



Irish Fiscal Advisory Council

Looking Beyond the Bailout: A View from the Irish Fiscal Advisory Council

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Presentation to IIEA Economists Group
December 12, 2013



Overview

- Some background on the Council
- Economic outlook
- Fiscal outlook
- Post-bailout challenges



Irish Fiscal Advisory Council

- Background
 - Established on an interim basis, July 2011
 - Put on a statutory basis under the *Fiscal Responsibility Act*, December 31, 2012
- Vision
- Mission



Mandate

- Endorsement of macroeconomic forecasts underlying *Budgets and Stability Programmes*
- Assessment of macroeconomic forecasts and budgetary projections
- Assessment of compliance with national *Budgetary Rule* and associated *Correction Mechanism*
- Assessment of fiscal stance (with reference to requirements of SGP)
 - “Conducive to prudent economic and budgetary management”



Production function for a fiscal council

Inputs

Expertise:
-- Council
-- Secretariat



Information
flow



Outputs

Analysis:
--Endorsement
--Assessment
--Compliance



Reputational costs of
inappropriate fiscal
policies





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 Oireachtas 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)



Published outputs

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



Irish Fiscal Advisory Council

Economic Outlook



New endorsement function

- Identification of “endorseable range”
 - Anchored by “benchmark forecasts”
 - Ranges informed by fan-chart analysis
- Development of “benchmark forecasts”
 - Extensive range of forecasting tools
 - Augmented by judgement where appropriate

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.



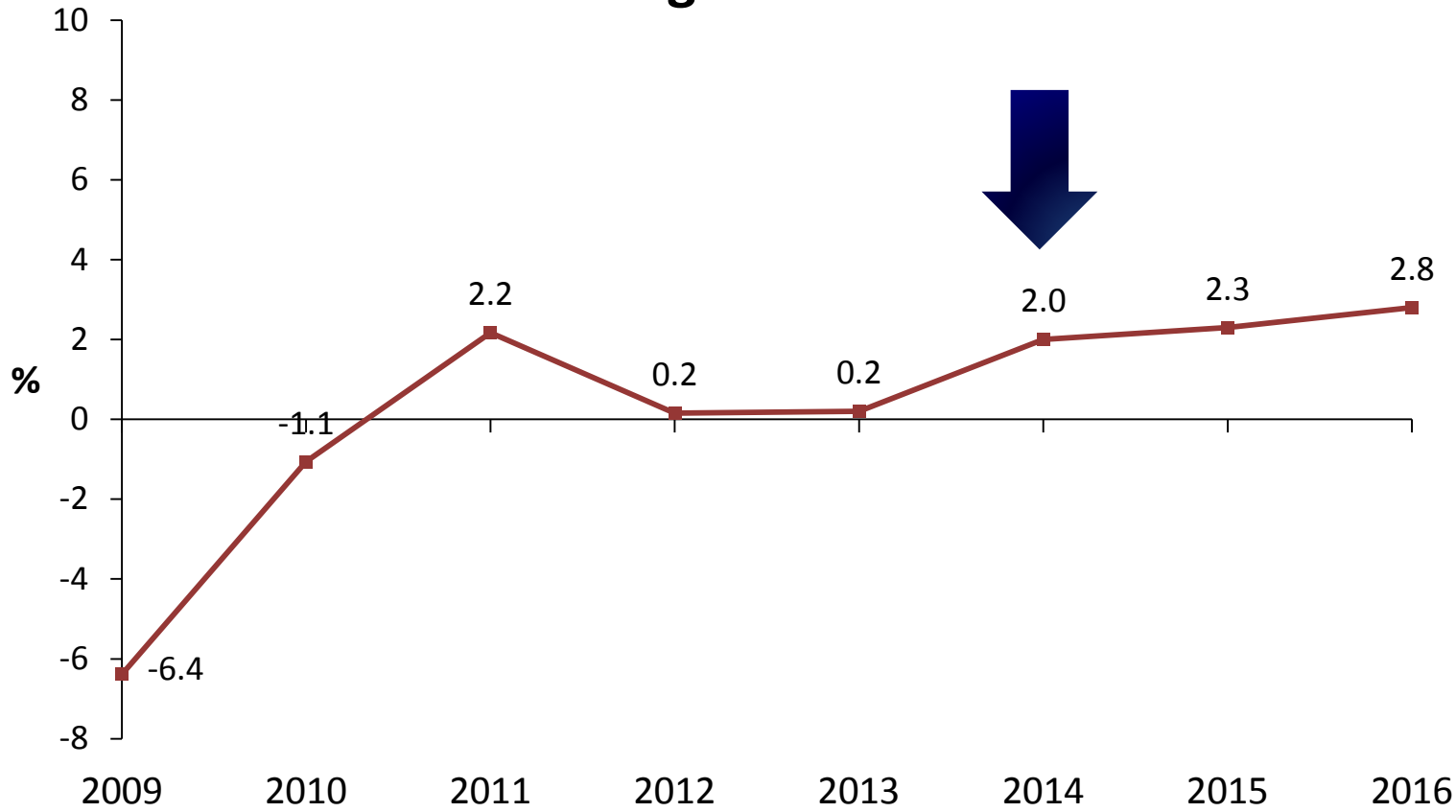
Whither the Irish economy?

- Signs of improving growth momentum
- But uncertain dynamics of a post-crisis balance-sheet recession



