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Fiscal forecasting: the in-year challenge

Andrew Sutton

Network of EU IFIs meeting
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Background

- In-year fiscal forecasts and monitoring matter
  - To market participants interested in government debt issuance
  - As the 'jumping-off point' for our medium-term forecasts
- So today I will discuss
  - How we produce in-year forecasts
  - Some of the challenges in tracking public finances in-year
  - Our performance to date and lessons
- More detail here:
  - https://obr.uk/download/working-paper-no-13-year-fiscal-forecasting-monitoring/

Motivation

- Explaining differences between us and the "extrapolators"

- Assessment of in-year performance

- Where forecast differences large, explanation of errors – the difference between two large numbers, which is now relatively small in cash terms

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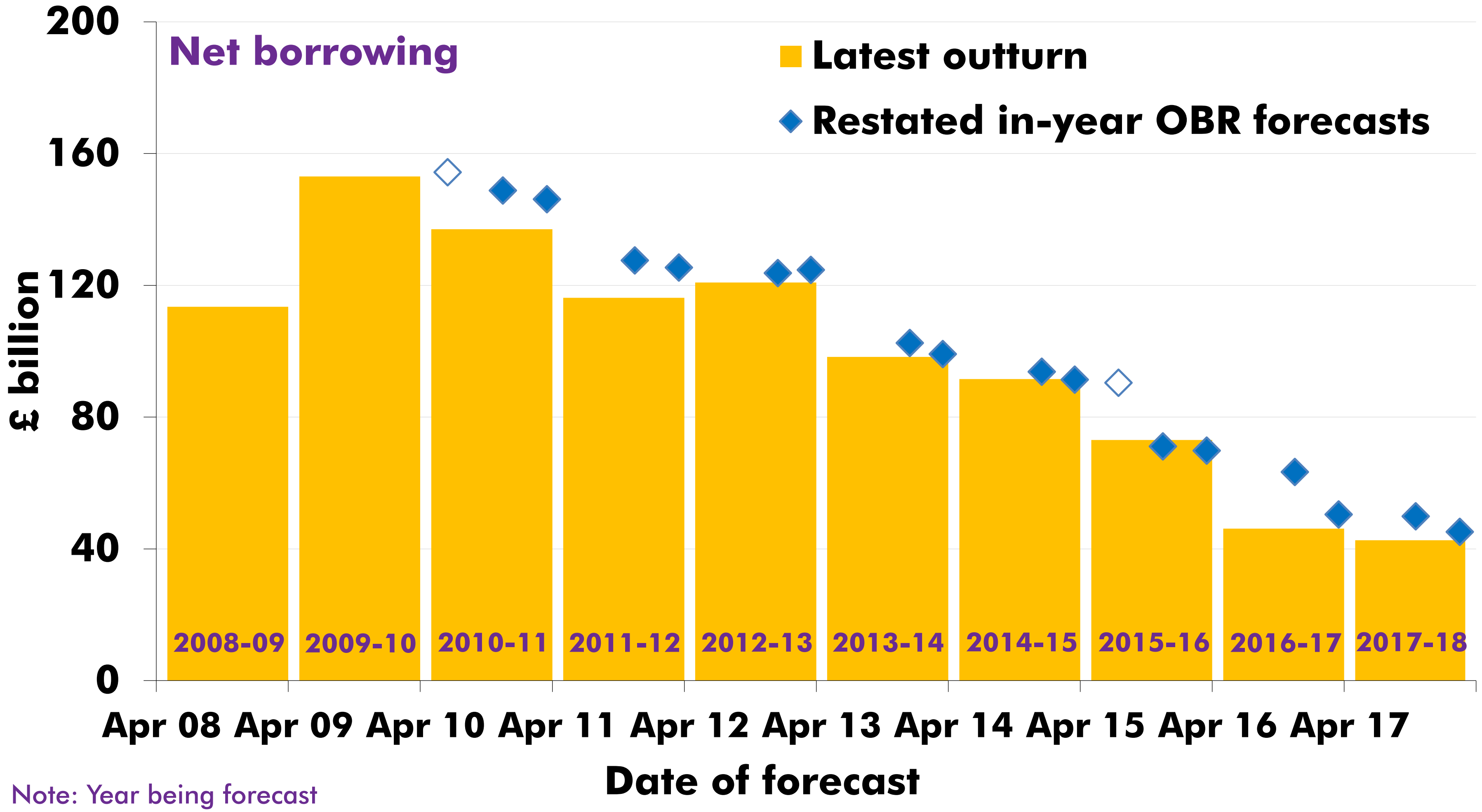
The big picture



Note: Year being forecast

Approaches to in-year forecasts

- Extrapolating year-to-date changes
- Comparing historical monthly shares
- Incorporating other factors

Extrapolating year-to-date

- Look at growth rate over year to date relative to same period last year and apply over full year
- Simple, but
  - Outturn data prone to revision
  - Cashflows spread unevenly and inconsistently
  - Timing and policy can distort current and base year

