Endorsement of BUDGET 2025 macroeconomic forecasts

December 2025

Irish Fiscal Advisory Council

Background

The Fiscal Council has a mandate to endorse the macroeconomic forecasts underpinning each Budget and stability programme.[1]

To set out how each endorsement process is carried out, the Council and the Department of Finance agreed a Memorandum of Understanding.[2]

This document gives an overview of some of the key aspects and discussions that took place during the latest endorsement process.

This exercise

The Council's most recent endorsement exercise related to the Department of Finance's macroeconomic forecasts for Budget 2025. It took place in September 2024.

The Department's provisional macroeconomic forecasts were completed on the 20th September 2024 and were shared with the Council. The Council and Secretariat then met with Department staff to discuss its forecasts on 23rd September ahead of making its endorsement decision.

The key dates underpinning the Council's endorsement of the Department of Finance's macroeconomic projections for Budget 2025 are set out in Appendix 1.

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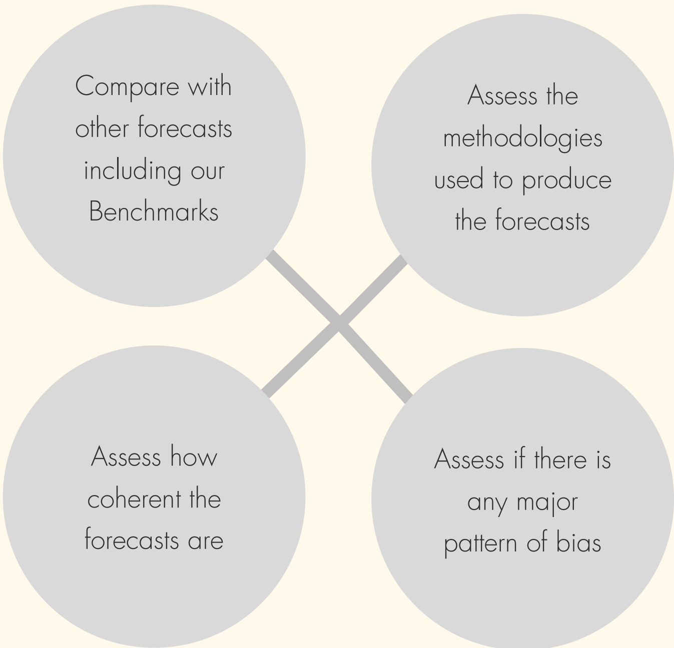
[1] This follows the agreement at European level on the Regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (EU Regulation No 473/2013), Ireland is required under Article 4.4 to have its national medium-term fiscal plans and draft budgets based on independent macroeconomic forecasts, which means macroeconomic forecasts produced or endorsed by an independent body. In Ireland's case, this endorsement function is set out in the Fiscal Responsibility Acts 2012 and 2013 that entered into force on 23 July 2013. Under the Act, the Council as an independent body (as defined in Article 2.1.a of Regulation No 473/2013) has been assigned the endorsement function, and shall "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] This sets out the timelines, data, and nature of interactions. It is available online at: https://www.fiscalcouncil.ie/fiscal-responsibility-act/

Approach

The Council's approach to endorsement has four main aspects: assessing the methodologies employed; detecting potential patterns of forecasting bias; assessing the coherence of the forecasts and comparing to other forecasts.[3] The comparison with other forecasts includes an assessment against the Council's own Benchmark projections. These Benchmark projections are developed and finalised before assessing the Department's forecasts.



[3] Previously, the Council listed three aspects to the endorsement process. A fourth aspect has been added here, assessing the coherence of the forecasts. This has become an increasing part of the Council's deliberations, and hence has been added as a key aspect of the endorsement process.

Overall endorsement decision

The Council assessed that the Department's macroeconomic forecasts were **within an endorsable range.**

This assessment took account of how plausible the Department's judgements were. The Council generally had a favourable assessment of the processes and methodologies used by the Department.

For Budget 2025, the Department produced forecasts out to 2030. The Council welcomes this six-year-ahead forecast horizon. The Council is of the view that the appropriate horizon for macroeconomic forecasts is at least five years.

