

#### BOX A: THE ENDORSEMENT FUNCTION AND THE MEMORANDUM OF UNDERSTANDING

The Council's endorsement function has its origins in the "Two Pack" of new EU fiscal regulations that came into force on 30 May 2013.<sup>3</sup>

One element of the "Two Pack" — which deals largely with procedures to strengthen fiscal governance in the Euro Area and to reduce fiscal and financial risks — is the requirement that the macroeconomic forecasts underpinning Budgets and Stability Programme Updates must either be made independently or endorsed by independent bodies.

In Ireland, the Government decided that the "endorsement" approach would be adopted. The Department of Finance remains responsible for the forecasts, with the Council tasked as the independent body which would undertake the endorsement function. Following discussions, a joint Memorandum of Understanding (MoU) was signed by the Council and the Department of Finance.

Formally, the endorsement function has been implemented through an amendment to the *Fiscal Responsibility Act 2012* that provides a new element to the Council's mandate, to "...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>4</sup> For the purposes of the Budget, the forecasts do not include the impact of final decisions on discretionary tax and expenditure measures.

The MoU between the Council and the Department of Finance governs the operational aspects of the endorsement function. It sets out the background to the endorsement exercise and provides details on the coverage of the macroeconomic projections endorsed, the information requirements and the approach to be followed. The timing and arrangements around the endorsement process are also dealt with in the MoU.

The MoU is in line with guidelines on how to implement the "Two Pack", including the requirement to put in place arrangements to govern the implementation process (EC, 2013b). These include:

- The Council will communicate regularly about its approach to the endorsement function, including the analysis underpinning its assessments.
- The Council will make clear whether or not it endorses the forecasts. In the event that the Council were to conclude that it had significant reservations when presented with the preliminary forecasts in advance of the Budget or the Stability Programme, this would be communicated to the Department of Finance. Further discussions could then take place to produce a revised forecast addressing the concerns that the Council raised. If at the end of the process the Council was not in a position to endorse the macroeconomic forecasts, the absence of an endorsement and underlying reasons for it would be set out by the Council.

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<sup>3</sup> Formally, (1) EU Regulation No 473/2013 on common provisions for monitoring and assessing draft budget plans and ensuring the correction of excessive deficit of the Member States in the Euro Area, and (2) Regulation No 472/2013 on the strengthening of economic and budgetary surveillance of Member States in the Euro Area experiencing or threatened with serious difficulties with respect to their financial stability.

<sup>4</sup> The *Ministers and Secretaries (Amendment) Act 2013* amends the *Fiscal Responsibility Act (2012)* to include a macroeconomic forecast endorsement function.