



Irish Fiscal Advisory Council

The Irish Fiscal Advisory Council: Early Experience and Challenges

John McHale

National University of Ireland, Galway

Chair, Irish Fiscal Advisory Council

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Officials and Independent Fiscal Institutions,

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Background

- Domestic impetus for an independent fiscal agency
 - Joint *Oireachtas* Committee report in November 2010
- Formal Commitment under EU/IMF programme, December 2010
- IFAC established on an interim basis in June 2011
 - Operational since September 2011 (five-member council; three-person secretariat)
- Will be put on a statutory basis as part of the upcoming Fiscal Responsibility Law
 - Fiscal Responsibility Bill to be published by end of Q2 2012



IFAC's mandate

- To provide an assessment of the **soundness of the economic and budgetary projections and forecasts** set out by the Government in the annual Budget and the Stability Programme Update,
- To provide an assessment of the **appropriateness of the fiscal stance** set out by the Government in the Budget and Stability Programme Update, including, the Government's stated medium-term budgetary objective, with particular regard to whether they are conducive to prudent economic and budgetary management, including by reference to the provisions of the European Union Stability and Growth Pact,
- To provide an assessment of whether the budgetary plans set out in the Budget and Stability Programme Update are **consistent with the fiscal rules** which it is proposed to publish as part of a Fiscal Responsibility Bill by the end of the year, and
- To perform such other functions, including an assessment of the implications of budgetary plans for economic growth, investment and employment, as may be assigned by the Minister for Finance

Who we are

- Council
 - Sebastian Barnes (OECD)
 - Alan Barrett (Trinity College/ESRI)
 - Donal Donovan (UL/formerly IMF Deputy Director)
 - John McHale (National University of Ireland, Galway)
 - Roisin O’Sullivan (Smith College, MA)
- IFAC Secretariat
 - Diarmaid Smyth (Head of Secretariat and Chief Economist)
 - Eimear Leahy (Economist)
 - Rachel Joyce (Administrator)

