



04 April 2017

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 2017 (SPU 2017)* will be based.<sup>1</sup> The *SPU 2017* forecasts were provided to the Council on 22 March 2017 and discussed by the Council with Department of Finance staff on 27 March 2017, ahead of the Council's endorsement meeting.

The Council's approach to endorsement of the macroeconomic forecasts has three elements: a comparison of the Department of Finance's macroeconomic 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 2017*.**

The Department's supply-side estimates are produced in line with the EU Commonly Agreed Methodology (CAM), which is used primarily for fiscal surveillance by the European Commission. The mechanical application of this methodology to estimate trend supply-side variables in *SPU 2017* has been verified. However, as highlighted by the Council in previous Fiscal Assessment Reports and on numerous occasions by the Department of Finance, the CAM is not well equipped to estimate the supply side of the Irish economy. Furthermore, the results do not reflect the Department's own views regarding the cyclical position of the 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. The Council welcomes the Department's commitment to develop an alternative to the CAM for medium-term forecasts in the coming twelve months, alongside continuing to produce the CAM estimates to meet legal requirements.

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,

  
Seamus Coffey, 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".