Irish Fiscal Advisory Council

SPRING 2025

Endorsement of macroeconomic forecasts

March 2025

Background

The Fiscal Council has a mandate to endorse the official macroeconomic forecasts produced by the Department of Finance.[1]

To set out how each endorsement process is carried out, the Council and the Department of Finance agreed a Memorandum of Understanding.[2]

This document gives an overview of some of the key aspects and discussions that took place during the latest endorsement process.

This exercise

The Council's most recent endorsement exercise related to the Department of Finance's macroeconomic forecasts for the Annual Progress Report 2025. It took place in March 2025.

The Department's provisional macroeconomic forecasts were completed on the 24th March 2025 and were shared with the Council. The Council and Secretariat then met with Department staff to discuss its forecasts on 27th March ahead of making its endorsement decision.

The key dates underpinning the Council's endorsement of the Department of Finance's macroeconomic projections for the 2025 Annual Progress Report are set out in Appendix 1.

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[1] This follows the agreement at European level on the Regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (EU Regulation No 473/2013), Ireland is required under Article 4.4 to have its national medium-term fiscal plans and draft budgets based on independent macroeconomic forecasts, which means macroeconomic forecasts produced or endorsed by an independent body. In Ireland's case, this endorsement function is set out in the Fiscal Responsibility Acts 2012 and 2013 that entered into force on 23 July 2013. Under the Act, the Council as an independent body (as defined in Article 2.1.a of Regulation No 473/2013) has been assigned the endorsement function, and shall "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] This sets out the timelines, data, and nature of interactions. It is available online at: https://www.fiscalcouncil.ie/fiscal-responsibility-act/

Approach

The Council's approach to endorsement has four main aspects.

1) The Council compares the Department's forecasts with its own Benchmark projections. These are developed and finalised before viewing the Department's forecasts. It also considers them in light of forecasts produced by other agencies.
2) The Council assesses the methodologies used by the Department.
3) The Council looks to see if there are potential patterns of bias in the Department's previous forecasts.
4) The Council assesses how coherent the Department's forecasts are.

Overall endorsement decision

The Council assessed that the Department's macroeconomic forecasts were **within an endorsable range.**

This assessment took account of how plausible the Department's judgements were. The Council generally had a favourable assessment of the processes and methodologies used by the Department. As an example, the Department responded to growing policy uncertainties by collaborating with the Economic and Social Research Institute to produce an assessment of the potential impacts of tariff and non-tariff trade barriers (Egan & Roche, 2025).

The Department's forecasts were out to 2030. The Council welcomes this five-year-ahead forecast horizon. The Council is of the view that the appropriate horizon for macroeconomic forecasts is at least five years.

Key issues in this endorsement

A key focus of this latest endorsement was the potential impact of protectionist policies. This influenced several areas due to both heightened uncertainty and its impact on trade.

Elsewhere, ongoing issues with how consumer spending is measured in the national accounts data arose once again during this endorsement. Official data continue to appear weak compared to other indicators.

Uncertain international policies

President Trump has pursued many trade actions since taking office in January. He has announced, delayed, and threatened policies, most notably in the area of tariffs, on imports to the United States.

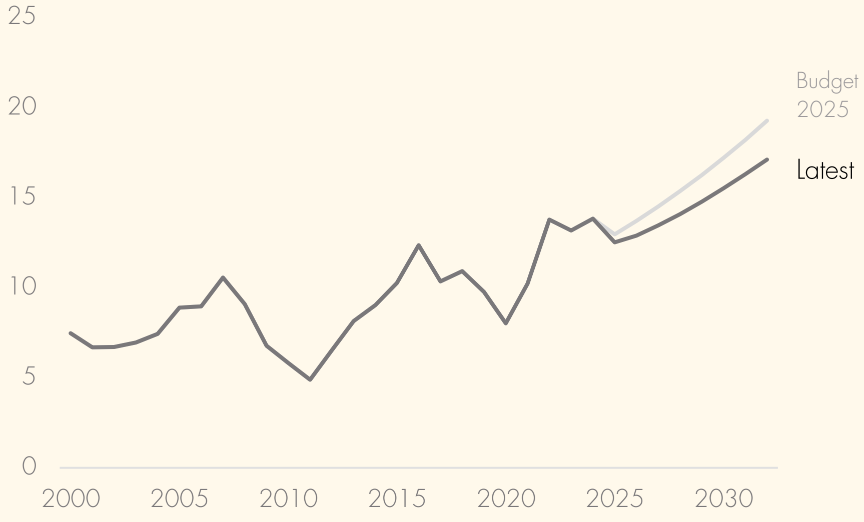
At the time of the endorsement, the main tariffs imposed that affected the EU were 25% tariffs on steel and aluminium and products made using steel or aluminium. As well as that, a 25% tariff on cars coming into the US was to apply from April, and extended to car parts in May.