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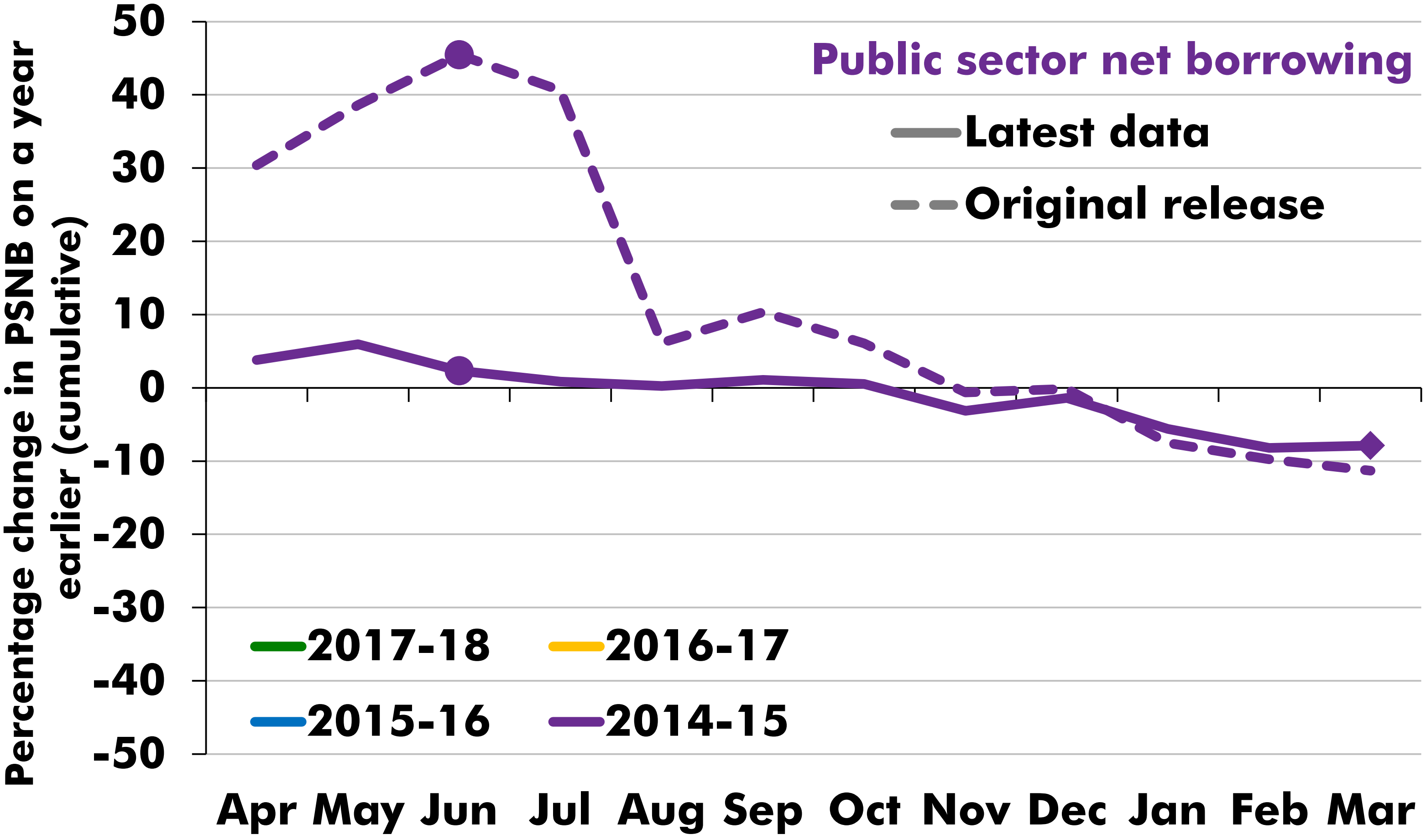
