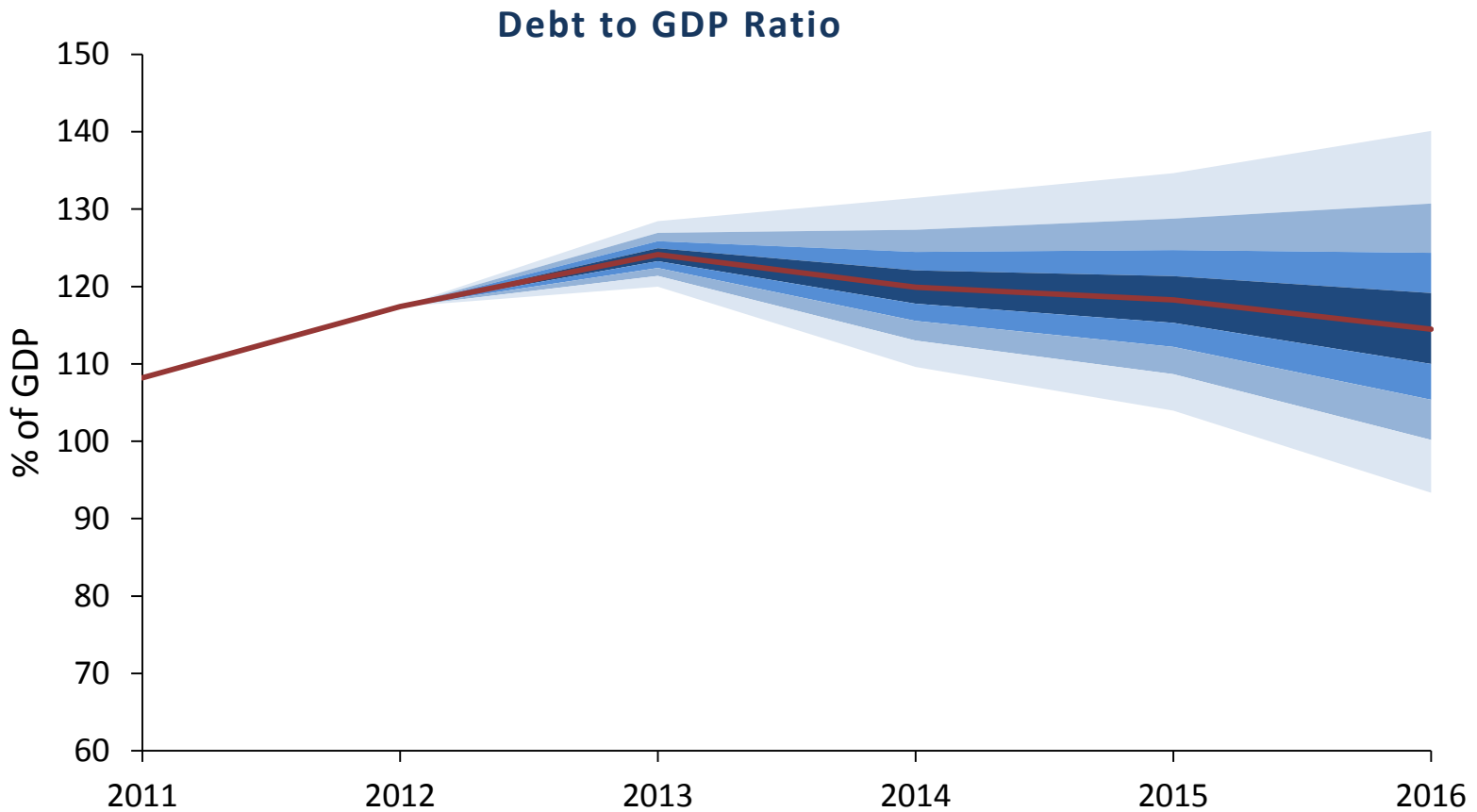
Public Finances were on an unsustainable path

General Government Debt: Actual Vs Zero Adjustment





Sustainability Risks Remain





Challenges

- Establishing a new body
 - Building IFAC from scratch
 - Building “brand recognition” – what does IFAC *do* and *not do*
 - Building forecasting capability
- External environment: in a programme until December 2013
- Domestic environment
 - Information flows
 - Visibility – 2 formal assessment reports per annum
 - Specialist areas – forecasting and public finances
 - Messaging – IFAC’s reports conveying some unpopular messages



Stability-orientated Fiscal Policy

- Exiting the Excess Deficit Procedure on schedule
- National and European Fiscal Framework
- Value of fiscal rules
 - Taking us where we need to go in any case
 - Should not imply “endless austerity”
 - Anchor for a credible medium-term fiscal strategy
- Self-protection against loss of market access
 - Value of good debt-maturity management
 - Value of cash reserves



Role of IFAC

- **Surveillance/ “Watchdog”** – becomes *more* important
 - Need to prevent policy mistakes/vulnerabilities that preceded the current crisis
- **Solidify reputation – independence – objective views**
- Deepen understanding of how the economy works – **develop analysis/research**
- Domestic debate on fiscal policy: IFAC must **raise awareness**



Role of IFAC

- Thank you



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