2 percent growth forecast for 2014

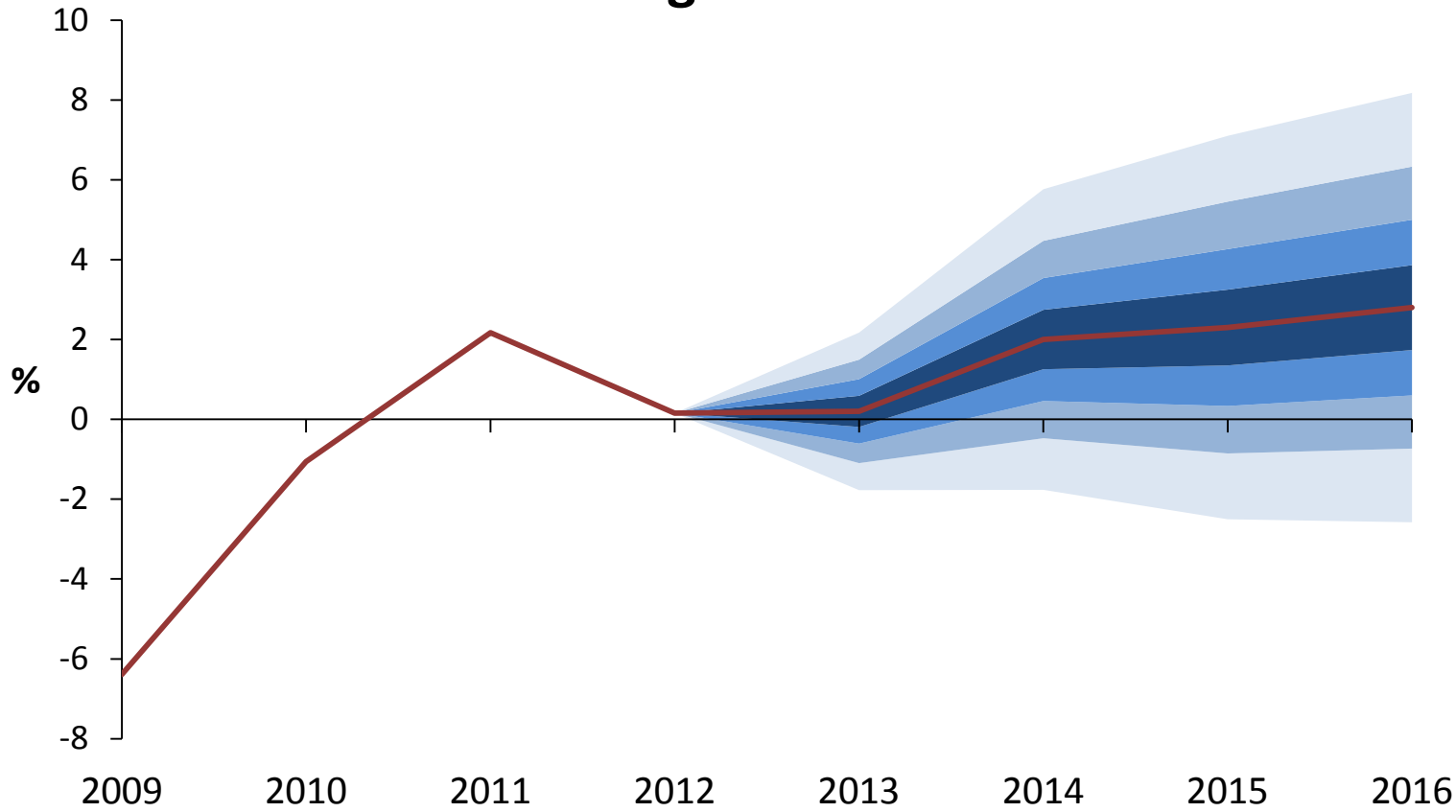
Real GDP growth rate





But significant uncertainty

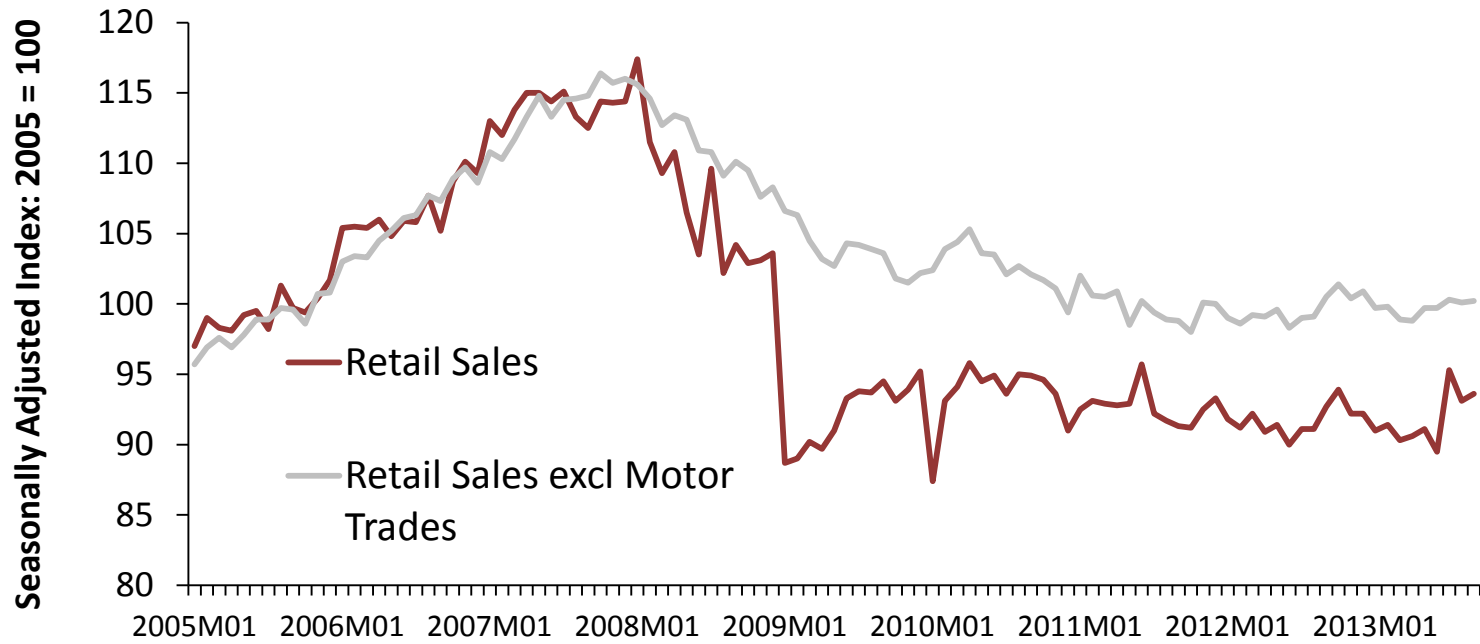
Real GDP growth rate





Signs of improved growth in second half of 2013

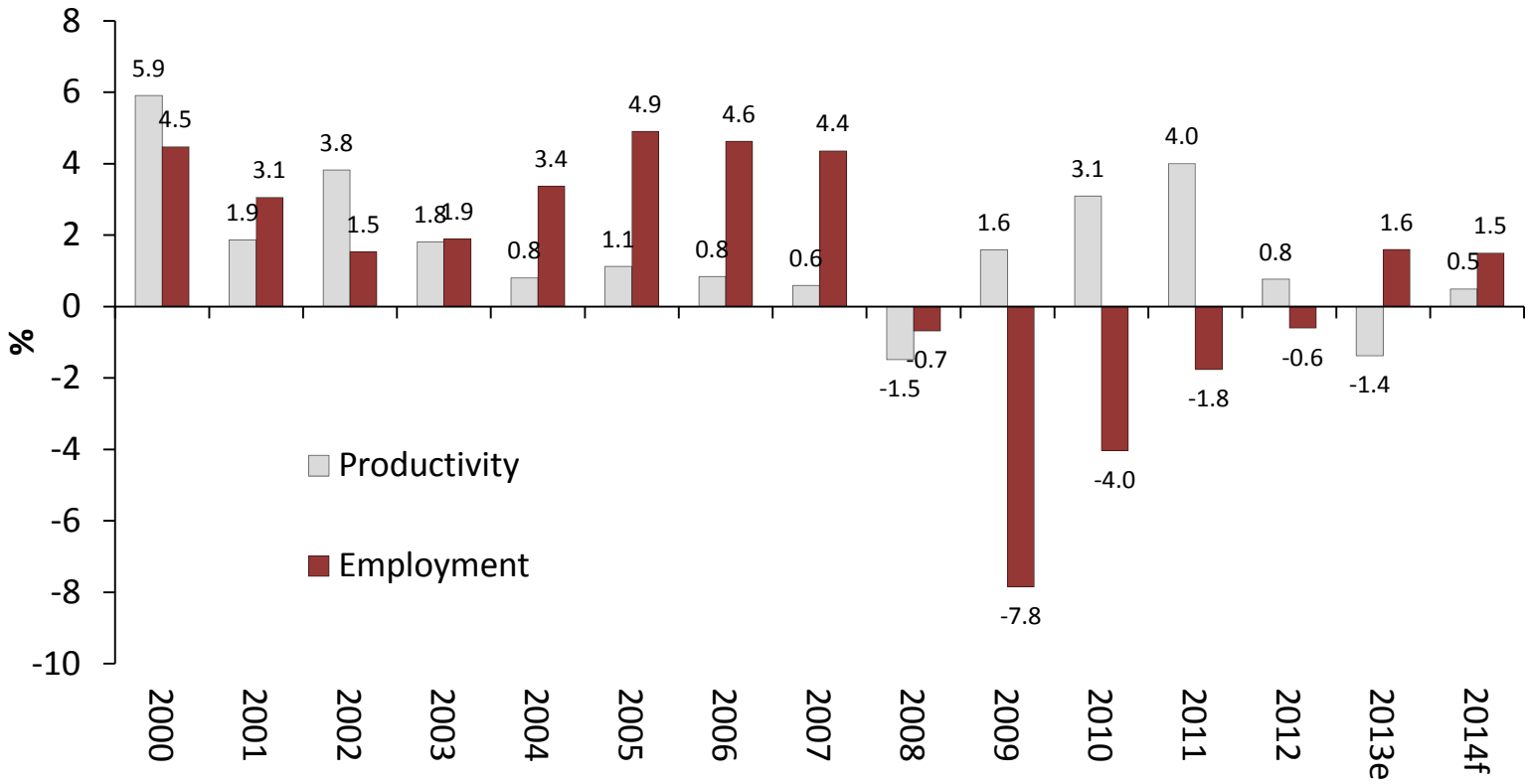
Example . . . Retail Sales (seasonally adjusted)





