



02 October 2015

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 2016* will be based.¹

The *Budget 2016* forecasts were provided to the Council on 22 September 2015 and discussed by the Council with Department of Finance staff on 01 October 2015, ahead of the Council's endorsement meeting.

The Irish Fiscal Advisory Council (IFAC) endorses as within the range of appropriate projections the set of macroeconomic forecasts prepared by the Department of Finance for *Budget 2016* for the years 2015 and 2016.

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).²

In relation to the supply-side projections for potential output and the output gap to be published in *Budget 2016*, the correct application of the common European Commission (EC) methodology to estimate trend supply-side variables has been verified. As noted in the June 2015 *Fiscal Assessment Report*, due to the difficulties associated with estimating supply-side variables using the EU methodology, the Council's endorsement refers only to the actual demand-side projections. IFAC notes that work is underway by the Department of Finance to develop alternative approaches to estimating potential output and the output gap.

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

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 Memorandum of Understanding between the Department of Finance and the Council as amended in 2015 sets out the agreed modalities of the endorsement function in relation to the Budget and the Stability Programme Update (SPU).