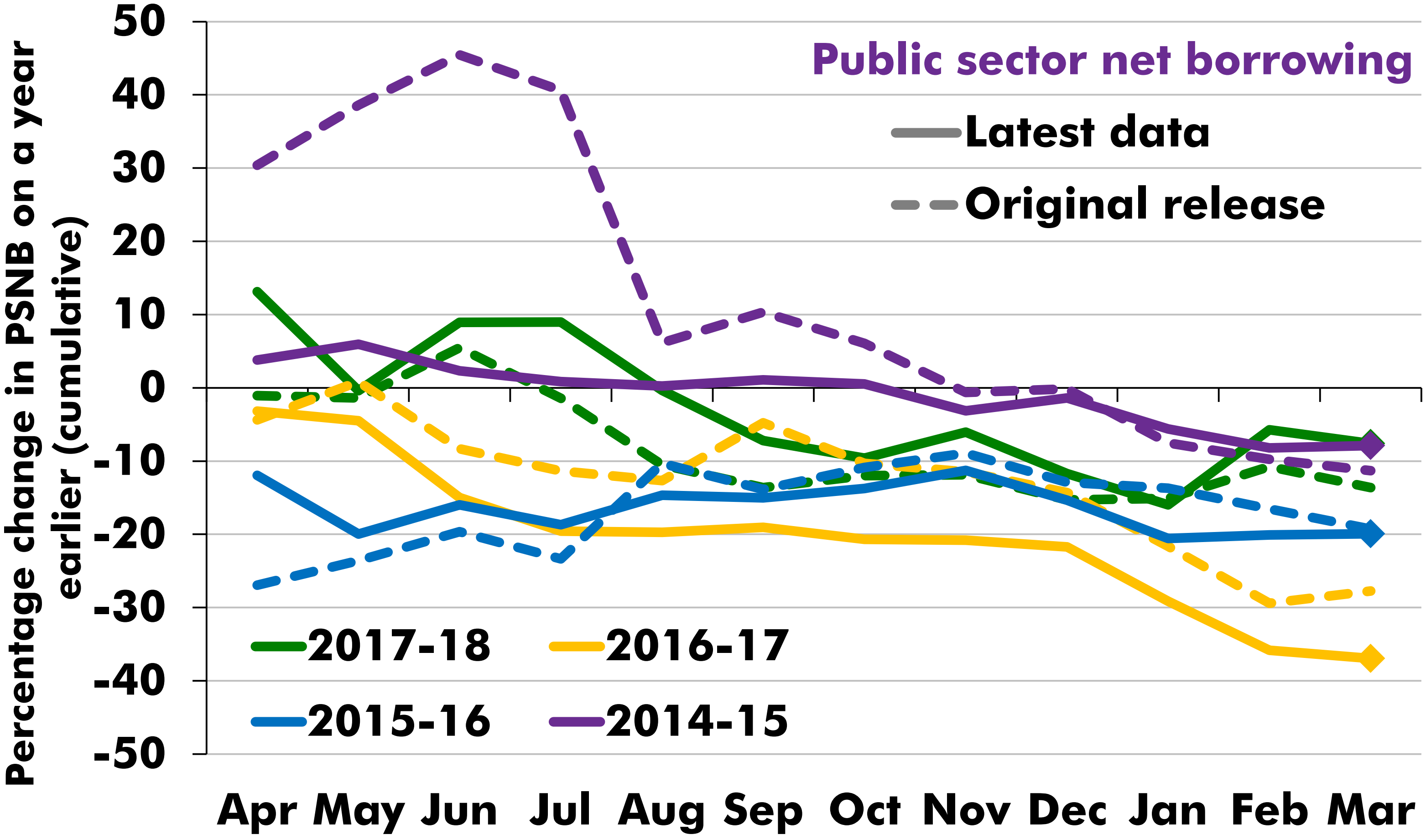
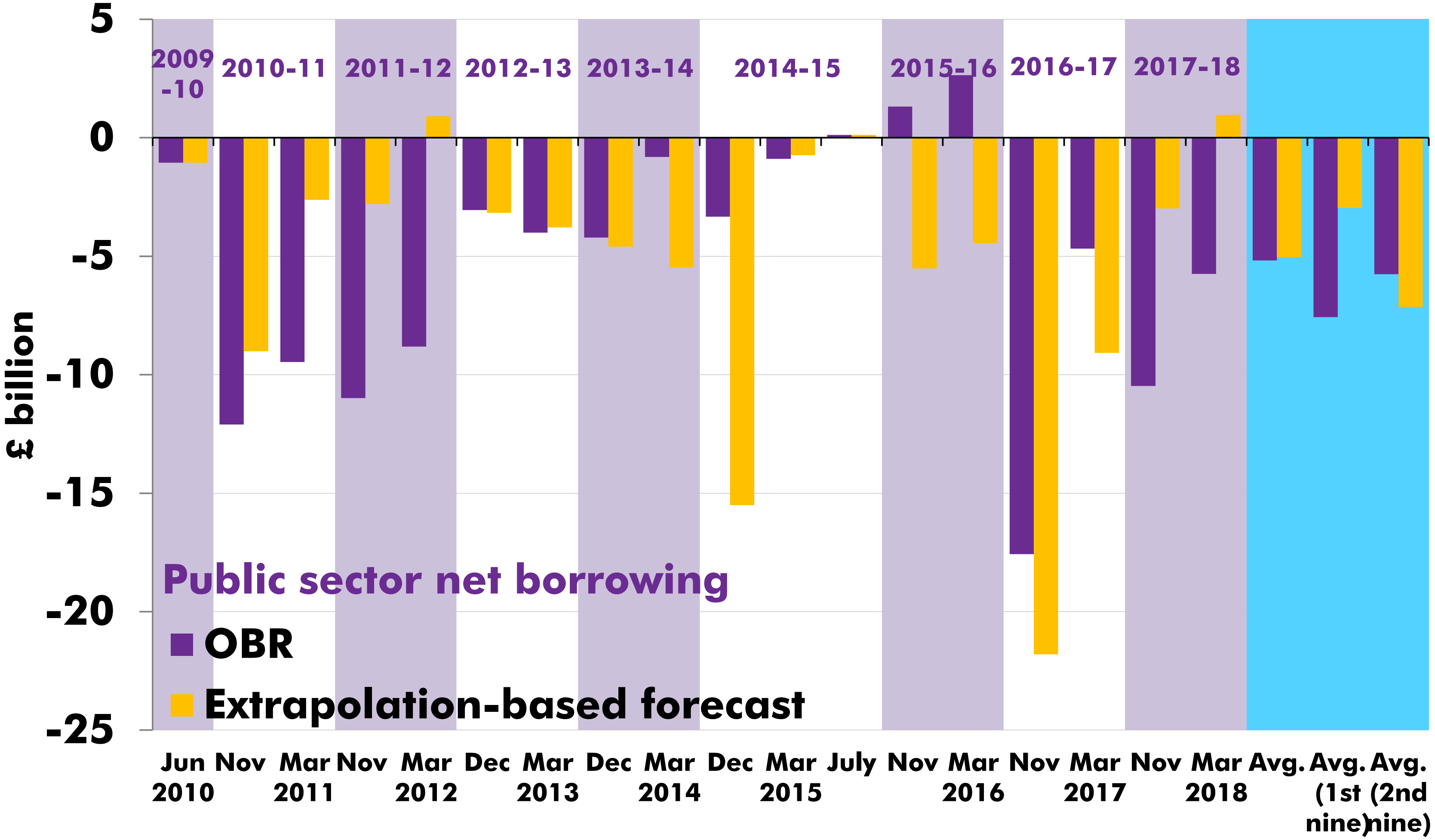
Extrapolating year-to-date