Strong employment performance

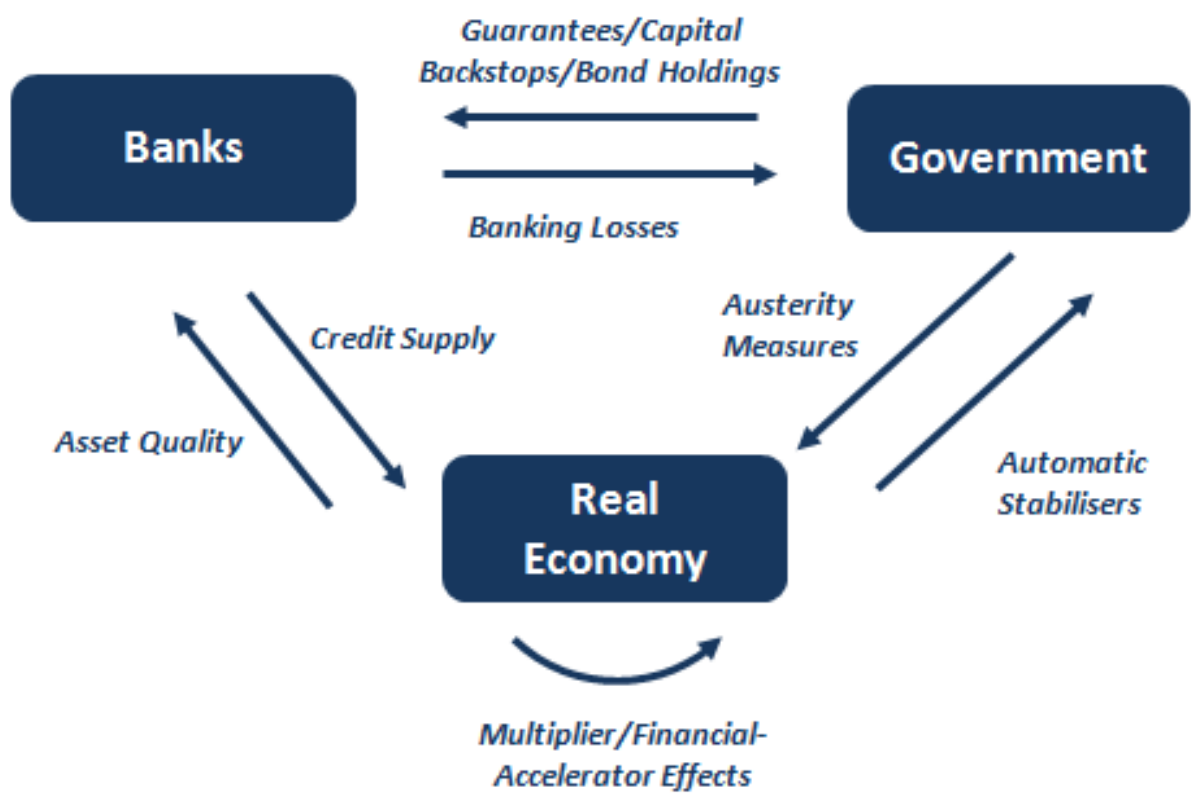
ECONOMY-WIDE PRODUCTIVITY AND EMPLOYMENT GROWTH





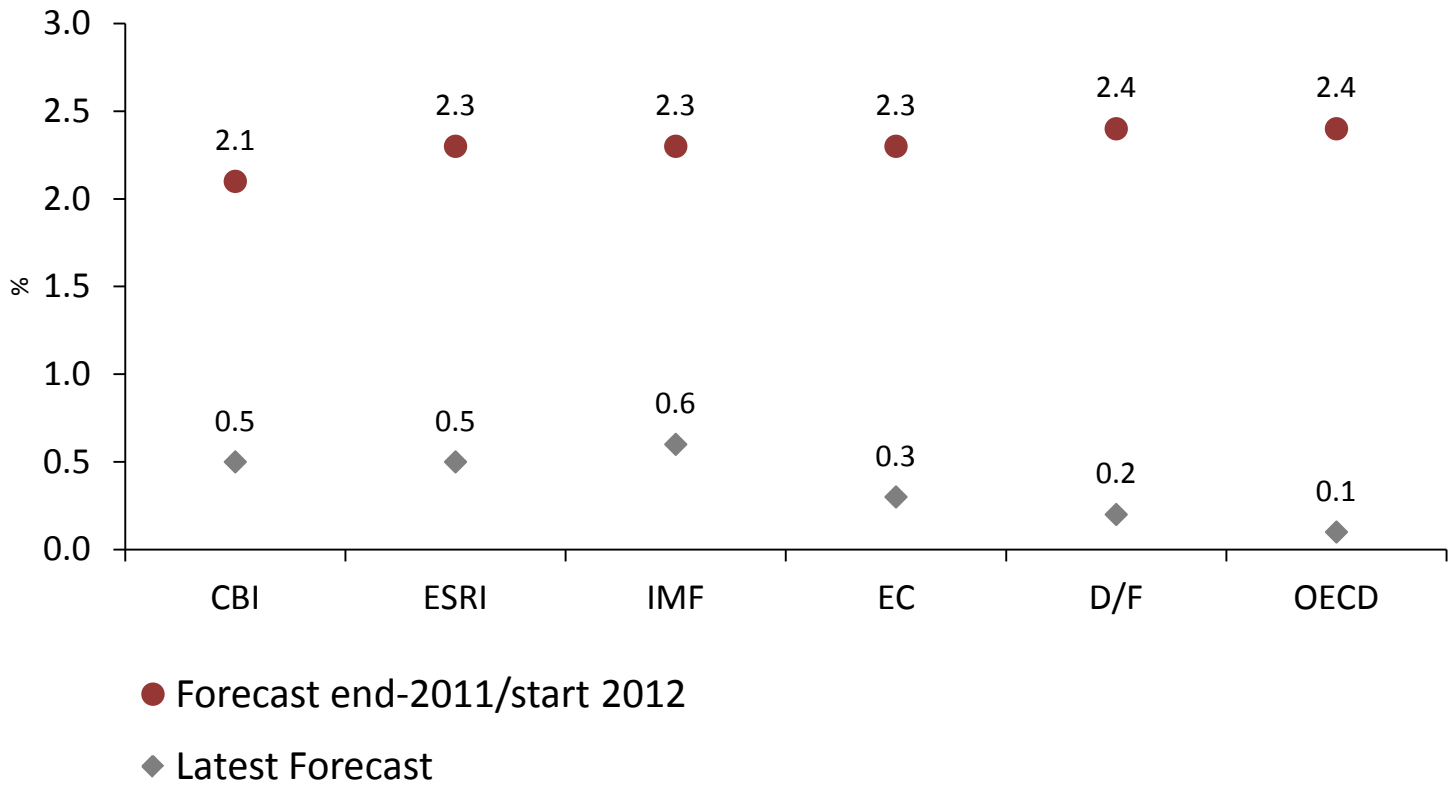
Unpredictable dynamics of a balance-sheet recession

FIGURE D1: ADVERSE FEEDBACK LOOPS





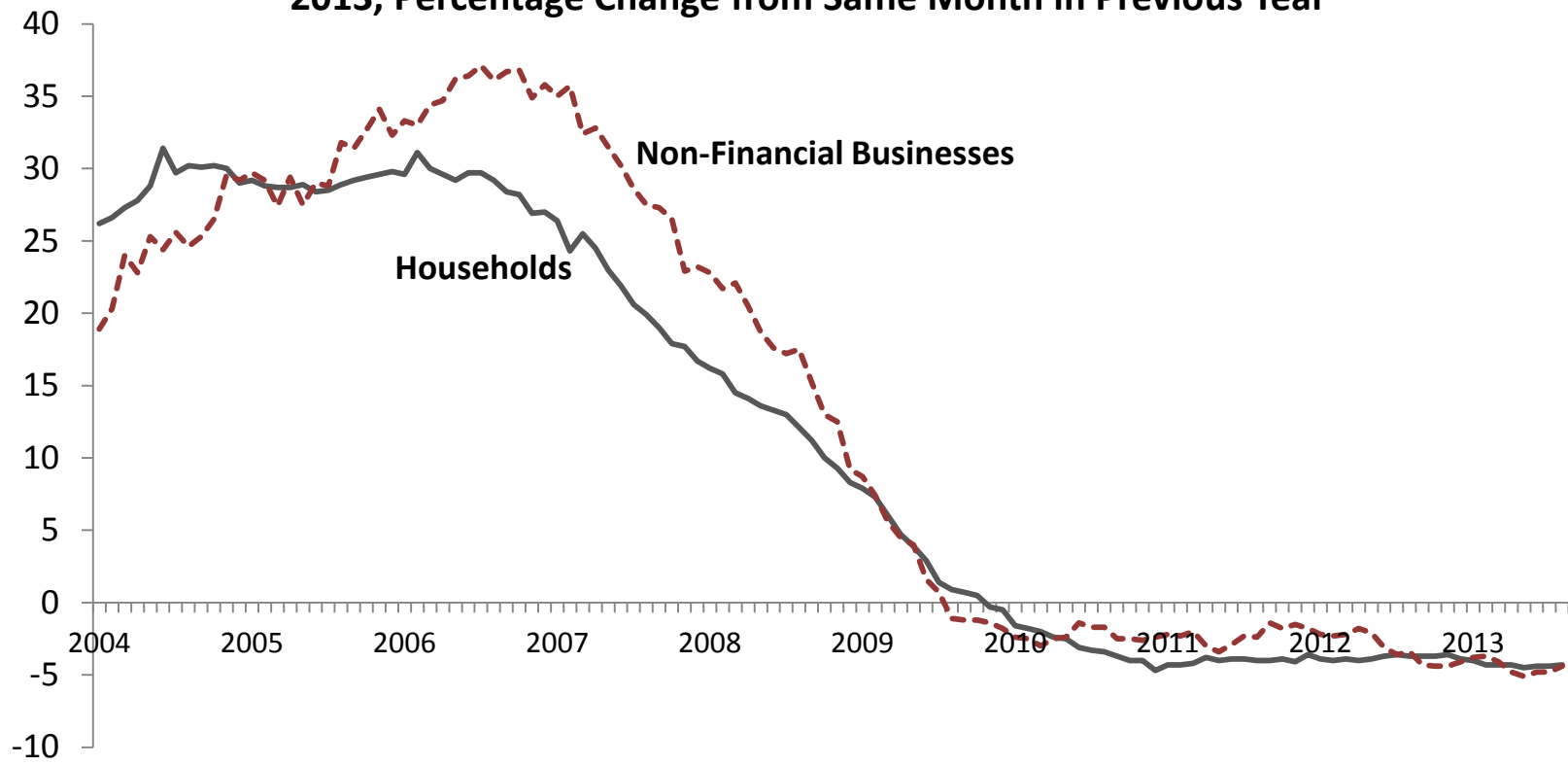
Pattern of downward growth revisions continued into 2013





