

30th September 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 *Budget 2020* will be based.<sup>1</sup> The Department provided its *Budget 2020* forecasts—which cover a five-year-ahead forecast horizon—to the Council on 23rd September 2019. The Council discussed these forecasts with Department of Finance staff on 27th September 2019, 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 2020* for the years 2019 and 2020.**

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 a disorderly exit from the EU. Although the Department of Finance has taken on board the impacts of a disorderly Brexit in its forecasts, the potential impacts from such a scenario could be more severe, especially in the short run.

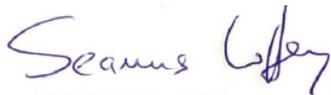
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<sup>1</sup> The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

The Council verified the Department's mechanical application of the CAM to estimate trend supply-side variables.<sup>2</sup>

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

Yours sincerely,



Seamus Coffey, Chairperson.

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<sup>2</sup> 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.