



Irish Fiscal Advisory Council

Presentation to the CSO General Management Forum

Dublin Castle, January 12, 2012

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Introduction

- The Fiscal Advisory Council / IFAC
 - Background
 - Mandate
 - Activities to Date
 - Plans for 2012
- The CSO and IFAC



Background

- IFAC established in June 2011
- Fiscal Responsibility Bill (FRB) due Q1 2012 will establish the Council on a statutory basis
- Funded through a grant-in-aid, long-term funding to be considered in the context of the FRB
- Why do we need a fiscal council?
 - Improve analysis – better identification of appropriate fiscal policy
 - Political biases – raise the costs of running inappropriate fiscal policy
 - Evidence points to improved fiscal performance from stronger fiscal institutions
 - EU/IMF/ECB requirement



Types of Fiscal Councils

- UK – Office of Budgetary Responsibility
 - Forecasting: Macro and Budgetary projections
 - Not required to assess the appropriateness of the fiscal stance

- Sweden (Swedish Fiscal Policy Council)
 - Normative mandate

- Irish Fiscal Advisory Council...



Mandate

- Assessment:
 - **soundness of the economic and budgetary projections and forecasts** set out by the Government
 - **appropriateness of the fiscal stance**
 - whether the **budgetary plans are consistent with the fiscal rules**
- To perform such **other functions**, as may be assigned by the Minister for Finance



Who are we?

- **Council**
 - John McHale, Chair (NUIG)
 - Alan Barrett (TCD/ESRI)
 - Sebastian Barnes (OECD)
 - Donal Donovan (UL/formerly IMF)
 - Roisin O'Sullivan (Smith College, MA)
- **Secretariat**
 - Diarmaid Smyth (Head of Secretariat and Chief Economist)
 - Eimear Leahy (Economist)
 - Rachel Joyce (Administrator)
 - Another (Economist)



Delivering on the Mandate?

- Analytical and Technical Competence
- Independence
- Accountability
- Transparency / Public Visibility

Imminent Fiscal Responsibility Bill will give a statutory footing to the Council



Key Outputs

- **Required to report 3 times a year**
 - Bi-annual Fiscal Assessment Report
 - Annual Report
 - Other Reports as required by the Minister for Finance

- **Input into the Fiscal Responsibility Bill**



Value of the Council

- **Surveillance/ “Watchdog”** – help to prevent mistakes/vulnerabilities that preceded the current crisis
- **Independent** view on fiscal matters
- Integral part of the new and **evolving fiscal architecture** in Ireland (and the EU)
- Main value is the **long-haul**