Key issues this endorsement

A key focus of the latest endorsement process was how consistent the forecasts were, in the context of the economic cycle. This included the relationship between real wages, productivity and competitiveness.

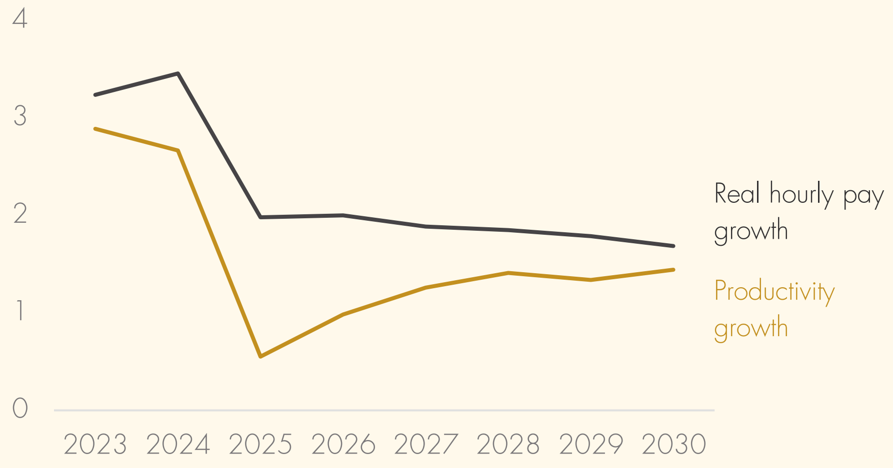
As well as that, there was some focus on how the green transition was incorporated into the official forecasts and how recent data on consumer spending were being reflected.

Wages, productivity, and competitiveness

A natural assumption is that forecasts for real wages and productivity growth would tend to move together in the medium and long-run. If real wage growth outpaces productivity growth, that indicates a deterioration in competitiveness. The Department forecasts show real wage growth exceeding productivity growth throughout the forecast horizon. This implies a sustained fall in competitiveness.

N° 1 **The Department forecasts pay growth forecast to outpace productivity**

Annual % growth

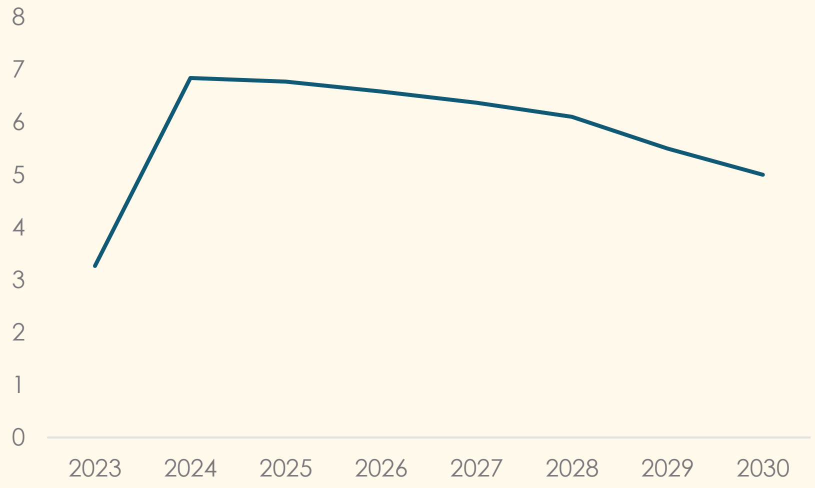


Source: Budget 2025 forecasts.
Notes: Hourly pay growth is deflated using HICP. Productivity growth is given by real GNI*per hour worked.

With such a sustained fall in competitiveness, one would expect the current account to deteriorate. While the modified current account (CA*) surplus is projected to fall, a more pronounced fall might be expected.

N° 2 **A modest fall in the modified current account is forecast**

Modified current account (CA*) balance, % GNI*



Source: Budget 2025 forecasts.

The green transition

A key area of focus was the extent to which the Department was allowing for the green transition in its forecasts.