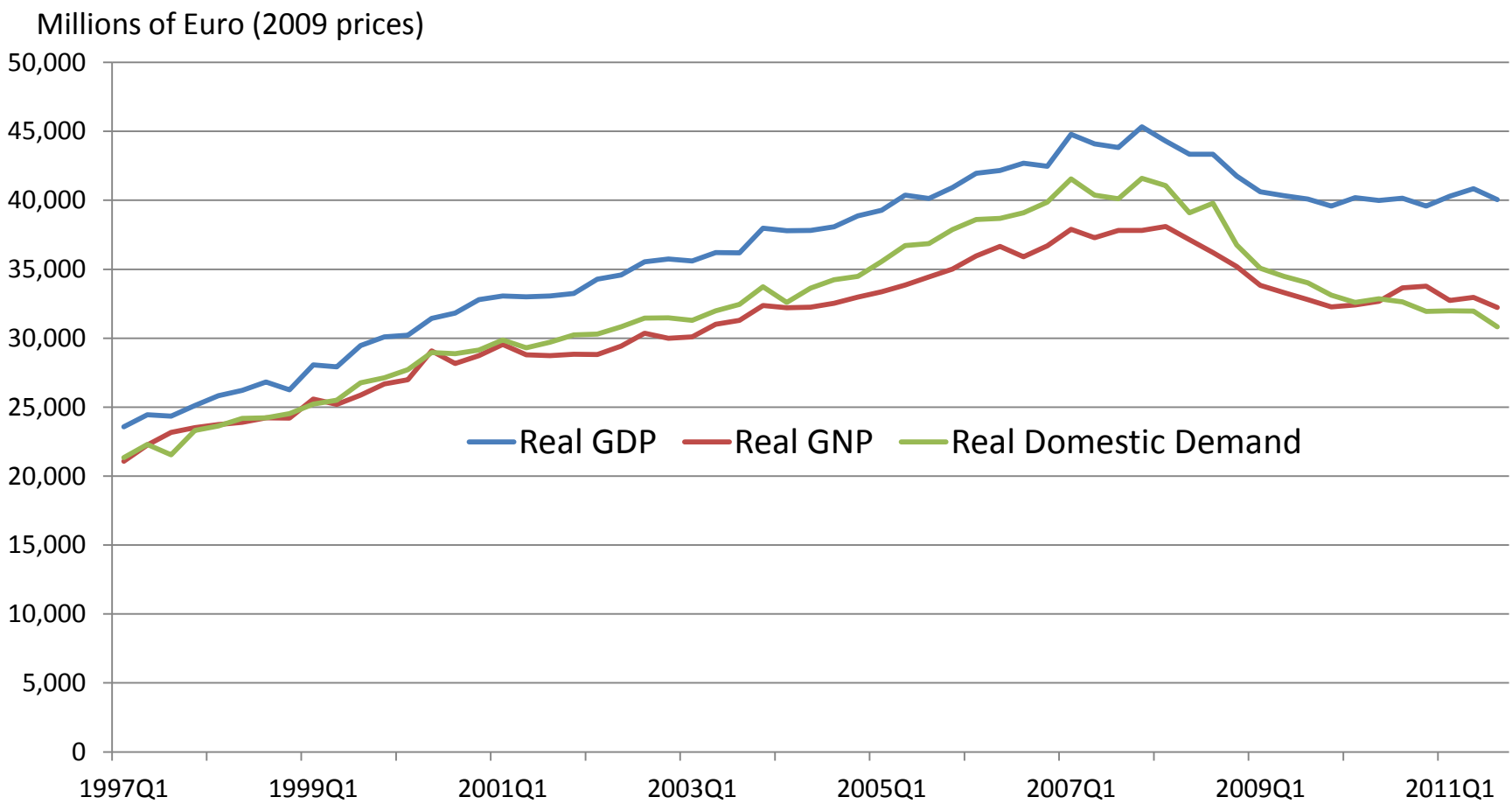


Some context

- Debt at close to 20% of GDP prior to the crisis – now likely to peak around 120%
- Large banking-related costs
- Collapse of revenues - measured structural surplus for several years in boom due to bubble-related revenue buoyancy
- Large run-up in public spending during boom
- Troika programme now
- Uncertainty about medium-term growth prospects



Whither the real economy?



Rationale for Council

- Raise political costs of bad fiscal policy
 - Overcome political biases
- Better Identification of good fiscal policy
 - Importance of good analysis

Criteria for success

- Technical competence
- Independence
- Visibility

Early outputs

- October Fiscal Assessment Report (Oct., 2011)
- Report for Fiscal Responsibility Bill (Jan., 2012)
 - *Strengthening Ireland's Fiscal Institutions*
- March Fiscal Assessment Report (nearing completion)



Analysis of fiscal stance

- Principles of good fiscal policy
 - Sustainability
 - Stability
 - Countercyclicality
- Central trade-off under current Irish conditions
 - Supporting demand versus securing sustainability/creditworthiness
- October FAR: Did not find medium-term fiscal stance to be inappropriate. But made case for more ambitious medium-term deficit-reduction targets under central growth scenario
- March FAR: Will explore policies to improve the trade-off in a highly uncertain macroeconomic environment

Early reaction

- Significant press interest in Council's publications
- Government welcomed October FAR, but reaffirmed commitment to current medium-term deficit adjustment path
- Lively public debate about the appropriate medium-term fiscal stance



Challenges

- Resources
 - Sustainability of “volunteer” model for council members
 - Adequacy of secretariat resources
- Relationship with Department of Finance
 - Need for arms-length relationship
 - But also need for access to data/projection models
- Public visibility
 - Demand for immediate commentary
 - But need for adequate time for analysis and deliberation

Importance of securing independence

- No interference so far
- But some concerns about the longer-term:
 - DoF controls appointments/terminations
 - DoF controls budget

Proposals to strengthen independence

- Consultation with Oireachtas Committee and Council on appointments
- Limited and explicit grounds for termination / requirement for approval of Oireachtas Committee
- Budget
 - 3-year commitment (letter from Secretary General)
 - Separate budget line

Importance of accountability

- All reports to be made public; willingness to publicly explain assessments
- Availability to appear before relevant Oireachtas committee
- Call for periodic peer review
 - Inclusion of international experts

Evolving institutional environment

- EU requirements for independent macro forecasts
 - IFAC mandate is limited to *assessment* of Government forecasts/projections
 - Council is presently not resourced to provide independent forecasts/projections
- Fiscal rules under FRL and Fiscal Compact
 - Council likely to play a central role in monitoring compliance with rules