Extrapolating year-to-date



Extrapolating year-to-date



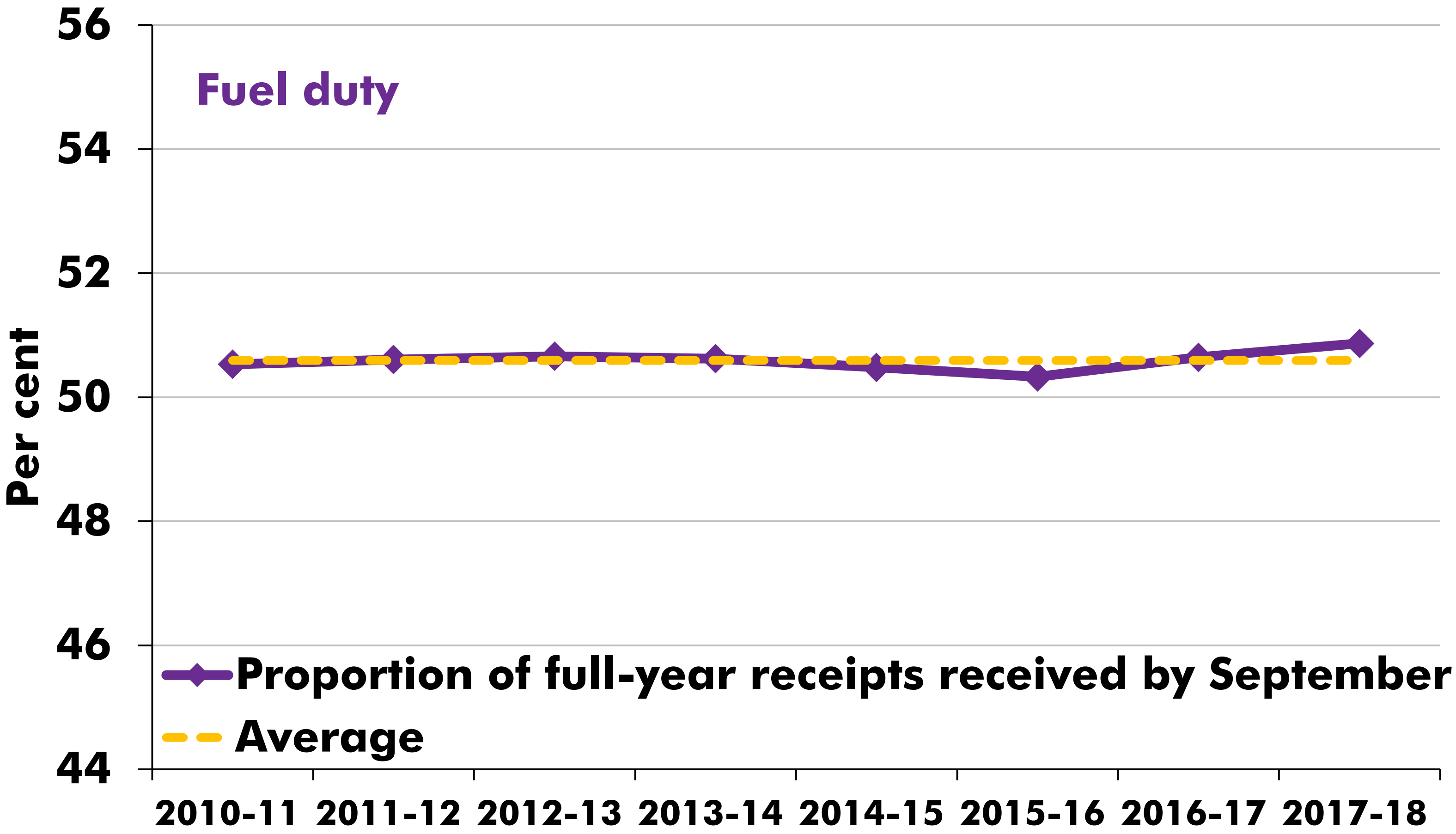
Comparing historical monthly shares

- Scale up a category of receipts or spending year-to-date according to the proportion of the full-year total typically recorded at that point in the year

