



10 April 2018

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 the *Stability Programme Update (SPU) 2018* will be based.¹ The final forecasts were provided to the Council on 4 April 2018 and discussed by the Council with Department staff on 6 April 2018.

The Council's approach to endorsement of the macroeconomic forecasts has three elements: a comparison of the Department of Finance's macroeconomic forecasts to the Council'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 macroeconomic projections prepared by the Department of Finance for SPU 2018.

The Council is satisfied that the demand-side forecasts are within an endorsable range, taking into account the methodology and the plausibility of the judgements made.

The Council welcomes the progress made by the Department towards developing alternatives to the EU Commonly Agreed Methodology (CAM) for the purposes of its medium-term forecasts, and its intention to publish numerical estimates of the output gap in *SPU 2018*.² Well-founded forecasts for the medium term are necessary to provide a sound basis for setting the economy and the public finances on a sustainable path. The Council also welcomes the intention of the Department to include these estimates in the headline table of macroeconomic indicators in future endorsement rounds.

The Department continues to produce supply-side estimates in line with the EU Commonly Agreed Methodology (CAM) for the purposes of fiscal surveillance. The Department has introduced an adjustment to the application of the method relating to 2017. The Department's mechanical application of the adjusted methodology to estimate trend supply-side variables in *SPU 2018* has been verified. At the time of the endorsement, it is unclear whether or not the European Commission will decide to adopt these adjustments.

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, Chairperson.

¹ 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".

² The CAM is primarily a tool used for fiscal surveillance by the European Commission. 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.