The European Union said it would respond with its own tariffs. These were not yet finalised. But it was expected that they would initially hit products such as bourbon, jeans, and Harley motorbikes.

President Trump threatened to respond further. It was expected that he would put a 20–25% tariff on all EU imports, including on pharmaceuticals, and potentially a 200% tariff on EU alcohol exports.

N° 1 **More subdued business investment expected**

€ billions, constant prices, modified machinery and equipment investment



Source: Department of Finance and CSO.
Notes: Modified machinery and equipment investment excludes investment related to aircraft leasing.

Both the Department and the Council had considerable difficulty quantifying the precise impact of these developments. Generally speaking, the tit-for-tat tariffs were seen as likely to slow growth and raise prices. This was reflected in scenarios developed by the OECD

(2025), the Peterson Institute for International Economics (McKibbin & Noland, 2025), and others. However, as a baseline, forecasts for external demand remained fairly benign.

Even though wider tariffs remained a possibility rather than a clear likelihood, some adverse impacts were already apparent due to the rise in uncertainty. Businesses were reporting a pause on new investments. As such, the Department's forecasts envisaged softer machinery and equipment spending, most notably in 2026, relative to projections made at Budget time last year (Figure N° 1).

Feeding into its endorsed forecasts, the Department collaborated with the ESRI on the most comprehensive analysis of the potential impact of tariffs on the Irish economy. Egan Roche (2025) modelled the impact of 25% bilateral tariffs between the EU and US using the NiGEM and COSMO models. This was estimated to result in a hit of 3% to GDP after four years, with modified domestic demand 1.8% lower than baseline.

The Department's openness to collaborating on this with the ESRI, and to using advanced modelling is something the Council welcomes. These are difficult challenges. But this kind of approach is exactly the kind of way that can best help to shed light on new challenges as they arise.