Credit still contracting

Growth Rates in Credit to the Private Sector, January 2004 to August 2013, Percentage Change from Same Month in Previous Year

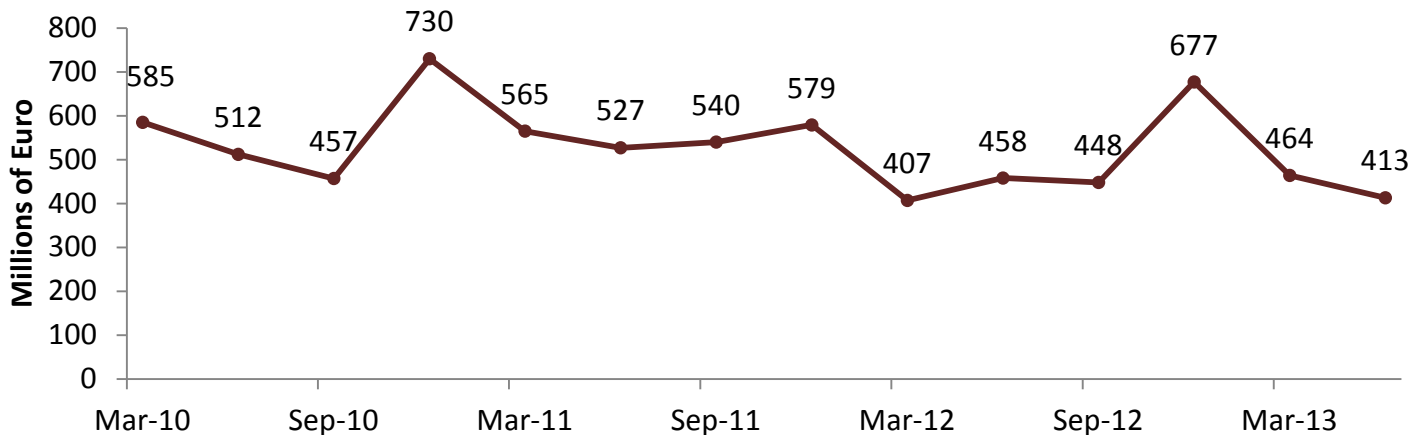


Source: Central Bank of Ireland



Limited new lending to SMEs

**New Credit Advanced to Non-Financial/Non-Property Irish SMEs,
March 2010 to June 2013**

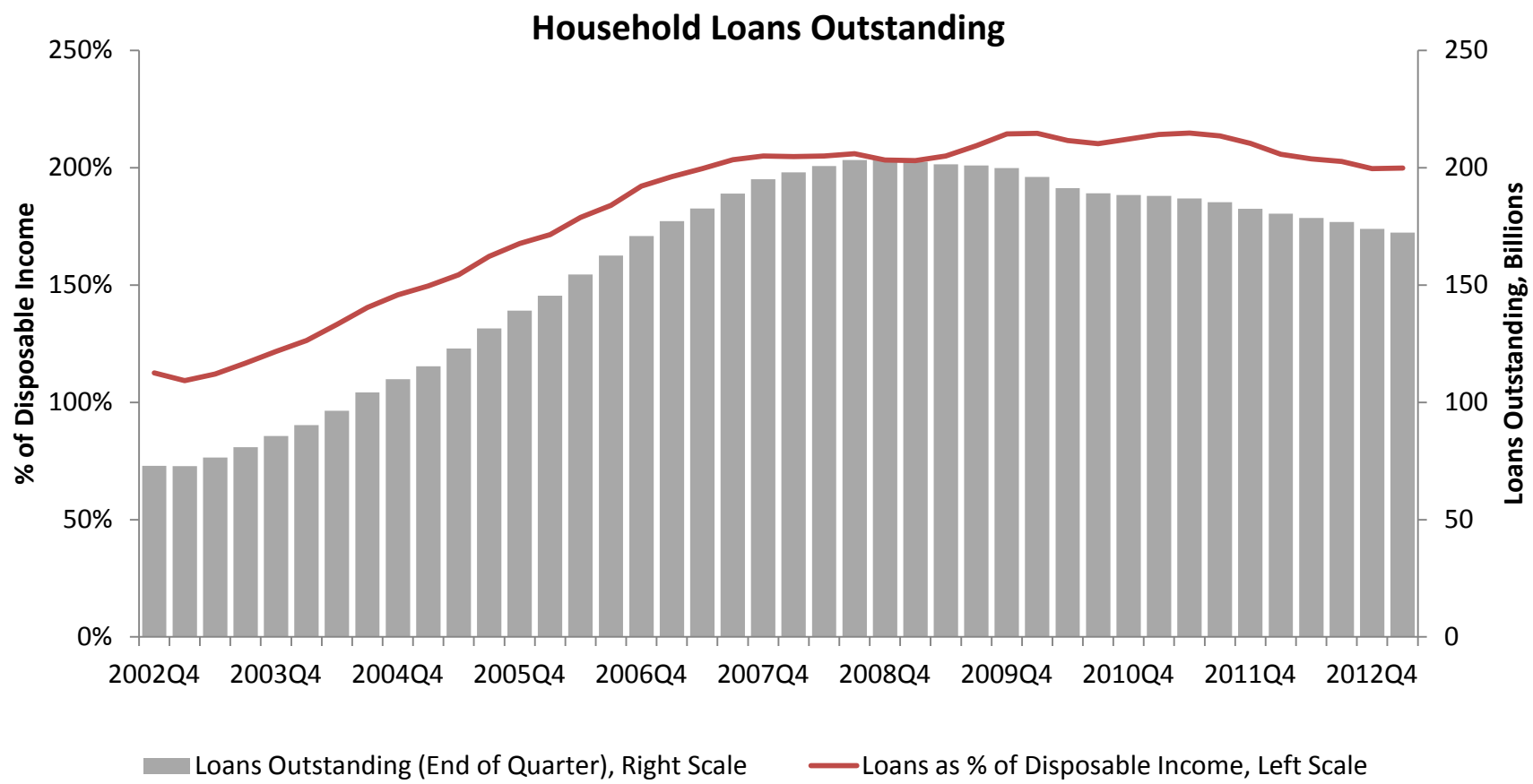


Note: Gross new lending is the amount of new credit facilities drawn-down during the quarter by SME counterparties, i.e. where this credit facility was not part of the outstanding amount of credit advanced at the end of the previous quarter. Gross new lending is defined to exclude renegotiations or restructuring of existing loans.

