

PRESS NOTICE

Office for Budget Responsibility publishes its pre-Budget forecast

The interim Office for Budget Responsibility (OBR) is today publishing its pre-Budget forecast, in accordance with the Terms of Reference agreed with the Chancellor. All the judgements and assumptions in the forecast have been made or agreed by the Budget Responsibility Committee (BRC). The BRC accepts full responsibility for the forecasts and they have been produced with no ministerial involvement at all.

As a pre-Budget forecast, it incorporates all the policy measures introduced or announced by the previous Government, but it does not include any measures announced by the Coalition Government.

The OBR stresses the uncertainty of its forecasts. This uncertainty is represented by the fan charts attached to this notice. On the assumptions made to construct them:

- There is around a 40 per cent probability of GDP growth in 2011 being between 1½ per cent and 3½ per cent.
- There is a 50 per cent probability that public sector net borrowing will be below 4 per cent of GDP in 2014-15.

The table sets out the OBR's central, independent view of the position of the public finances and the economy.

	Per cent of GDP						
	Outturn	Estimate	Forecasts				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Public sector net borrowing	6.7	11.1	10.5	8.3	6.6	5.0	3.9
Cyclically-adjusted net borrowing	6.4	8.8	8.0	6.1	4.7	3.5	2.8
Public sector net debt	44.0	53.5	62.2	68.2	71.8	73.7	74.4
	2008	2009	2010	2011	2012	2013	2014
Real GDP growth (per cent)	0.5	-4.9	1.3	2.6	2.8	2.8	2.6

This central forecast – the mid-point around which the risks are judged to be balanced – shows:

- GDP growing by around 2½ per cent in 2011 and 2¾ per cent in 2012.
- Public sector net borrowing (PSNB) of £155 billion, 10.5 per cent of GDP, in 2010-11.
- Cyclically-adjusted PSNB – an estimate of the structural deficit – of 8.0 per cent of GDP in 2010-11.

- Cyclically-adjusted PSNB and the cyclically-adjusted current deficit fall in the years to 2014-15 as a result of measures to increase taxes and reductions in spending assumed in the March Budget. Cyclically-adjusted PSNB falls to 2.8 per cent of GDP in 2014-15.
- The public sector net debt to GDP ratio rises to about 75 per cent of GDP in 2014-15.

The nominal figures for the deficit and net borrowing are better in all years than in the March Budget. This is explained by:

- the strength in receipts seen since the Budget, some of which is expected to persist; and
- revised judgements designed to base the range of fiscal outcomes around a central view of prospects (replacing, in some cases, deliberately cautious assumptions).

The estimates of the output gap and the trend rate of growth have been revised downwards, following review of a wide range of indicators. This judgement more than offsets the favourable factors in the overall borrowing forecast, and cyclically-adjusted PSNB and the cyclically-adjusted current deficit are 0.3 per cent of GDP higher in 2014-15 than in the March Budget.

The report also includes the OBR's initial assessment of the extent and sustainability of the public sector balance sheet. It suggests that a great deal of piecemeal information is available for key public sector liabilities, including PFI, public service pensions and other future pressures, but that a more transparent and systematic analysis of these obligations and their implications for fiscal sustainability would help inform policy-making.

Notes for Editors

1. The pre-Budget forecast document is available at:
<http://budgetresponsibility.independent.gov.uk/>
2. The Terms of Reference for the OBR are available at:
http://budgetresponsibility.independent.gov.uk/d/terms_of_reference.pdf