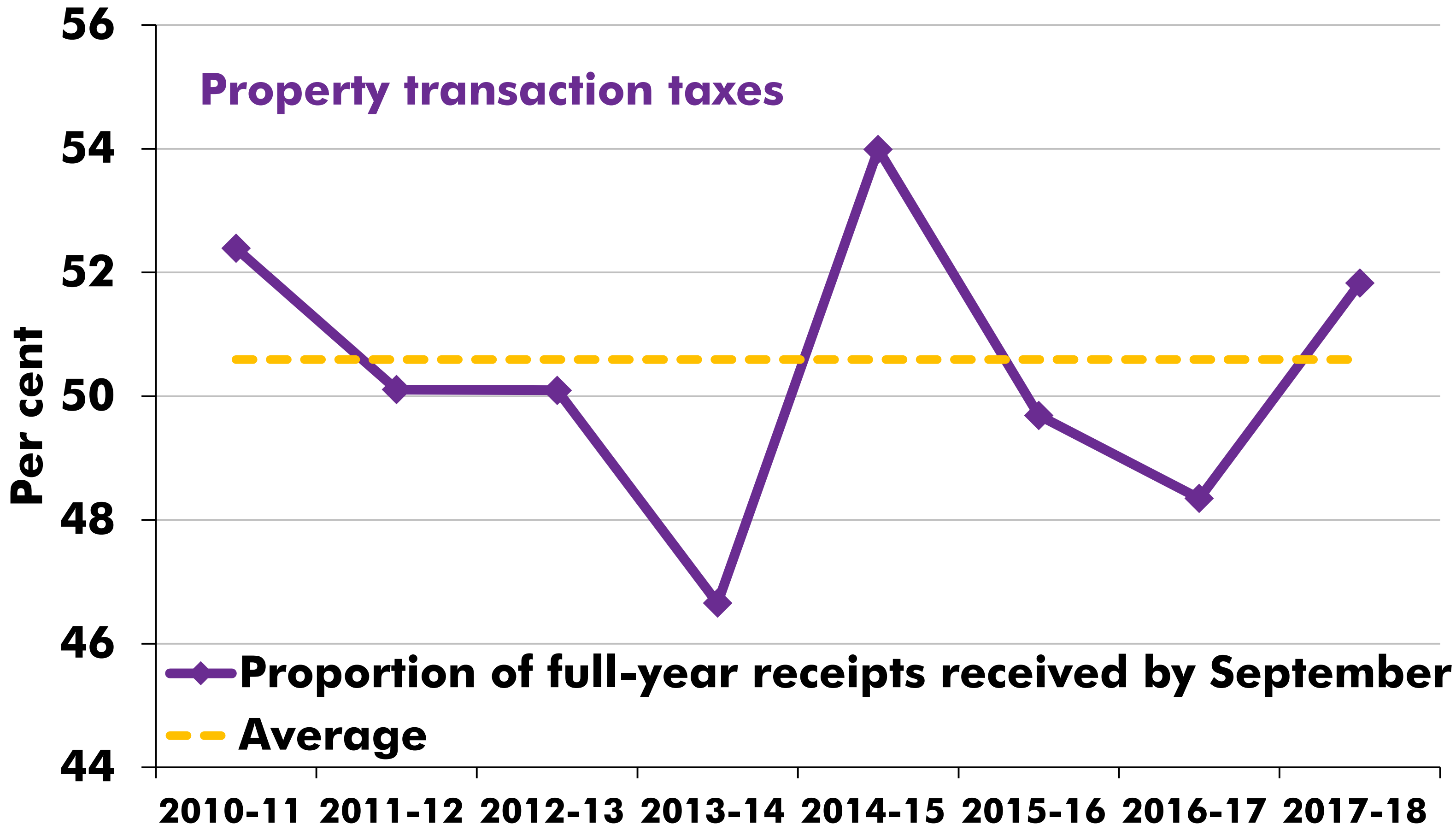
- Simple, and less prone to base-effect distortions

- But depends on stability of monthly distribution
  - So difficult when there are policy changes