Source: Central Bank of Ireland



Difficult household balance sheet repair continues

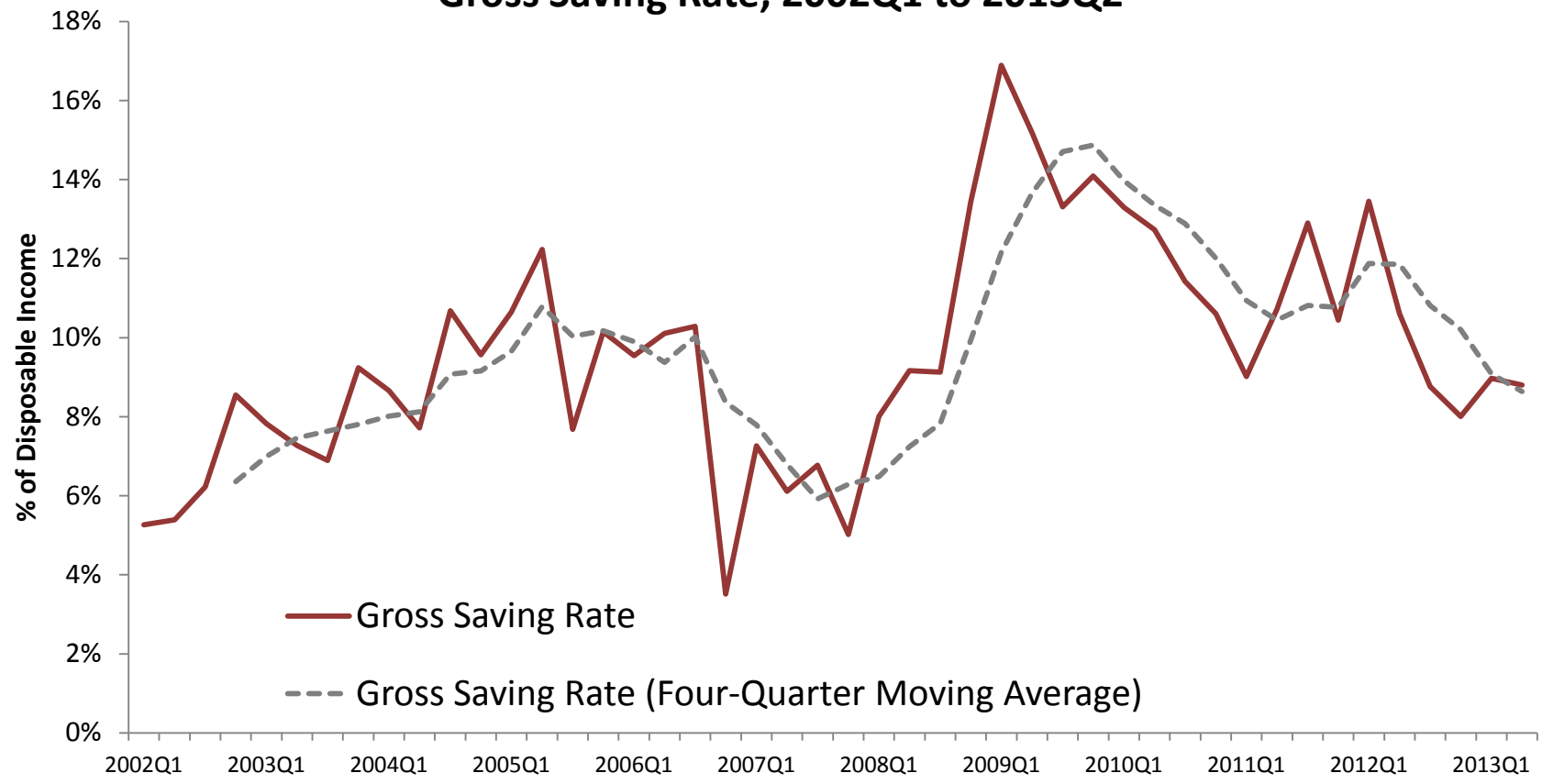


Note: Disposable income equals sum over last four quarters
 Source: Central Bank of Ireland (Loans); Central Statistics Office (Disposable Income)