The Department noted the difficulty in fully assessing 1) what the likely costs would be, and 2) what proportion of these costs might be covered by existing expenditure levels. For instance, there might already be sufficient levels of expenditure on housing improvements annually to cover retrofitting activity out to 2030. This may simply require a shift from improvements that are for say home extensions, to improvements that are for retrofits or other energy efficiency upgrades.

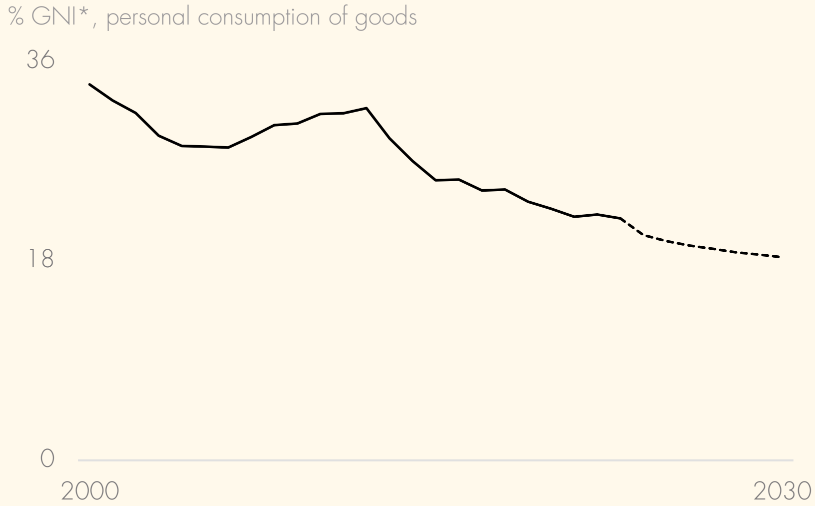
These are fair points. And the Department rightly pointed to the fact that its forecasts entail a rise in spending on housing improvements. As a share of modified national income (GNI*), it forecasts dwellings improvements to rise from 2.5% in 2024 to 3.1% by 2030. This would represent the largest rate of investment in this category of expenditure on record (Figure N° 3).[4]

However, other areas where green transition spending might arise seem to be low over the forecast horizon. For example, the Department forecasts consumer spending on goods, which would include the purchase of passenger electric vehicles, falling as a share of GNI* over the forecast horizon (Figure N° 4). Likewise, modified machinery and equipment investment, which may include the adoption of green technologies and the purchase of electric commercial vehicles, is low over the forecast horizon even if it does rise from recent low rates (Figure N° 5).

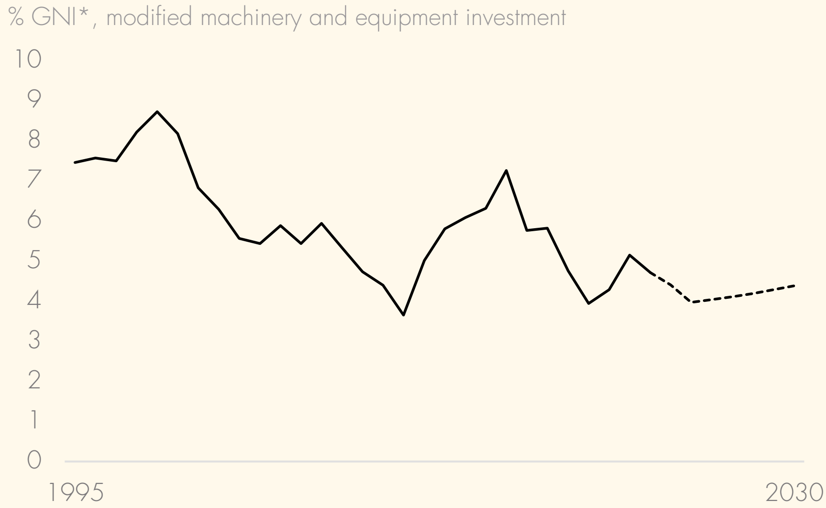
[4] Note that in the National Accounts, dwellings improvements include activities such as conversions and extensions to dwellings and can draw on information on work done by local government as well as work done privately.