Comparing historical monthly shares



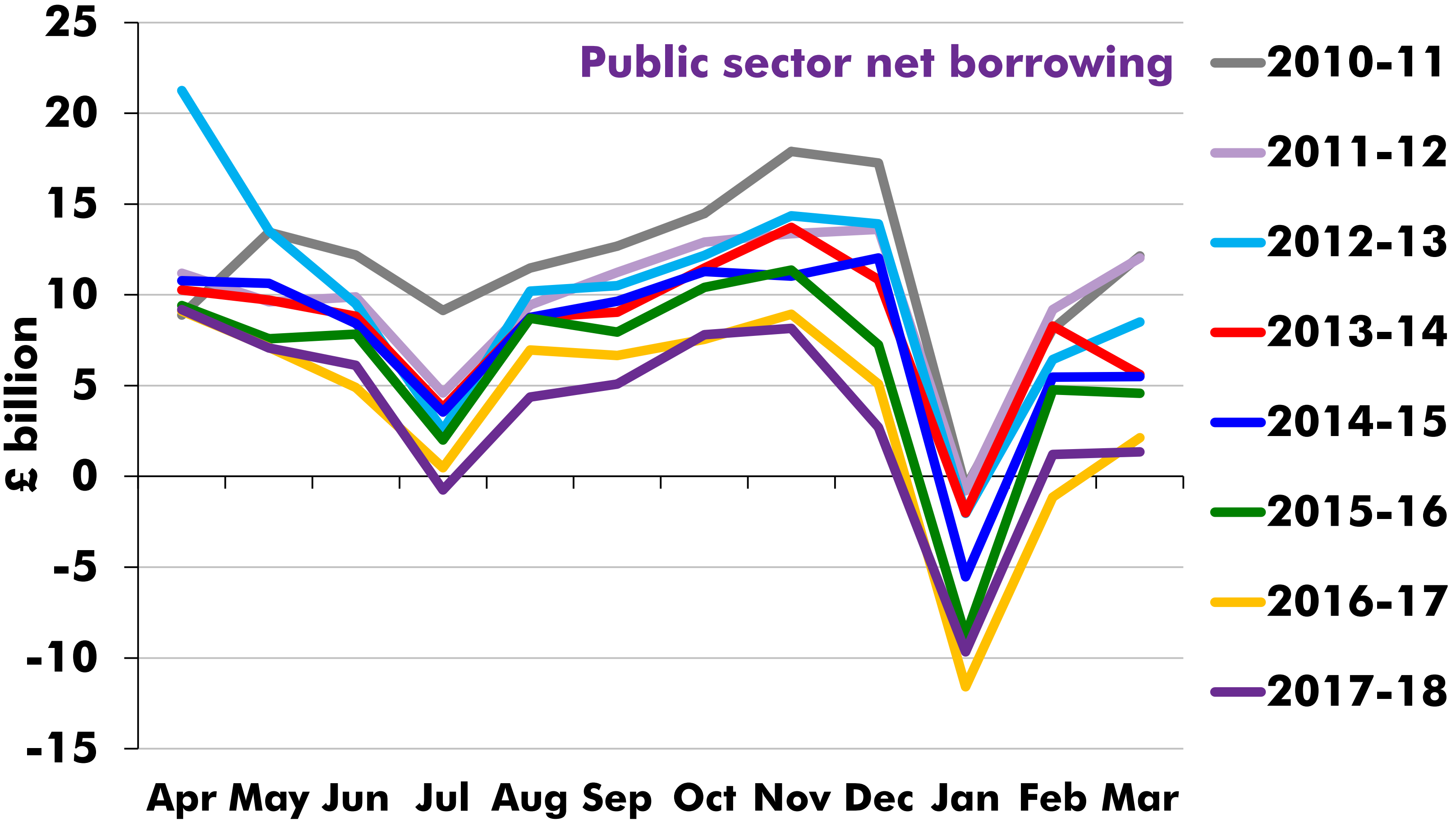
Comparing historical monthly shares



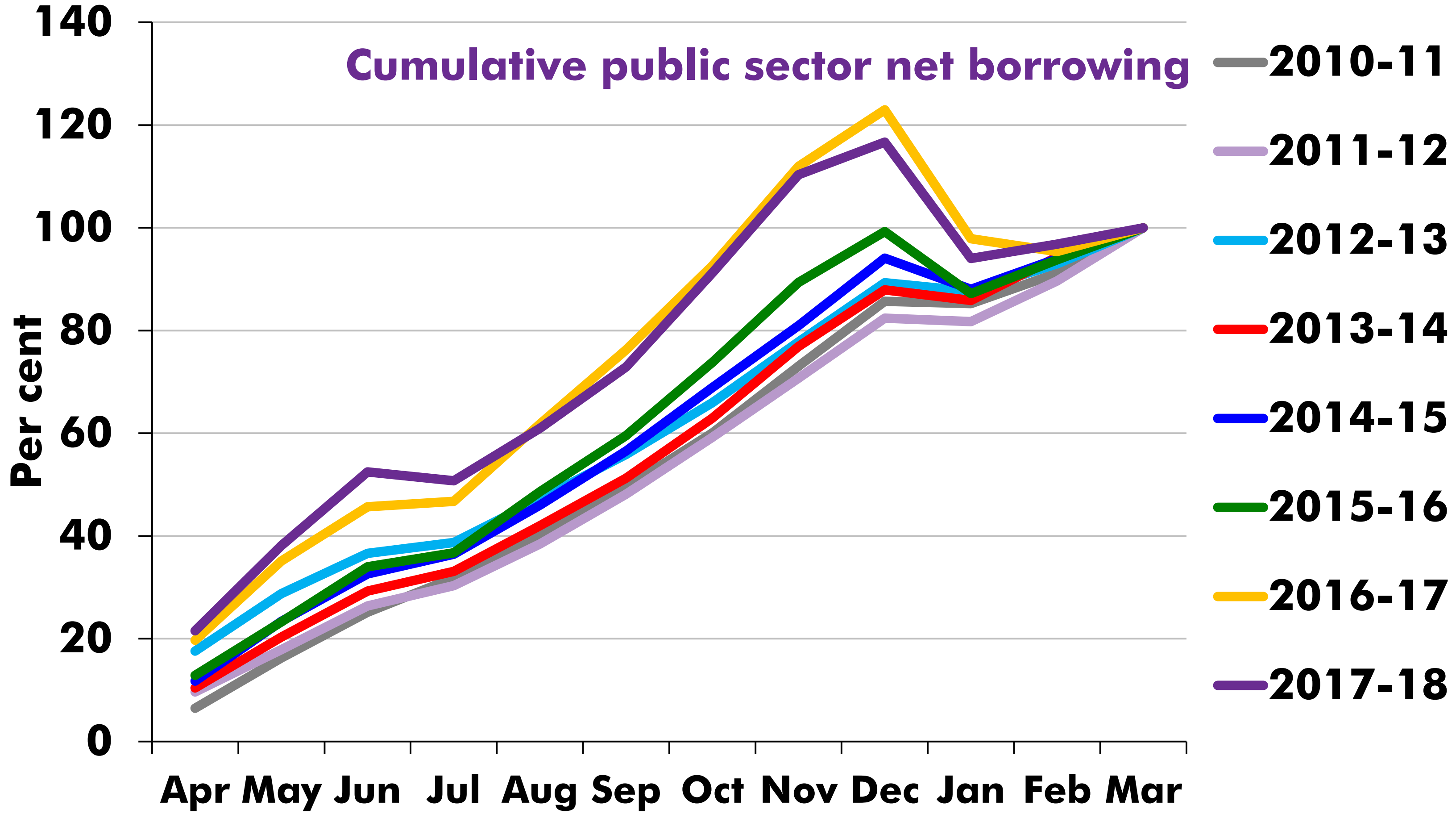
Incorporating other factors

- Near-term economic developments
  - E.g. near-term RPI movements
- Operational factors and timing effects
  - E.g. date of Easter
- Policy effects
  - E.g. forestalling
- Departmental monthly profiles