Main factors affecting the forecast

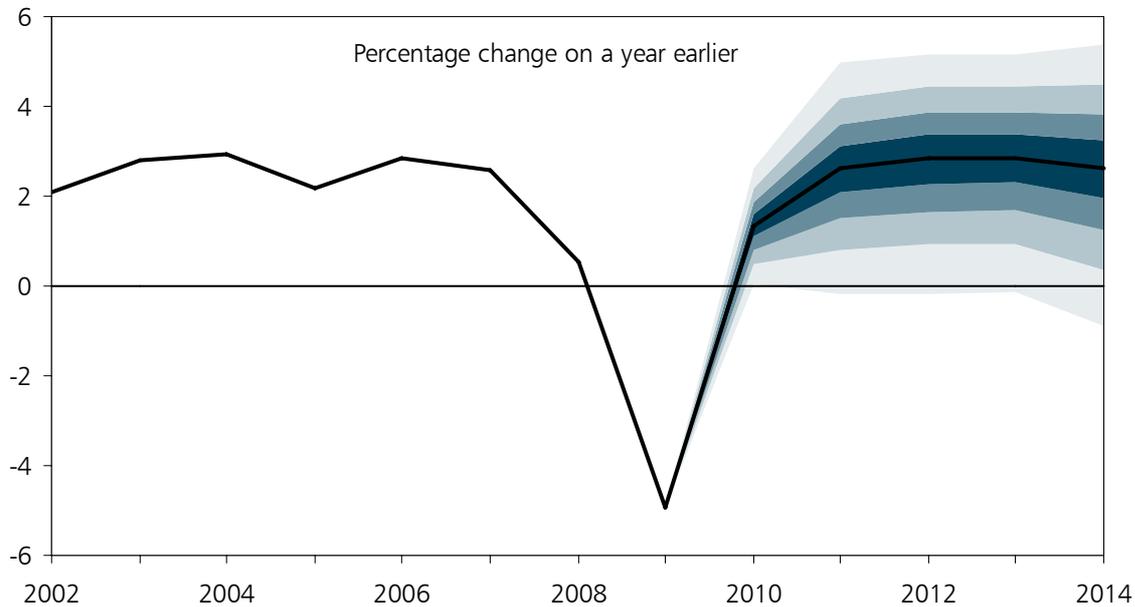
3. The forecast reflects both updated data and the judgements of the OBR on key assumptions, which explain the difference between these forecasts and the March Budget. The main factors include:
 - **A lower level of potential output than in the March Budget**, based on contemporaneous data on the output gap and the OBR's judgement of the impact of the financial crisis on sustainable GDP growth. This judgement, and the OBR's view of the likely path of aggregate demand in the short run, explain the lower path for GDP growth, and other things equal increase forecasts for the deficit. It also implies that more of the existing budget deficit is structural, and will not be eliminated by above-trend economic growth.

- **The strength in receipts seen since the Budget**, where outturns were £7.8 billion better than the March Budget estimate for 2009-10. The OBR assumes that this is partly a temporary windfall which will be reversed in 2010-11. However the remainder could represent greater underlying strength in the receipts base than assumed at Budget, thereby raising expected receipts throughout the forecast.
- **Revised judgements designed to base the range of fiscal outcomes around a central view of prospects.** The previous Government used deliberately cautious assumptions for some key variables in the fiscal projections. The OBR has departed from that practice. This change in approach tends to reduce forecast borrowing relative to the March Budget.
- **The forecasts have used market expectations for short-term and long-term interest rates.** The OBR recognises that this produces a possible inconsistency. Current market rates reflect investors' expectations about the measures that may be introduced in the Budget and the possible response of the Monetary Policy Committee to such measures. It can therefore be said that market rates (to the extent that investors' expectations about the Budget are correct) are not appropriate for a pre-Budget forecast. In present conditions the likely result is that the OBR's pre-Budget economic forecasts are biased upwards.

