



20 April 2016

Dear Secretary General Moran,

The Council has an obligation under the Fiscal Responsibility Act to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which *Stability Programme Update 2016 (SPU 2016)* will be based.<sup>1</sup>

The *SPU 2016* forecasts were provided to the Council on 7 April 2016 and discussed by the Council with Department of Finance staff on 18 April 2016, ahead of the Council's endorsement meeting.<sup>2</sup>

The Council's approach to endorsement of the macroeconomic forecasts has three elements: a comparison of the Department of Finance's forecasts to IFAC's Benchmark forecasts, consideration of the methodology used to produce the forecasts and a review of past forecast errors for evidence of systematic bias.

**The Irish Fiscal Advisory Council endorses as within the range of appropriate forecasts the set of medium-term macroeconomic projections prepared by the Department of Finance for *SPU 2016*.**

The Department's supply-side estimates in *SPU 2016* are produced in line with the EU Commonly Agreed Methodology (CAM) and the mechanical application of this methodology to estimate trend supply-side variables in *SPU 2016* has been verified. However, as highlighted in the November 2015 *Fiscal Assessment Report*, and on numerous occasions by the Department of Finance, the methodology is not well equipped to estimate the supply side of the Irish economy.

It is essential that the Department's macroeconomic forecasts for the medium term are well-founded to provide a sound basis for setting the economy and the public finances on a sustainable path. This requires the development of a fuller picture of the supply side complementary to the Commonly Agreed Methodology, which is used primarily for fiscal surveillance by the European Commission. Further progress on developing and reporting alternatives to the CAM is necessary to improve the quality of the Department's supply-side forecasts.

A detailed discussion of the endorsement process and an assessment of the macroeconomic projections will be provided in the Council's forthcoming *Fiscal Assessment Report* which is scheduled for publication in June.

Yours sincerely,

John McHale, Chair.

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<sup>1</sup> The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

<sup>2</sup> The key variables taken into account in the endorsement are those listed in Section 2 of the Memorandum of Understanding (MOU). The MOU between the Department of Finance and the Council as amended in 2015 sets out the agreed modalities of the endorsement function in relation to the Budget and the Stability Programme Update (SPU).