Office for Budget Responsibility

15 July 2015

Supplementary forecast information release

EU budget contribution forecast in calendar years and euro-denominated

The OBR are releasing the information below following a request for further detail underlying the July 2015 *Economic and fiscal outlook (EFO)*. The OBR will where possible meet requests to release supplementary forecast information, where this will improve the quality of public debate on the public finances. Our full release policy can be found on our website.

We forecast expenditure transfers to the European Union on fiscal year basis and denominated in sterling, which is the metric relevant to the National Accounts fiscal aggregates that are the subject of the Government's fiscal targets. The forecasting model that we use to produce that EU transfers forecast is based on calendar years and denominated in euros. This release contains those underlying calendar year, euro forecasts and describes how we convert them to the fiscal year, sterling forecasts that are part of our fiscal forecast.

These figures are converted into sterling using our assumption for the euro-sterling exchange rate. This is a market-derived assumption. (In the current and next quarters, the exchange rate is based on exchange rate futures prices. It then it follows the path implied by the uncovered interest parity condition over the rest of the forecast period, where interest rate differentials based on interest rate futures curves are assumed to drive the exchange rate.) For 2015, the exchange rate on 31 December 2014 is used, as set out in the relevant regulations. For subsequent years, an appropriate average of quarterly exchange rates is used.

The calendar year forecasts are converted into fiscal years using the following assumptions:

- traditional own resources (TOR) contributions are assumed to be equally distributed across the four quarters of the calendar year;

- 42 per cent of the annual GNI/VAT/abatement payments or receipts are assumed to take place in the first quarter of the calendar year (i.e. the final quarter of the fiscal year just ending) and the remaining 58 per cent to take place in the second, third and fourth quarters of the calendar year (i.e. the first three quarters of the fiscal year); and

- the abatement is paid with a one year lag – i.e. the abatement arising from the 2014 budget is paid in 2015.

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Table: Transactions with the European Union

	€ billion					
	Forecast					
	2015	2016	2017	2018	2019	2020
Expenditure transfers to EU institutions:						
GNI based contribution	16.6	19.2	16.8	17.4	18.5	18.9
of which, adjustments assumed in latest forecast [1]						
in respect of 2015 [2]		*0.2*				
in respect of 2014	*0.6*	*-0.1*				
in respect of earlier years	*-0.3*					
VAT payments to the EU[3]	3.5	3.6	3.9	4.0	4.1	4.3
of which, adjustments assumed in latest forecast:						
in respect of 2015						
in respect of 2014	*0.2*					
in respect of earlier years						
UK abatement	-6.3	-6.0	-7.4	-6.2	-6.5	-7.0
of which, adjustments assumed in latest forecast [1]						
in respect of 2015			*-0.3*			
in respect of 2014	*0.8*	*-0.7*				
in respect of earlier years	*-1.7*					
Receipts from the EU to cover the costs of collecting Traditional Own Resources[4]	-1.1	-0.8	-0.8	-0.8	-0.9	-0.9
Total expenditure transfers included in AME, TME and PSNB[5]	**12.7**	**16.0**	**12.5**	**14.4**	**15.2**	**15.3**
Traditional Own Resources[4]	4.2	4.6	4.2	4.2	4.3	4.5
Public sector receipts from the EU[6]	-5.7	-5.7	-5.7	-6.0	-6.4	-6.6
Net contribution to the EU budget	**11.2**	**14.9**	**10.9**	**12.7**	**13.2**	**13.2**
Gross contribution to the EU budget[7]	**17.0**	**20.6**	**16.6**	**18.6**	**19.6**	**19.8**

[1] The GNI adjustments are subject to refunds, and also result in additional rebate (shown as rebate adjustments).

[2] The GNI adjustment in respect of 2015 is assumed to be made through in-year adjustments, and is net of the refund.

[3] Contributions calculated by applying a call-up rate, currently 0.3%, to a notional 1% harmonised VAT base.

[4] Traditional Own Resources (TOR) consists of customs duties and sugar levies. These duties are excluded from public sector current receipts because they are collected on behalf of the EU. Customs duties include duties on agricultural products. Currently, the UK, like all Member States, retains 25% of the amount of TOR it collects to cover the costs of collection and this reduces TME in the National Accounts. This changes in our forecast to 20% in 2016 when the new Own Resources Decision is expected to come into force.

[5] These are the expenditure transfers to EU institutions included in current AME in Table 4.22 in the July 2015 *Economic and fiscal outlook* . These are also the expenditure transfers to EU institutions included in the National Accounts.

[6] These receipts are not netted off public sector current expenditure in the national accounts, because they are deemed to finance spending by the EU.

[7] Calculated from the net contribution to the EU budget, and then excluding public sector receipts from the EU.