Saving rate still high, but falling

Gross Saving Rate, 2002Q1 to 2013Q2



Source: CSO

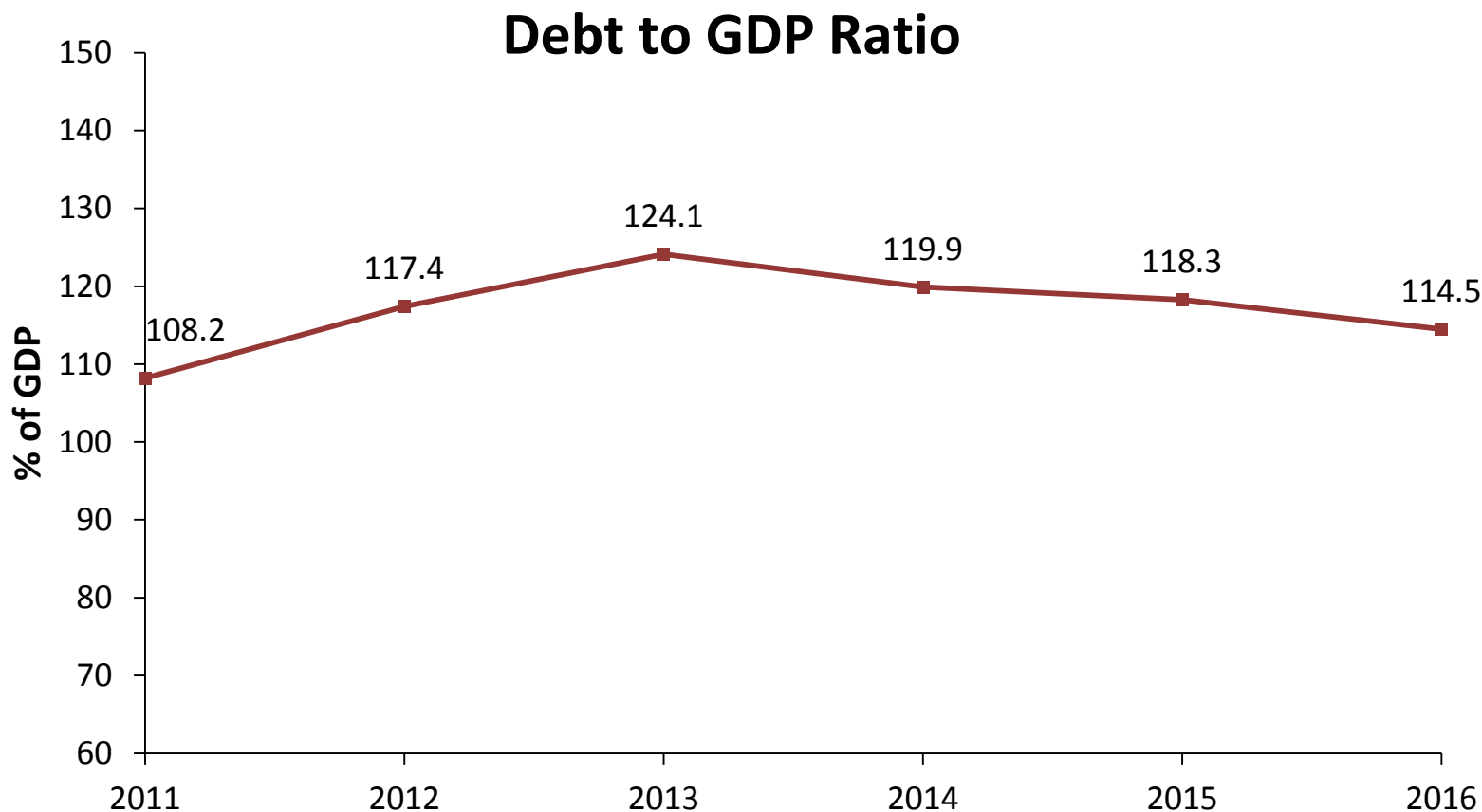


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Advisory Council**

Fiscal Outlook

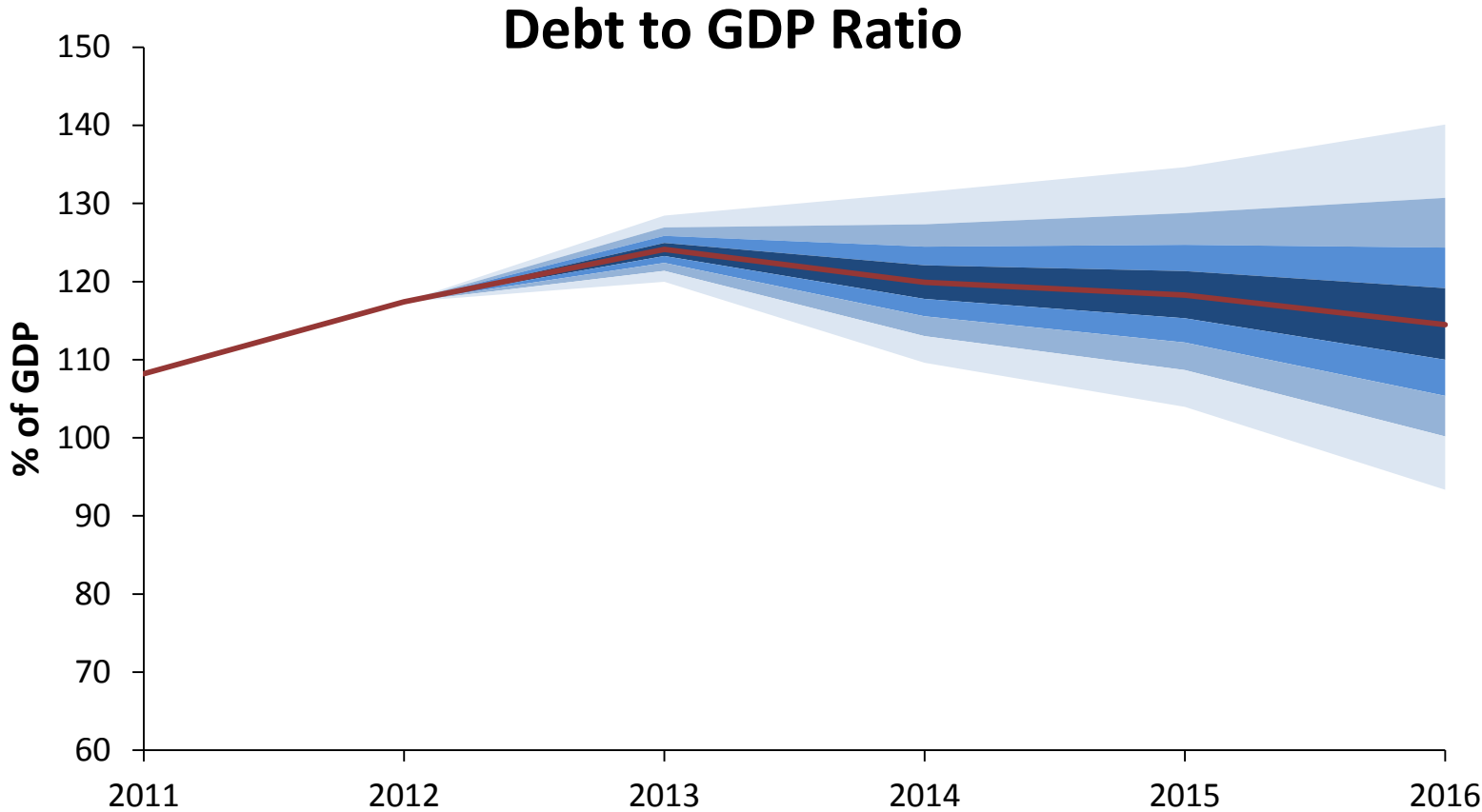


***Projected* debt to GDP ratio on a declining path**





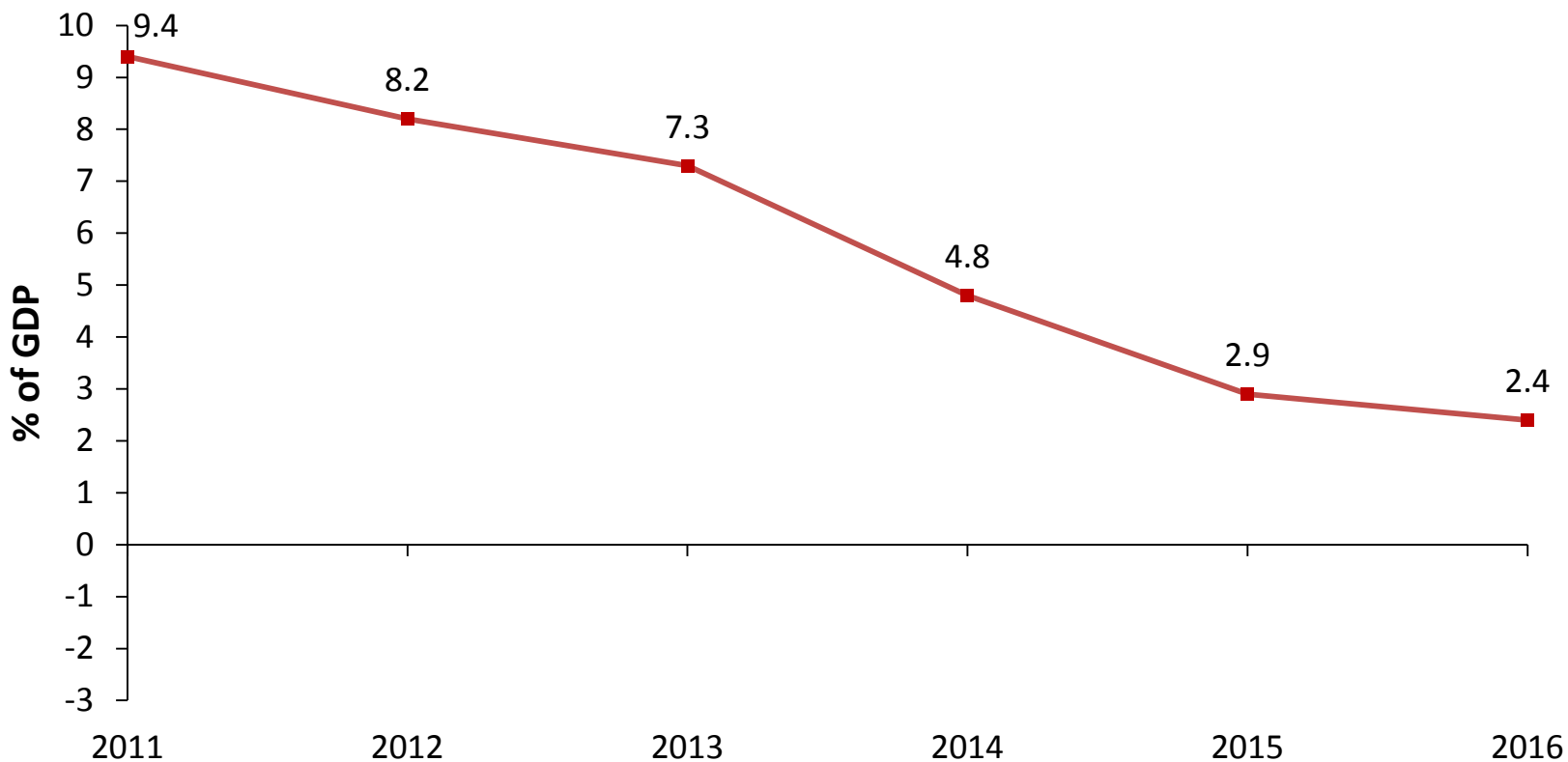
But risks to sustainability remain





Deficit is falling