N° 3 The Department forecasts high rates of dwelling improvements

N° 4 But it forecasts low purchases of goods, including electric vehicles



N° 5 The Department also forecasts low rates of investment in equipment



The Council still sees this as a key area for development. It would like to see further work done by the Department to identify the costs associated with the green transition and where these might arise.

There are estimates of total costs associated with the green transition that can help assess future macroeconomic impacts. For instance, the Climate Action Plan 2023 estimated some €119 billion of capital investment as required across the economy as a whole. Some €70 billion of this is in the form of redirected investment whereas the rest is considered incremental.[5] Estimates have since risen. The Climate Action Plan 2024 noted that costs were more likely to be €119 to €125 billion due mainly to higher costs for renewables.

Economic forecasts can also be designed to incorporate specific targets that the Government has committed to by 2030. For example, this includes a commitment to retrofitting 500,000 homes, having 845,000 private electric vehicles and 95,000 commercial EVs on the road, and increasing the share of electricity demand met by renewables to 80%.

These targets may prove too optimistic. One way to address over-optimism might be to proportionally reduce the expectations in line with the likely shortfalls indicated by latest Environment Protection Agency projections.

[5] These costs were evaluated based on a least cost pathway model that seeks to deliver an optimal overall cost.

Consumer spending

During the endorsement discussion, the Department raised issues around the usefulness of certain high-frequency indicators. This included measures like retail sales, which are often used by forecasters as an input into how they project consumer spending.

The Department noted that trends in retail sales data have been at odds with the consumer spending figures published in the Annual National Accounts. As a result, the Department argued other high-frequency sources of data like VAT receipts and the Central Bank of Ireland's card payment statistics provided a greater steer on consumption during the year. This is a view the Council shares.

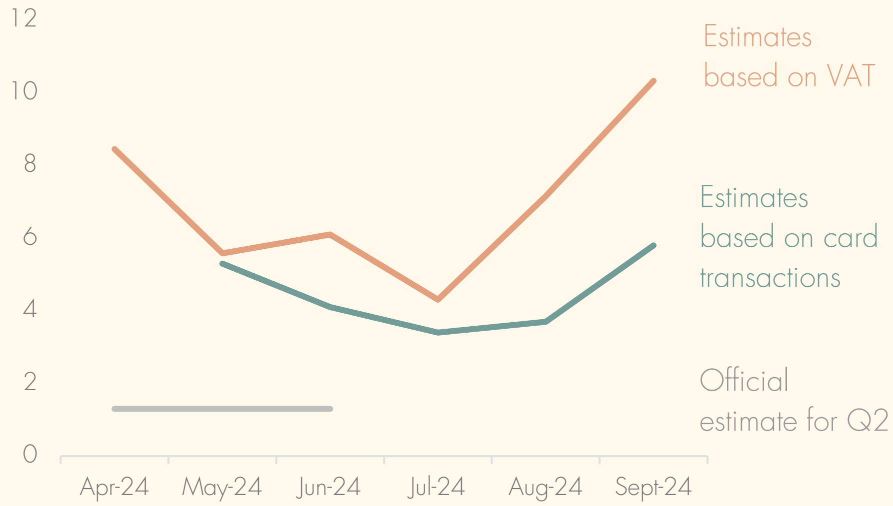
The Department suggested that it may make greater use of high-frequency VAT data in future. This includes VAT broken down by imported and internal sources, as well VAT data broken down by sector. The Council would welcome such data being published once it becomes available to the Department.

The Council has also recently published some work on the use of the Central Bank of Ireland's card payment statistics as a high-frequency indicator of consumer spending.[6] This also shows that growth is likely to have been higher than official estimates suggest (Figure N° 5).

[6] This can be found here: https://www.fiscalcouncil.ie/estimating-monthly-consumer-spending-using-card-payment-data/.

N° 6 **Consumer spending potentially much stronger than official estimates**

Real, % change y/y



Source: CSO; Central Bank of Ireland; Department of Finance and Fiscal Council's workings. Get the data.

Notes: All figures are in real terms. The new monthly consumption estimate is based on Carroll (2024). The VAT data and the new monthly estimate are based on 3-month moving sums of each variable. VAT data is deflated by HICP. To ensure comparability, the VAT data is adjusted backwards by one month given the timing issues related to the payment of VAT receipts.