Fan charts

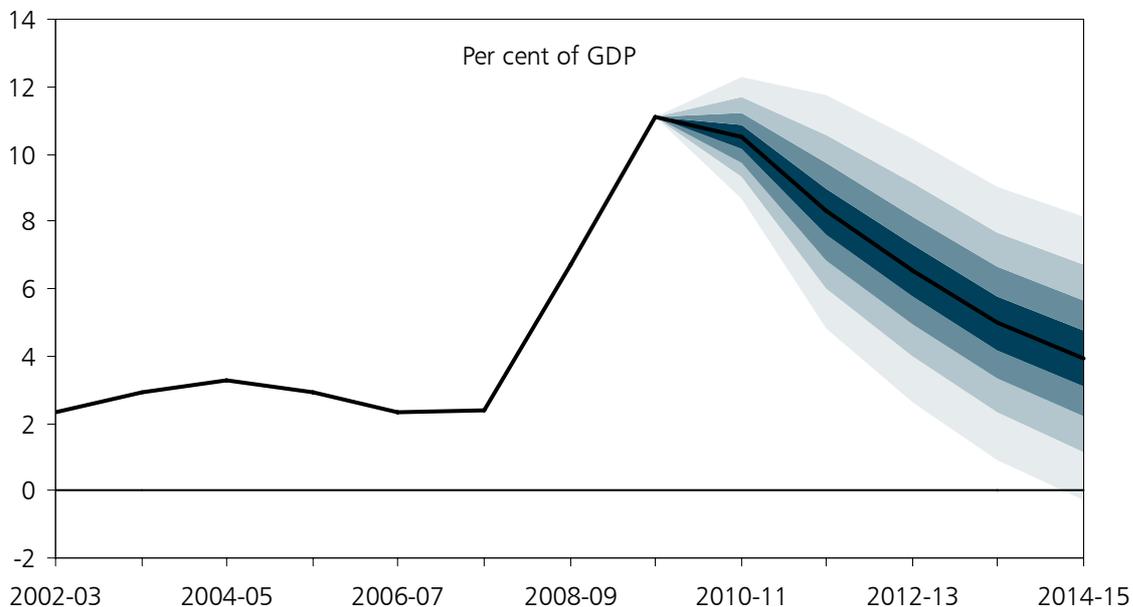
4. The forecast for the economy and fiscal position takes the form of a probability distribution, illustrated in "fan charts". These probability distributions have been constructed around the median forecast. They use data from past forecasting errors made by the Treasury to illustrate the likely scale of uncertainty around that forecast.
5. In the fan chart of the economy forecast, the central (median) GDP growth forecast is shown in black. The range of risks surrounding the central projection is illustrated through probability bands; each band represents 10 per cent of the probability distribution. The distribution suggests that the probability of growth in 2010 being within one percentage point of the central forecast (i.e. between $\frac{1}{4}$ per cent and $2\frac{1}{4}$ per cent) is 70 per cent. The probability of growth being within one percentage point of the central forecast in 2011 (i.e. between $1\frac{1}{2}$ per cent and $3\frac{1}{2}$ per cent) falls to below 40 per cent and to around 30 per cent in 2014.

GDP growth fan chart



6. The fan chart for the fiscal position is centred on the OBR's central (median) view of prospects for the public finances, which is based on a detailed forecast of revenues and expenditure and the median forecast for the economy. The chart below shows the median forecast for PSNB – the solid black line – and the probability of outcomes deviating from that forecast, based on the distribution of past forecast errors. The successive pairs of lighter shaded areas represent 10 per cent probability bands, implying that there is an 80 per cent probability that the actual outturn will lie within the range captured by the lightest band shown in the chart.
7. The distribution shows that the probability of PSNB in 2010-11 being within one percentage point of the central forecast (i.e. between 9.5 per cent and 11.5 per cent) is around 50 per cent. The probability of PSNB being within one percentage point of the central forecast in 2011-12 (i.e. between 7.3 per cent and 9.3 per cent) falls to around 30 per cent and to around 20 per cent in 2014-15. The chart shows that there is also a 50 per cent probability of borrowing being 3.9 per cent of GDP or lower in 2014-15.

Public sector net borrowing fan chart



Non-media enquiries should be addressed to the Treasury Correspondence and Enquiry Unit on 020 7270 4558 or by e-mail to public.enquiries@hmtreasury.gsi.gov.uk

This Press Release and other OBR publications are available on the OBR website <http://budgetresponsibility.independent.gov.uk/>

Media enquiries should be addressed to the Treasury Press Office on 020 7270 5238.