Activities to Date

Office set up in August/September 2011



Fiscal Assessment Report October 2011



Oireachtas Appearance November 2011



Input into the upcoming Fiscal Responsibility Bill – forthcoming January 2012



Fiscal Assessment Report Spring 2012



Fiscal Assessment Report October 2011

3 Broad Areas

1. Macroeconomic Assessment
2. Budgetary Assessment
3. Fiscal Stance

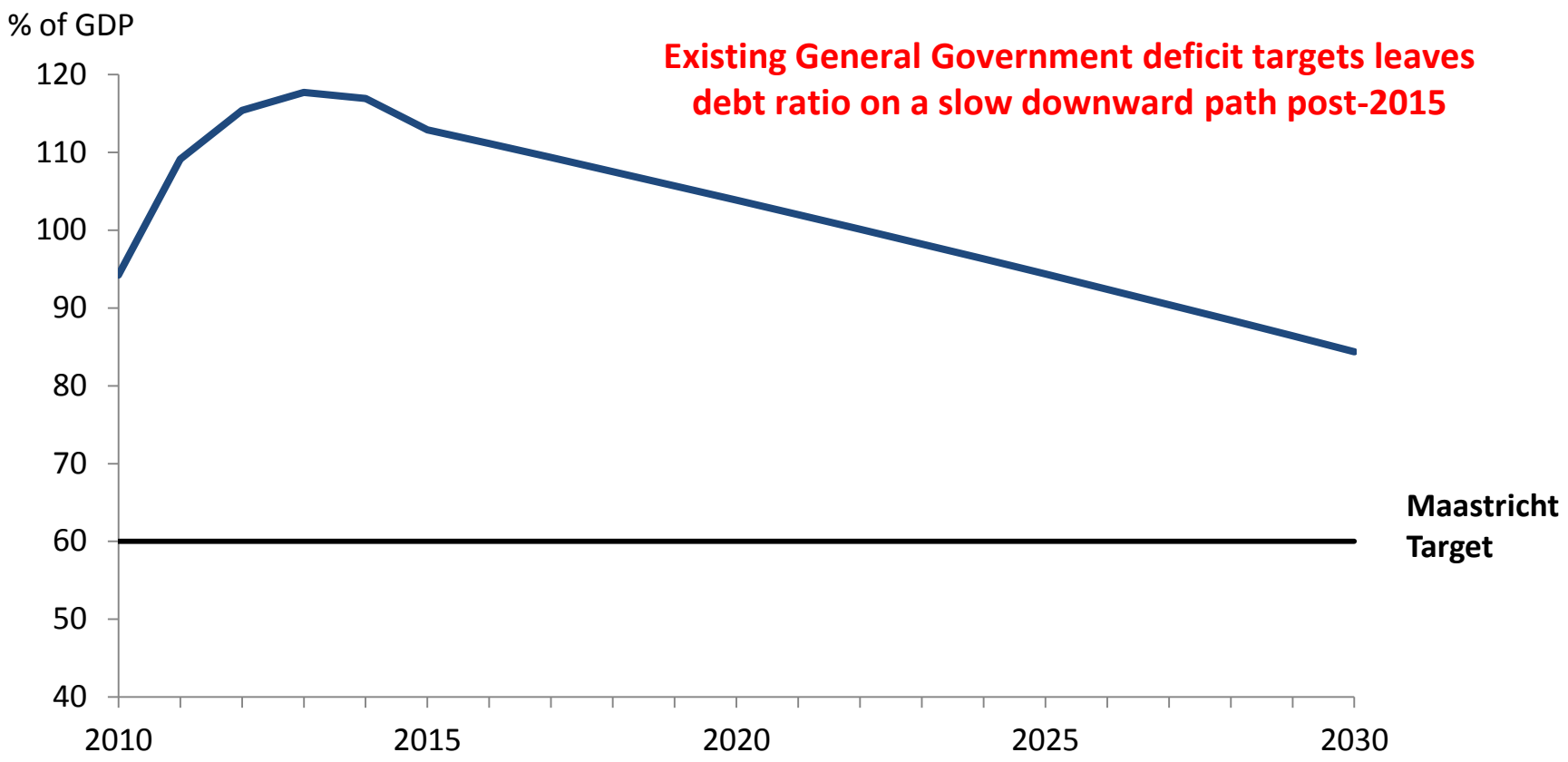


Assessment of Fiscal Stance

- A difficult balancing act . . .
 - Rebuilding public finances
 - Funding vulnerabilities
 - Effects on domestic demand
- Was there a case for more ambitious targets?



Slow Rate of Improvement in Debt/GDP Ratio



Assumptions:

- 1. 1 percentage gap between nominal interest rate and nominal growth rate, 2016-2030
- 2. Primary surplus as a share of GDP is held constant at 2015 level, 2016-2030



Funding Vulnerabilities

- Uncertain external environment
 - Market funding vulnerability
 - Official funding vulnerability
- European crisis-resolution policies → Distinction between illiquid and insolvent countries
- Importance of being on the “right list”



Basic Assessments

- General Government deficit (GGD) targets within the range of appropriate fiscal policy stances
- Council sees no case for relaxing targets
- On balance, the Council saw a strong case for more ambitious targets – notably a deficit target of 1% of GDP by 2015