References

Carroll, K. (2024). Estimating monthly consumer spending using card payment data. Dublin: Irish Fiscal Advisory Council. Retrieved from https://www.fiscalcouncil.ie/estimating-monthly-consumer-spending-using-card-payment-data/

Appendix A: Timeline

Timeline for the Endorsement

6 September	The CSO released its Quarterly National Accounts estimates for Q2 2024.
10 September	The Council's Secretariat and Department staff met with the CSO to clarify technical details of latest Quarterly National Accounts estimates.
17 September	The Department sent the Council preliminary forecasts in line with Memorandum of Understanding requirements
19 September	The Department presented its preliminary forecasts to the Council's Secretariat.
20 September	The Department sent updated forecasts.
23 September	The Department of Finance presented its latest forecasts to the Council and Secretariat and answered questions. After the meeting the Council had a preliminary discussion on its endorsement decision.
24 September	The Council finalised a decision on the endorsement. The Chairperson of the Council wrote a letter to the Secretary General of the Department of Finance endorsing the set of macroeconomic forecasts underlying Budget 2025.
1 October	The Department's forecasts were published in Budget 2025.

Appendix B: Benchmark projections

Below is a summary of the Council's Benchmark projections, which were an input to its endorsement exercise. The Council finalised these projections on Tuesday 17th September before receiving the Department of Finance's preliminary forecasts.

Benchmark projections

% change in volumes unless otherwise stated

	2023	2024	2025	2026	2027	2028	2029	2030
Demand								
GNI* [a]	5.0	3.1	3.9	2.6	2.3	2.2	2.2	1.9
…of which (p.p. contributions)								
Modified domestic demand[b] (p.p.)	2.3	2.5	2.6	2.5	2.7	2.7	2.6	2.5
CA* (p.p.)	0.6	3.9	1.3	0.0	-0.4	-0.5	-0.4	-0.6
Other, incl. stocks (p.p.)	2.0	-3.3	0.0	0.1	0.0	0.0	0.0	0.0
Modified domestic demand [a]	2.7	2.9	3.0	3.0	3.2	3.1	3.0	2.9
Consumption	4.9	3.1	3.6	3.0	2.7	2.5	2.3	2.2
Government	4.2	3.0	2.8	1.8	1.7	1.7	1.7	1.7
Modified investment [a]	-4.5	2.2	1.3	4.3	6.0	6.4	5.9	5.6
CA*	8.1	48.3	11.3	-0.3	-3.7	-4.6	-3.7	-6.5
Supply								
Potential output	3.5	5.3	3.9	3.0	2.3	2.0	2.1	1.7
Output gap (% potential output)	2.9	0.6	0.7	0.5	0.7	1.0	1.2	1.5
Labour Market								
Labour force	3.1	2.3	2.0	1.6	1.4	1.1	1.0	0.9
Employment	3.7	2.3	1.9	1.5	1.3	1.1	0.9	0.8
Unemployment rate (% labour force)	4.3	4.3	4.4	4.5	4.6	4.6	4.7	4.7
Prices								
HICP	5.2	1.6	1.6	2.1	1.8	1.8	1.8	1.8
HICP ex energy	5.2	2.6	2.2	2.1	2.0	1.9	1.9	1.9
Personal consumption deflator	8.0	3.7	1.7	2.3	2.2	2.3	2.2	2.3
GNI* deflator	5.1	2.8	0.8	2.5	2.3	2.4	2.4	2.5
Other								
Nominal GNI*	10.3	6.0	4.8	5.2	4.6	4.7	4.7	4.5
Nominal GNI* (€ billion)	286.8	303.9	318.4	334.8	350.4	366.7	383.9	401.0
Modified current account (% GNI*)	3.3	6.3	6.2	6.0	5.2	4.4	3.9	3.2
Savings ratio	13.6	14.8	14.2	14.0	13.7	13.7	13.3	12.8

[a] Modified (final) domestic demand and modified investment exclude aircraft for leasing and research and development service imports and trade in intellectual property.
[b] Modified contributions to real GNI* growth rates in percentage points.