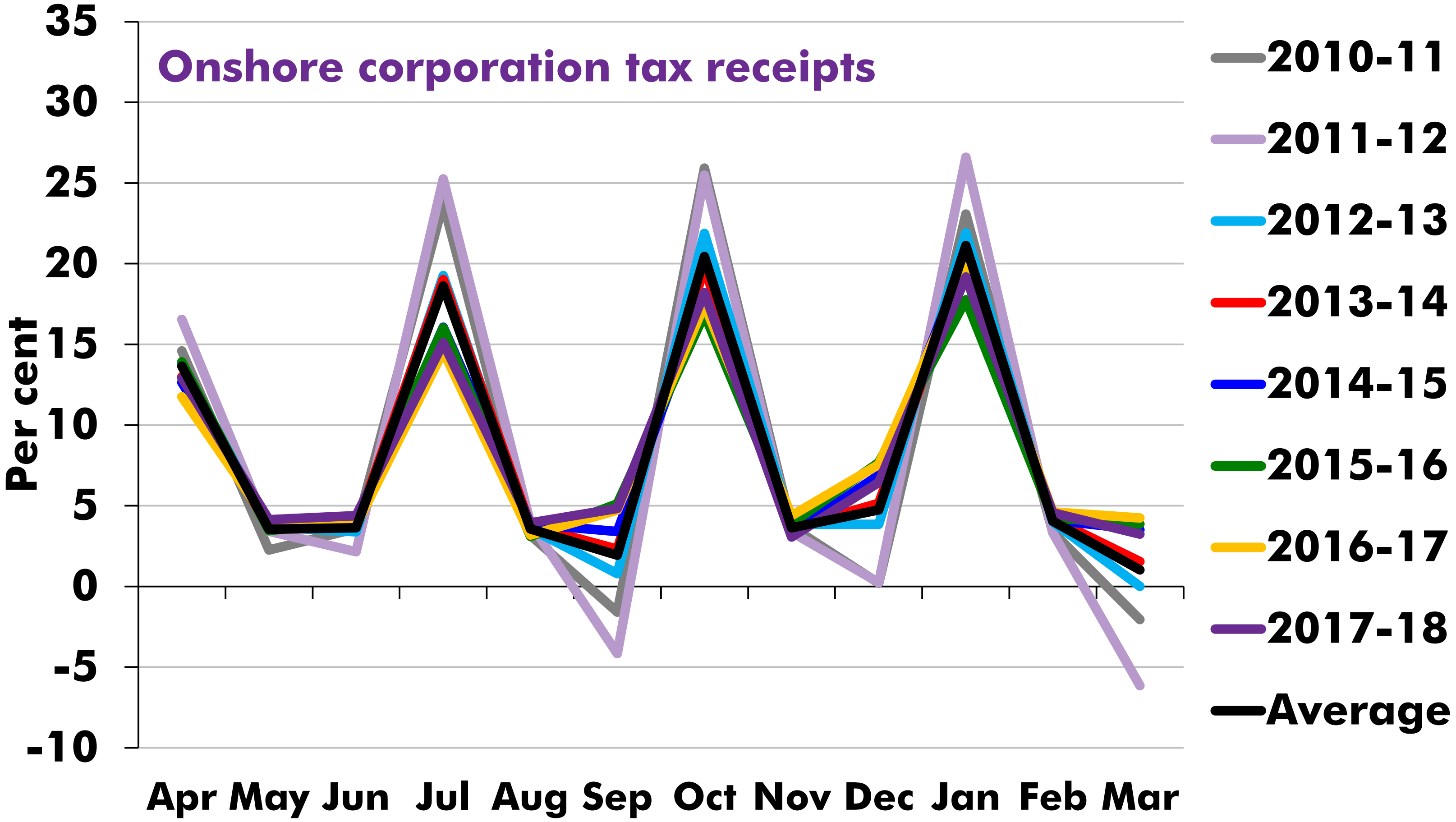
Public finances month by month



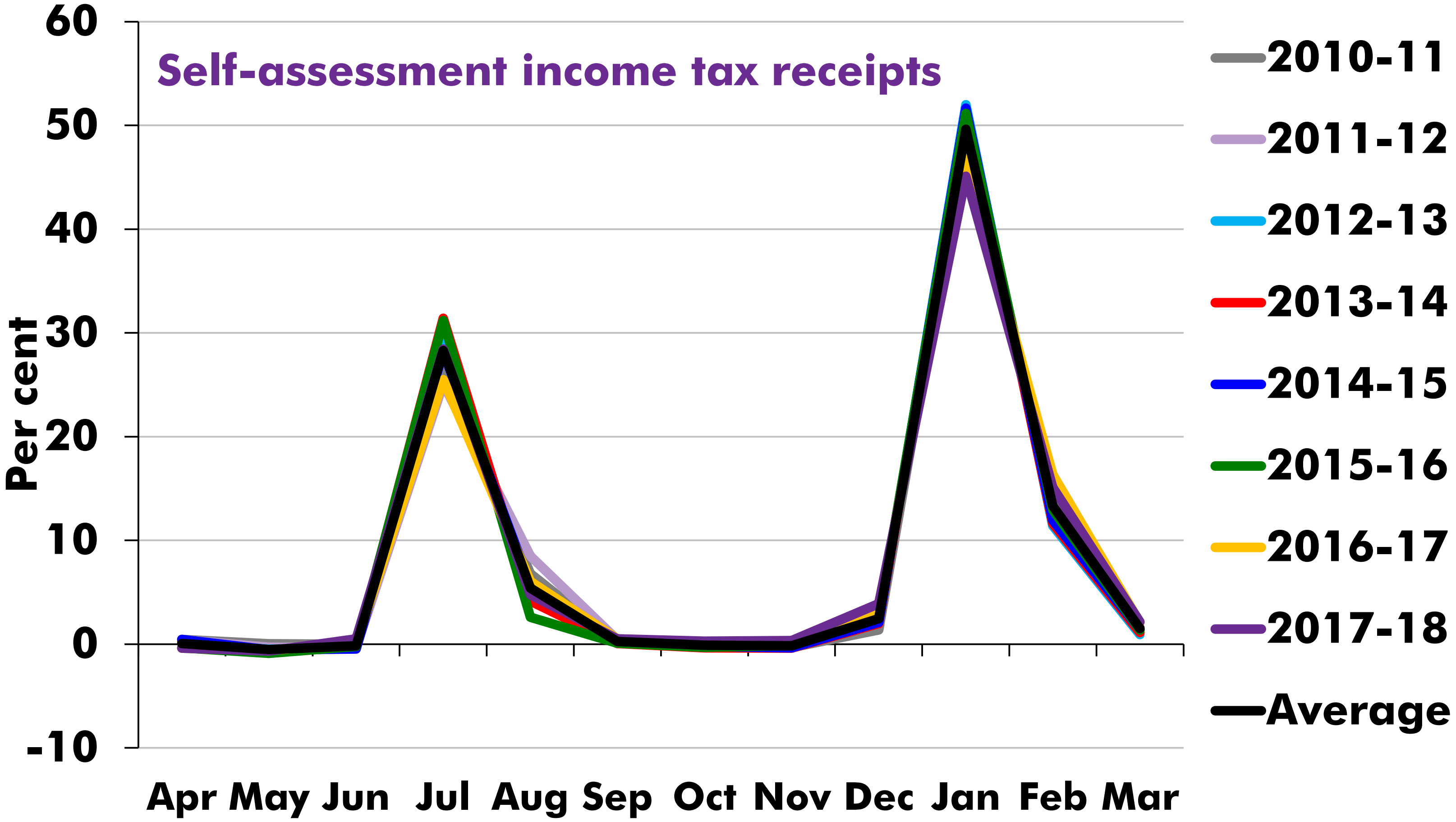
