Irish Fiscal Advisory Council
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5th April 2019

Dear Secretary General Moran,

The Council has a statutory obligation to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which *SPU 2019* will be based.[1] The Department provided its *SPU 2019* forecasts—which cover a four-year-ahead forecast horizon—to the Council on 28th March 2019. The Council discussed these forecasts with Department of Finance staff on 5th April 2019, ahead of the Council's endorsement meeting.

There are three elements to the Council's endorsement approach:

- a comparison of the Department of Finance's macroeconomic forecasts to the Council's Benchmark projections;
- a 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 2019* for the years 2019 to 2023.

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

This endorsement comes at a time of exceptional uncertainty for the Irish economy. The endorsement decision covers a set of forecasts that assume a scenario in which the UK makes an orderly and agreed exit from the EU.

The Council welcomes the Department's use of alternative estimates of the supply side, which are more plausible than estimates produced under the EU Commonly Agreed Methodology (CAM). The Council verified the Department's mechanical application of the CAM to estimate trend supply-side variables.[2]

The Council will discuss the endorsement process and assess the macroeconomic projections in its forthcoming Fiscal Assessment Report, due in June 2019.

Yours sincerely,

Seamus Coffey

Seamus Coffey, Chairperson.

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[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. The Department will continue to report CAM estimates in an annex for compliance purposes.