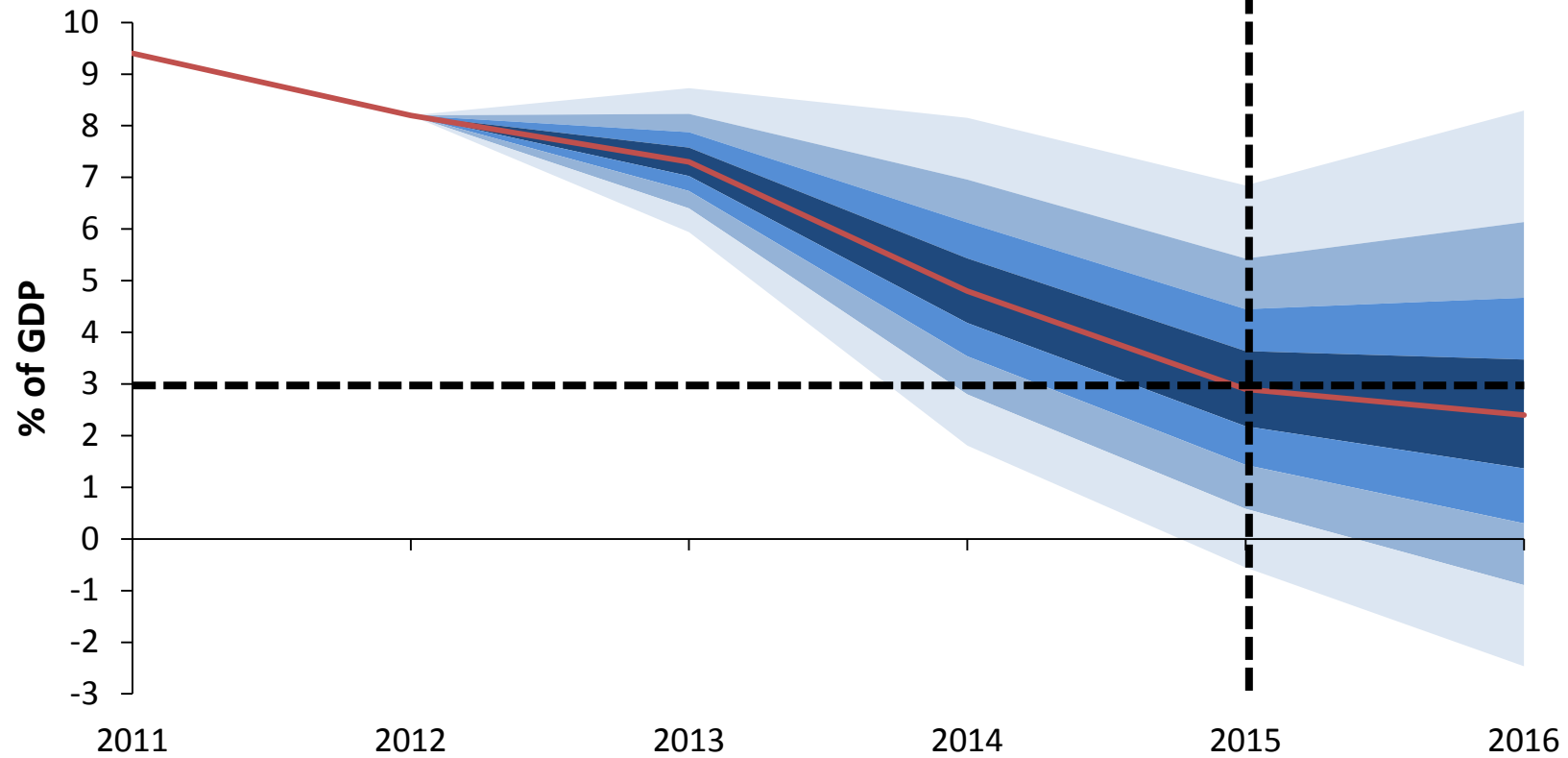
General Government Deficit





But no margin of safety for 2015 EDP target

General Government Deficit



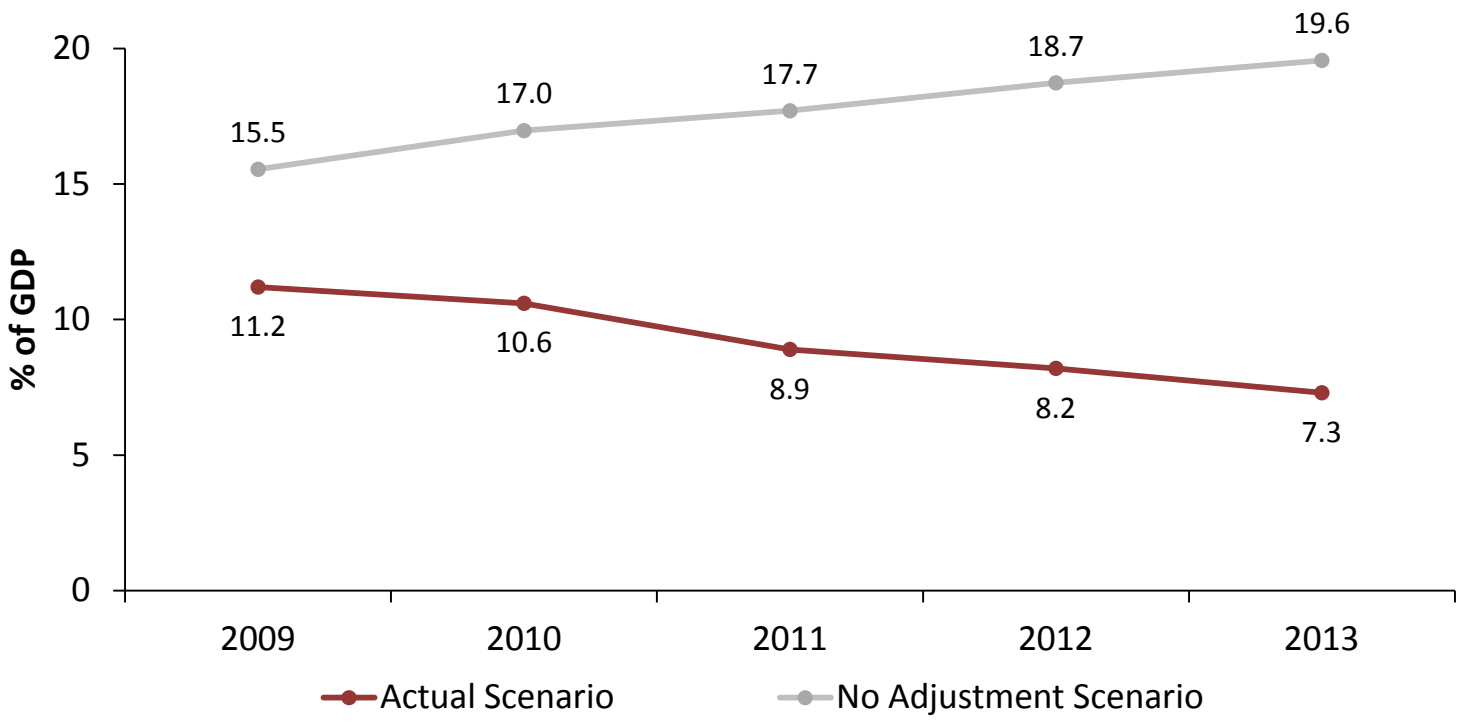


A difficult balancing act

- Recognition that fiscal adjustment measures will slow the economy in the short run
- Key question: Is austerity working to stabilise the public finances and restore the creditworthiness/borrowing capacity of the State?