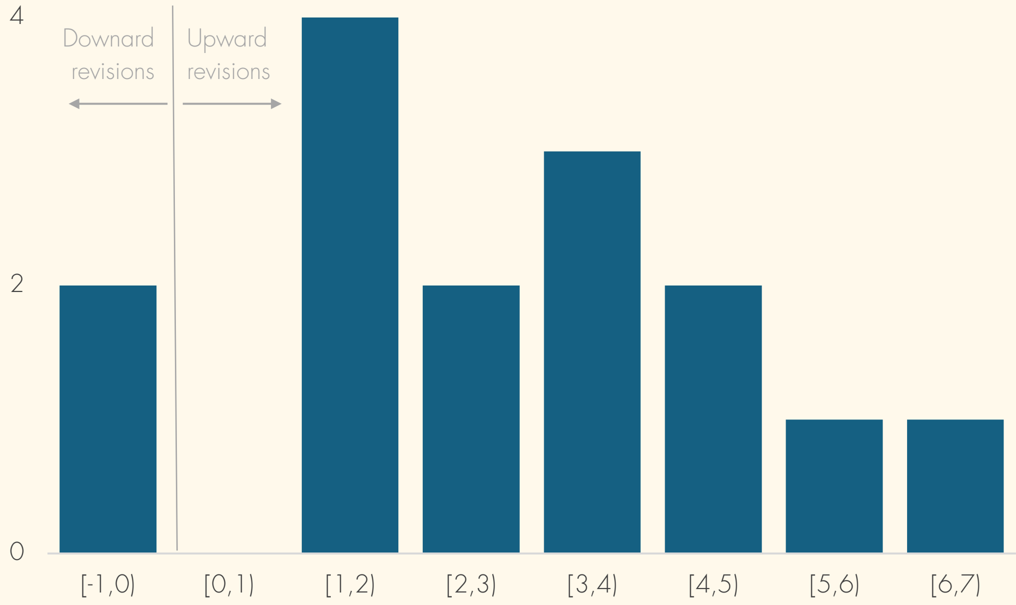
Consumer spending

As with previous endorsements, the Council and Department both raised concerns around the reliability of official national accounts data on consumer spending.

Official outturns have tended to get revised up in recent years. Over the past 15 quarters, the growth rate in personal consumer spending has been revised up by 2.1 percentage points on average relative to initial outturns (Figure N° 2).

N° 2 **There have been repeated upward revisions to consumer spending**

Distribution of revisions: Latest estimate of year-on-year growth rates for each quarter minus the initial estimate



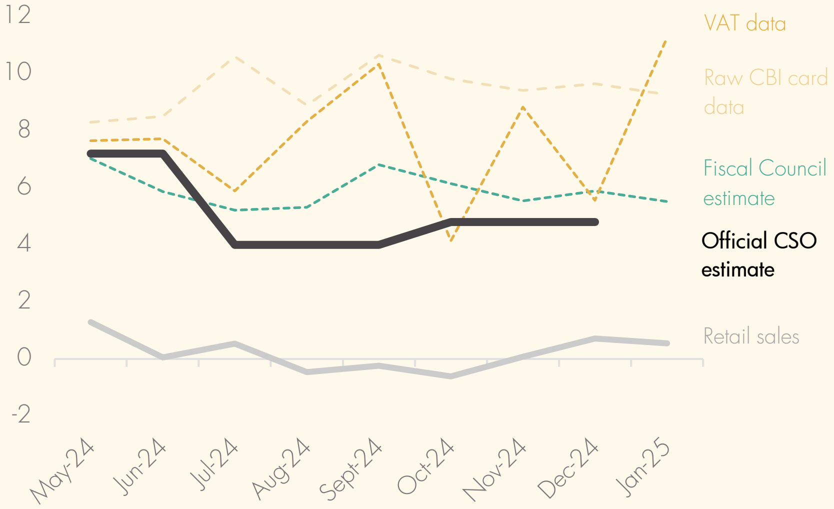
Source: CSO QNA and ANA releases.
Notes: Figures are for real consumption growth. Figures show the number of quarters in each revision bin. For example, the second bar from the left indicates that four quarters saw upwards revisions to consumer spending growth of between 1 to 2 percentage points.

Other data suggests that the official estimates may still be underestimating consumer activity. For example, VAT receipts and the Central Bank of Ireland's card payment statistics have generally pointed to stronger consumer spending during the year (Figure N° 3).[3]

[3] This can be found here: https://www.fiscalcouncil.ie/estimating-monthly-consumer-spending-using-card-payment-data/.

N° 3 **Official consumer spending estimates appear low**

Nominal, % change y/y



Source : CSO, Central Bank of Ireland, Department of Finance, and Fiscal Council's workings.
Note: The Fiscal Council's estimate is based on Carroll (2024). Retail sales is all retail sales excluding motor trades. VAT is the three-month moving average deflated by HICP. VAT receipts are adjusted backwards by one month to reflect when activity took place.

Both the Department and the Council are now putting more emphasis on other data to get a better understanding of recent consumer activity. And both both intedend to continue to engage in discussions with the CSO to respond to these challenges.

The green transition

At the time of the last endorsement, we examined how the Department's economic forecasts account for the green transition. The Department highlighted two challenges. First, accurately estimating the costs involved. Second, determining whether existing spending levels might cover some of these already. This is particularly important for areas like housing improvements where funds could potentially shift from general upgrades to retrofitting. Indeed, their forecasts show a record level of investment in housing improvements as a share of national income by 2030.