Arguments for more ambitious targets

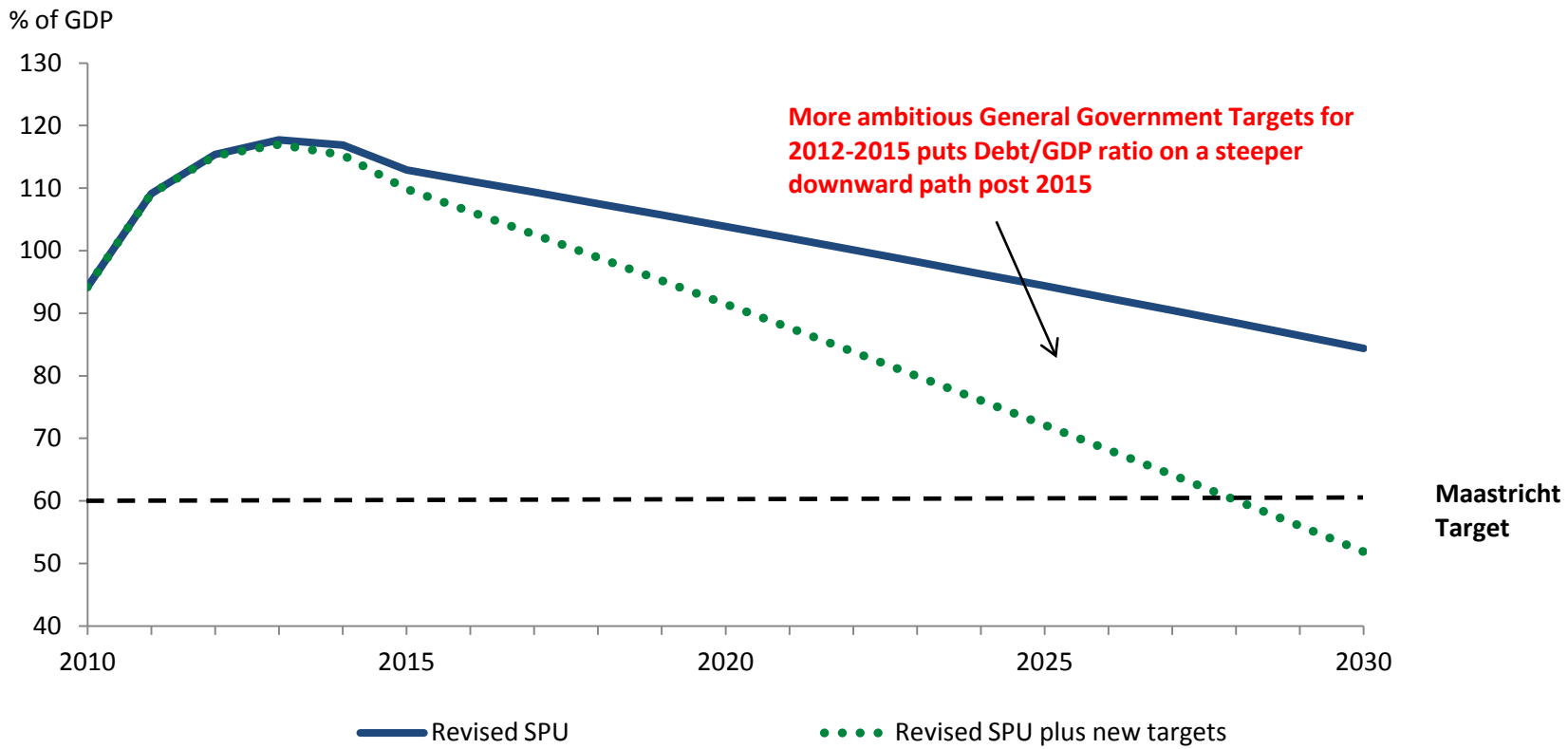
- Put the debt ratio on a stronger downward path
- Insurance against shocks
- Signal of political capacity

