

IFAC Endorsement – Letter and Associated Material

Endorsement

Following the passing of the two-pack Regulation (EU) 473/2013 which came into force on 30 May of 2013, both the Budget and Stability Programme Update must be based on macroeconomic forecasts which are either produced or endorsed by an independent body at national level. In Ireland, the endorsement route has been selected, and the Irish Fiscal Advisory Council (IFAC) was assigned the task of endorsement in the Ministers and Secretaries (Amendment) Act 2013. The procedures underlying the endorsement process have been set out in a Memorandum of Understanding (MoU), which was agreed between the Department of Finance and the IFAC, and was made public in August 2013. A revised MoU, which provided for endorsement of the SPU forecasts, was agreed and published in February 2014.

In relation to the economic forecasts underpinning Budget 2015, the endorsement process began in late September with the submission of provisional forecasts by Departmental staff, and subsequent discussions with the IFAC secretariat and council respectively. A letter of endorsement (below) was received from the Chair of the IFAC on Monday 6 October 2014. Department of Finance staff subsequently presented the endorsed macroeconomic forecasts to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform on 7 October 2014.

The IFAC will provide detailed commentary on the Department's macroeconomic forecast in its forthcoming Fiscal Assessment Report.

Letter of endorsement



Comhairle Chomhairleach Bhuiséadach na hÉireann
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Cearnóg Whitaker
Cé Sir John Rogerson
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Whitaker Square
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06 October 2014

Dear Secretary General Moran,

The Council has an obligation under the Fiscal Responsibility Act to endorse as appropriate the macroeconomic forecasts prepared by the Department of Finance on which *Budget 2015* will be based.¹⁴

The *Budget 2015* forecasts were provided to the Council on 24 September 2014 and discussed by the Council with Department of Finance staff on 02 October 2014, ahead of the Council's endorsement meeting.

The Irish Fiscal Advisory Council endorses as within the range of appropriate projections the set of macroeconomic forecasts prepared by the Department of Finance for *Budget 2015* for the years 2014 and 2015.

The Council is satisfied that the forecasts are within its endorsable range, taking into account the methodology and the plausibility of the judgements made. The key variables taken into account in the endorsement are those listed in Section 2 of the Memorandum of Understanding (MOU).¹⁵

The Council notes recent changes in the size of Ireland's measured net exports in the National Accounts related to contract manufacturing. These contributed to the exceptionally strong GDP performance in the first half of 2014. In addition to the usual uncertainties, identifying the underlying pattern of growth in the economy is more difficult given these developments.

A detailed discussion of the endorsement process and an assessment of the macroeconomic projections will be provided in the Council's forthcoming *Fiscal Assessment Report*, which is scheduled for publication in November.

Yours sincerely,

John McHale

Chair, Irish Fiscal Advisory Council

Comhairle/Council: John McHale (Chair) · Sebastian Barnes · Alan Barrett · Donal Donovan · Róisín O'Sullivan.

¹⁴ 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".

¹⁵ The Memorandum of Understanding between the Department of Finance and the Council as amended in 2014 sets out the agreed modalities of the endorsement function in relation to the Budget and the Stability Programme Update (SPU).

IFAC-endorsed macroeconomic forecasts

Endorsed and final forecasts

The following tables set out the forecast which have been endorsed by IFAC and the final forecasts which underpin the Budget.

Both endorsed and final forecasts are based on external assumptions which were finalised on 18 September. The fiscal assumptions underpinning the endorsed forecast were technical in nature as the final quantum and precise measures in Budget 2015 had not been finalised. The technical assumption of no policy change was made: in other words no discretionary revenue or expenditure measures were assumed. The final forecast includes the economic impact of the measures introduced as part of Budget 2015 of €1,050m.

The first two columns of Table B2-B5 show the final forecasts, the third column shows the endorsed projections while the final column shows the difference. There are no differences for 2014 as the economic impact of Budget measures will be felt from 2015 only. Forecasts covering the period 2016-2018 are not subject to endorsement by IFAC and are not shown here.

Table B1: Background assumptions

	2014	2015
Euro-Sterling Exchange Rate	0.81	0.79
Euro-Dollar Exchange Rate	1.34	1.29
Brent Crude (US \$ per barrel)	106	103

Source: Department of Finance forecasts. Note: no difference in background assumptions used between endorsed and final

Table B2: Macroeconomic developments

	2014 <i>final</i>	2015 <i>final</i>	2015 <i>endorsed</i>	Difference <i>(pp)</i>
	<i>year-on-year % rate of change (unless otherwise stated)</i>			
Real GDP	4.7	3.9	3.6	0.3
Nominal GDP	5.2	5.3	5.0	0.3
<i>Components of real GDP</i>				
Private final consumption expenditure	1.7	2.7	2.2	0.5
Government final consumption expenditure	4.8	2.3	1.0	1.3
Gross fixed capital formation	14.6	12.7	12.5	0.2
Changes in inventories and net acquisition of valuables (% of GDP)	0.4	0.2	0.2	-
Exports of goods and services	8.3	4.8	4.8	-
Imports of goods and services	8.8	5.3	5.1	0.2

Source: Department of Finance forecasts.

Note: contributions to growth may not sum due to rounding and/or the impact of the statistical discrepancy.

Table B3: Price developments

	2014 <i>final</i>	2015 <i>final</i>	2015 <i>endorsed</i>	Difference <i>(pp)</i>
	<i>year-on-year % rate of change</i>			
GDP deflator	0.4	1.3	1.3	-
Private consumption deflator	1.0	1.2	1.1	0.1
HICP	0.5	1.1	1.0	0.1
Export price deflator (goods and services)	0.3	1.3	1.3	-
Import price deflator (goods and services)	0.4	1.3	1.2	0.1

Source: Department of Finance forecasts

Table B4: Labour market developments

	2014 <i>final</i>	2015 <i>final</i>	2015 <i>endorsed</i>	Difference <i>(pp)</i>
	<i>year-on-year % rate of change</i>			
Employment, persons	1.8	2.4	2.2	0.2
Unemployment rate (%)	11.4	10.2	10.2	-
Labour productivity, persons	2.8	1.4	1.4	-
Compensation of employees	3.7	4.9	4.7	0.2
Compensation per employee	1.8	2.4	2.4	-

Source: Department of Finance forecasts

Table B5: Sectoral balances

	2014 <i>final</i>	2015 <i>final</i>	2015 <i>endorsed</i>	Difference (pp)
	<i>% GDP</i>			
Current account (% of GDP)	4.9	4.4	4.6	-0.2

Source: Department of Finance forecasts