However, there were concerns during the last endorsement that the Department might not have allowed sufficiently for the impact of the green transition in its forecasts. For example, projections for investment in machinery and equipment, which includes green technologies and commercial electric vehicles, were not especially high over the forecast horizon.

The Council urged the Department to conduct further analysis to better identify and incorporate the specific costs and macroeconomic impacts of the green transition. It suggested referencing existing large-scale estimates from Climate Action Plans and specific government targets for 2030, while acknowledging these targets might need to be adjusted depending on how feasible the objectives were.

On foot of this, the Department revised up its forecasts for climate-related investment, in particular relating to housing improvements. The Department's forecasts are produced on a no-policy change basis, however, and as such do not fully reflect the green transition's potential boost to economic activity over the medium-term.

A recent joint report by the Fiscal Council and the Climate Change Advisory Council (2025) highlights how far off track the Government is relative to its international commitments based on existing policies. It also outlines several substantial policy interventions—such as significant grid upgrades, increased subsidies for electric vehicles, and targeted supports for the farming sector—that could help drive the scale of change needed.

References

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Appendix A: Timeline

Timeline for the Endorsement

6 March	The CSO released its Quarterly National Accounts estimates for Q4 2024.
10 March	The Council's Secretariat and the Department's macroeconomics team met with the CSO to clarify technical details related to its latest Quarterly National Accounts estimates.
18 March	The Department sent the Council preliminary forecasts in line with Memorandum of Understanding requirements.
20 March	The Department presented its preliminary forecasts to the Council's Secretariat.
24 March	The Department sent an updated set of forecasts.
27 March	The Department of Finance presented its forecasts to the Council and Secretariat and answered questions. After the meeting the Council had a preliminary discussion on its endorsement decision.
28 March	The Council finalised a decision on the endorsement. The Chairperson of the Council wrote a letter to the Secretary General of the Department of Finance endorsing the set of macroeconomic forecasts.

Appendix B: Benchmark projections

The Council's Benchmark projections were an input to its endorsement exercise. These were finalised on Tuesday 18th March prior to receiving the Department of Finance's preliminary forecasts.

Benchmark projections

% change in volumes unless otherwise stated

	2025	2026	2027	2028	2029	2030	2031
Demand							
GNI*	2.4	3.1	2.5	2.4	2.3	2.1	2.0
Modified domestic demand [a]	2.3	3.6	3.2	2.9	2.8	2.5	2.4
Consumption	3.2	2.6	2.4	2.3	2.2	2.3	2.1
Modified investment [a]	0.0	7.6	7.1	5.8	5.2	4.0	3.8
Supply							
Potential output	4.0	3.0	2.2	1.9	2.1	1.7	2.3
Output gap (% potential output)	1.1	1.3	1.4	1.5	1.6	1.7	1.7
Labour Market							
Labour force	2.1	1.7	1.4	1.1	1.0	0.8	0.7
Employment	2.1	1.7	1.4	1.1	1.0	0.9	0.6
Unemployment rate (% labour force)	4.3	4.3	4.4	4.4	4.5	4.5	4.6
Prices							
HICP	1.8	1.8	1.6	1.5	1.5	1.5	1.4
HICP excluding energy	1.9	1.9	1.7	1.7	1.6	1.6	1.5
Personal consumption deflator	2.4	2.4	2.1	2.0	2.0	1.9	1.9
GNI* deflator	2.9	2.7	2.5	2.2	2.0	1.9	2.0
Other							
Nominal GNI*	5.4	5.9	5.1	4.6	4.3	4.1	4.0
Nominal GNI* (€ billion)	333.1	352.8	370.7	387.9	404.7	421.3	438.2
Savings ratio	13.0	12.9	12.9	12.7	12.6	12.2	11.7

[a] Modified (final) domestic demand and modified investment exclude aircraft for leasing and research and development service imports and trade in intellectual property.