



29 September 2017

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 2018* will be based.¹ The *Budget 2018* forecasts were provided to the Council on 21 September 2017 and discussed by the Council with Department of Finance staff on 29 September 2017.

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 2018* for the years 2017 and 2018.

The Council is satisfied that the forecasts are within an endorsable range. The Council's approach to endorsement of the macroeconomic forecasts has three elements: a comparison of the Department of Finance's macroeconomic forecasts to IFAC's Benchmark forecasts; consideration of the methodology used to produce the forecasts; and a review of past forecast errors for evidence of systematic bias.

The Department's supply-side estimates are currently produced in line with the EU Commonly Agreed Methodology (CAM). The mechanical application of this methodology to estimate trend supply-side variables in *Budget 2018* has been verified. Given that the CAM is not well equipped to estimate the supply side of the Irish economy, it is essential that the Department's macroeconomic forecasts for the medium term should be well-founded to provide a sound basis for setting the economy and the public finances on a sustainable path. 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,

Seamus Coffey, Chair.

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".