

28 September 2020

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 *Budget 2021* will be based.<sup>1</sup>

The Department provided its forecasts to the Council on 21st September 2020. The Council discussed these forecasts with Department of Finance staff on 25th September 2020, ahead of the Council's endorsement meeting.

The Council's approach to endorsing the Department's macroeconomic forecasts has three elements:

- 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 *Budget 2021* covering the years 2020 and 2021.**

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

The Department's forecasts only cover a 1-year-ahead forecast horizon (2020 and 2021). This is shorter than the 5-year-ahead forecast horizon adopted by the Department in recent years. It would be preferable for informing policy decisions with a medium-term orientation and for ensuring the consistency of short-term forecasts that a longer 5-year forecast horizon be used for all forecast exercises.

This endorsement comes as the Irish economy faces on-going challenges as a result of the Covid-19 pandemic, as well as the potential adverse impacts of a

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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".

hard Brexit. As such, there is very high uncertainty at this time around any set of economic forecasts.

The Council will discuss the endorsement process and assess the macroeconomic projections in its forthcoming Fiscal Assessment Report, due in November 2020.

Yours sincerely,



Sebastian Barnes, Chairperson.