Alternative GGD Targets and Discretionary Adjustments

	2012	2013	2014	2015
<u>General Government Deficit Target (GGD) (% of GDP)</u>				
Original GGD Targets in SPU	8.6	7.2	4.6	2.8
Alternative Targets to get to 1% GGD in 2015	8.4	6.4	3.6	1.0
<u>Estimated Discretionary Adjustments (Billions of Euro)</u>				
Planned adjustment in SPU	-3.6	-3.1	-3.1	-2.0
Total Additional Adjustment	-0.8	-0.8	-0.7	-1.7
<i>Total Adjustment Required to Reach 1% GGD Target in 2015</i>	-4.4	-3.9	-3.8	-3.7



Impact of Revised Targets on the Debt/GDP Ratio



Assumptions:

- 1. 1 percentage gap between nominal interest rate and nominal growth rate, 2016-2030
- 2. Primary surplus as a share of GDP is held constant at 2015 level, 2016-2030



Post Fiscal Assessment Report

- Oireachtas Appearance in November
- Medium-Term Fiscal Statement and Budget 2012
- Council will give a considered view on the Budget and the MTFS in its upcoming Spring Fiscal Assessment Report



Fiscal Responsibility Bill

- IFAC finalising a paper on the Bill
- Paper will focus on the proposed fiscal rules and the design of the Irish Fiscal Council
- Report will be published later this month



IFAC and the CSO

- The Public Finances are complex
 - General Government / Exchequer data
 - Promissory notes
 - Carryover effects in tax data
 - Wages and price developments
- Sources are varied – DoF, DPER, NTMA, Revenue, CSO
- Macro figures increasingly scrutinised
 - Key aggregates are relative to GDP
 - Revisions to figures can have huge implications
 - Deflators increasingly looked at



Data

- IFAC very reliant on CSO data - used on a daily basis
- Key part of our mandate is assessment....intensive use of data
- Macroeconomic data (NIE, QNAs)
 - Growth
 - Domestic demand
 - Government Consumption/Investment
 - Prices ...Nominal Vs Real
- Fiscal data (EDP Returns)
 - Integral to any assessment of fiscal forecasts



Data

- Fiscal data releases, information notes, data linking Exchequer to General Government data
- Releases on links between GG measures of:
 - Expenditure
 - Taxation
- Gross and Net Debt:
 - Balance sheet approach
 - Compositional affects behind changes in debt stock



Data

- Irish and EU developments and upcoming FRB
 - Increased surveillance of budgets and data
 - Measurement issues for the fiscal rules
 - Output Gap: GDP, GNP, cyclical adjustment
 - Fiscal Aggregates: deficit, debt, primary balance, government expenditure, cyclically sensitive fiscal items



Issues IFAC looking at

- Size of the Irish Multiplier = ???
 - Disposable Income data
 - Consumption data
 - Savings ratio
- Output Gap in Ireland
 - Trends in GDP/GNP
 - Measurement issues
- Disaggregating the data..examples
 - Wages (private sector, public sector)
 - Employment (private sector, public sector)...not too clear
 - Transfer Payments (unemployment numbers and average rates)
 - Debt (stock flow, deficit, etc)



Issues IFAC looking at

- Disposable incomes: split between higher taxes, lower public sector earnings and transfers ?
- Investment/Construction: apportion slowdown in construction activity to lower public investment ?
- Growth and lower government consumption
- Living standards – Per capita income measures
- GDP Vs GNP debate



Suggestions

- More CSO Commentary/Briefings on data
 - EDP Returns – deficit, debt, interest payments
 - Public finance aspects to the QNAs – interest payments, NFI
- Working Group – users/producers of data?
- Increased interaction with key players such as the CSO
- One source of fiscal data, in a user friendly format....CSO database the template



**Irish Fiscal
Advisory Council**

Thank You