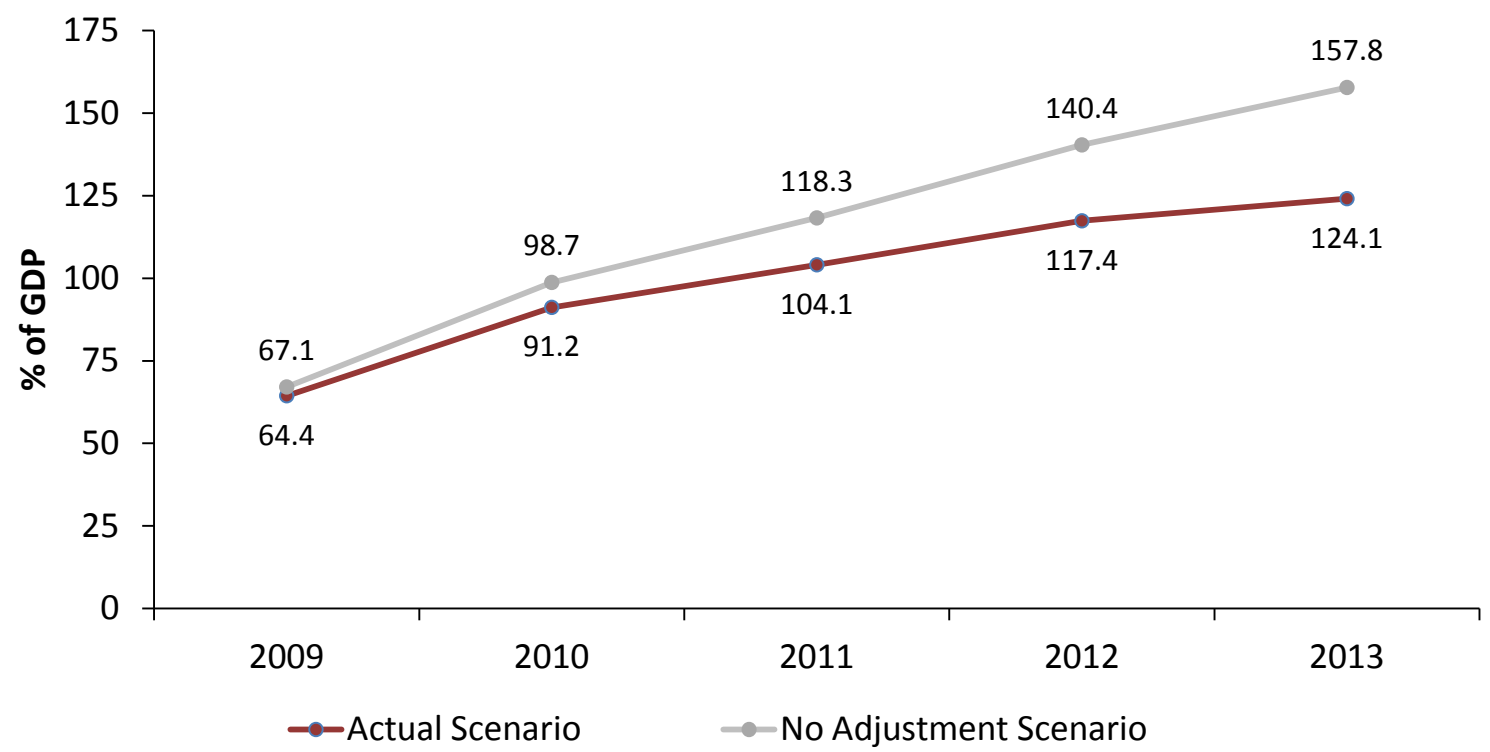


Public finances were on an unsustainable path





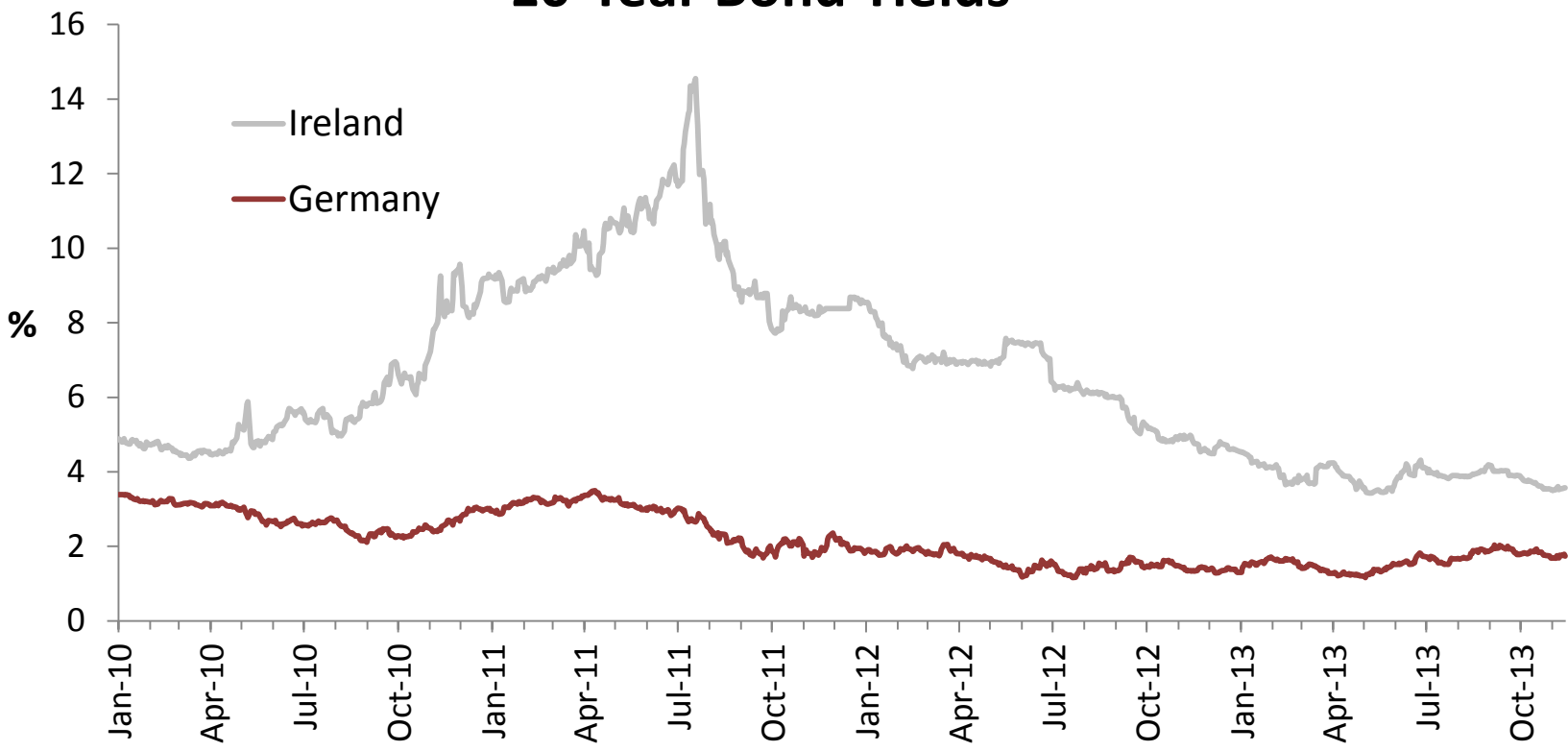
Debt ratio would have reached almost 160% of GDP





Restoration of borrowing capacity

10-Year Bond Yields



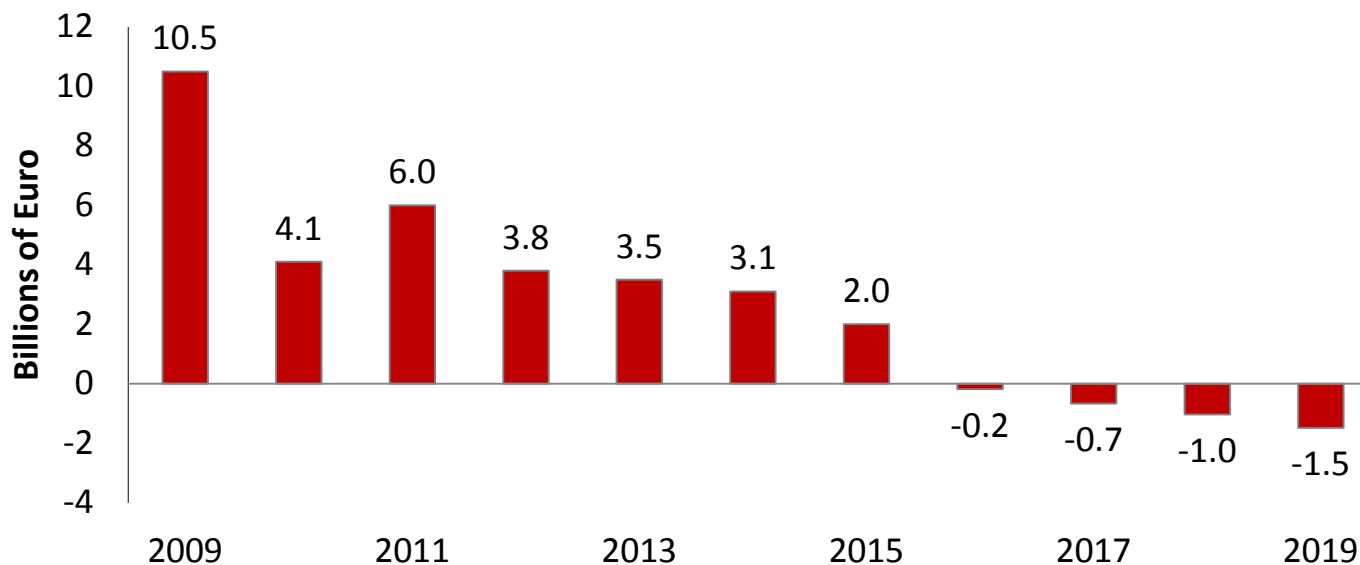
Source: Datastream



Endless austerity?

Illustrative scenario: Discretionary adjustments to ensure compliance with fiscal rules

Assumes 0.5 percent of GDP annual adjustment in structural balance post 2015





Stability-focused fiscal policy

- Exiting the Excess Deficit Procedure on schedule
- 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
- New medium term-economic plan provides an opportunity to lay out next phase of fiscal strategy and underline the commitment to stability-focused fiscal rules
- Self-protection against loss of market access
 - Value of good debt-maturity management
 - Value of cash reserves
 - A precautionary credit line would have provided a further valuable layer of protection