



2nd October 2018

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 2019* will be based.¹ The Department provided its *Budget 2019* forecasts—which cover a five-year-ahead forecast horizon—to the Council on 20th September 2018. The Council discussed these forecasts with Department of Finance staff on 28th September 2018, ahead of the Council's endorsement meeting.

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 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 2019* for the years 2018 and 2019.

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 Council welcomes the Department's supply-side estimates based on their own methodology and consistent with their own assessment of the economy. These are to be published in *Budget 2019* as part of its main economic assessment, while estimates produced under the EU Commonly Agreed Methodology (CAM) are to be reported in an annex for compliance purposes.² The Council verified the Department's mechanical application of the CAM to estimate trend supply-side variables.

The Council will discuss the endorsement process and assess the macroeconomic projections in its forthcoming Fiscal Assessment Report, due in November 2018.

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.