Public finances month by month



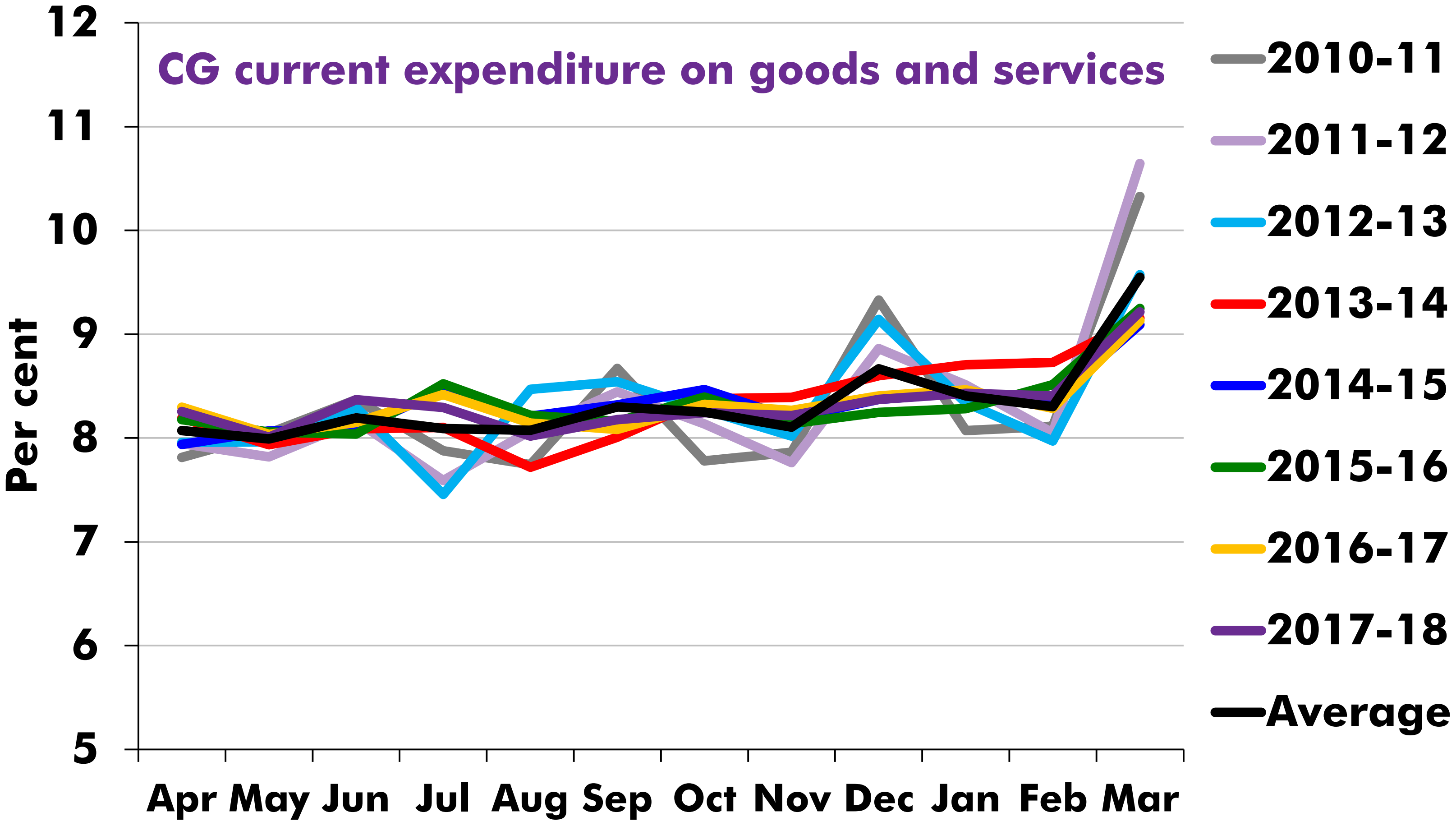
Receipts month by month



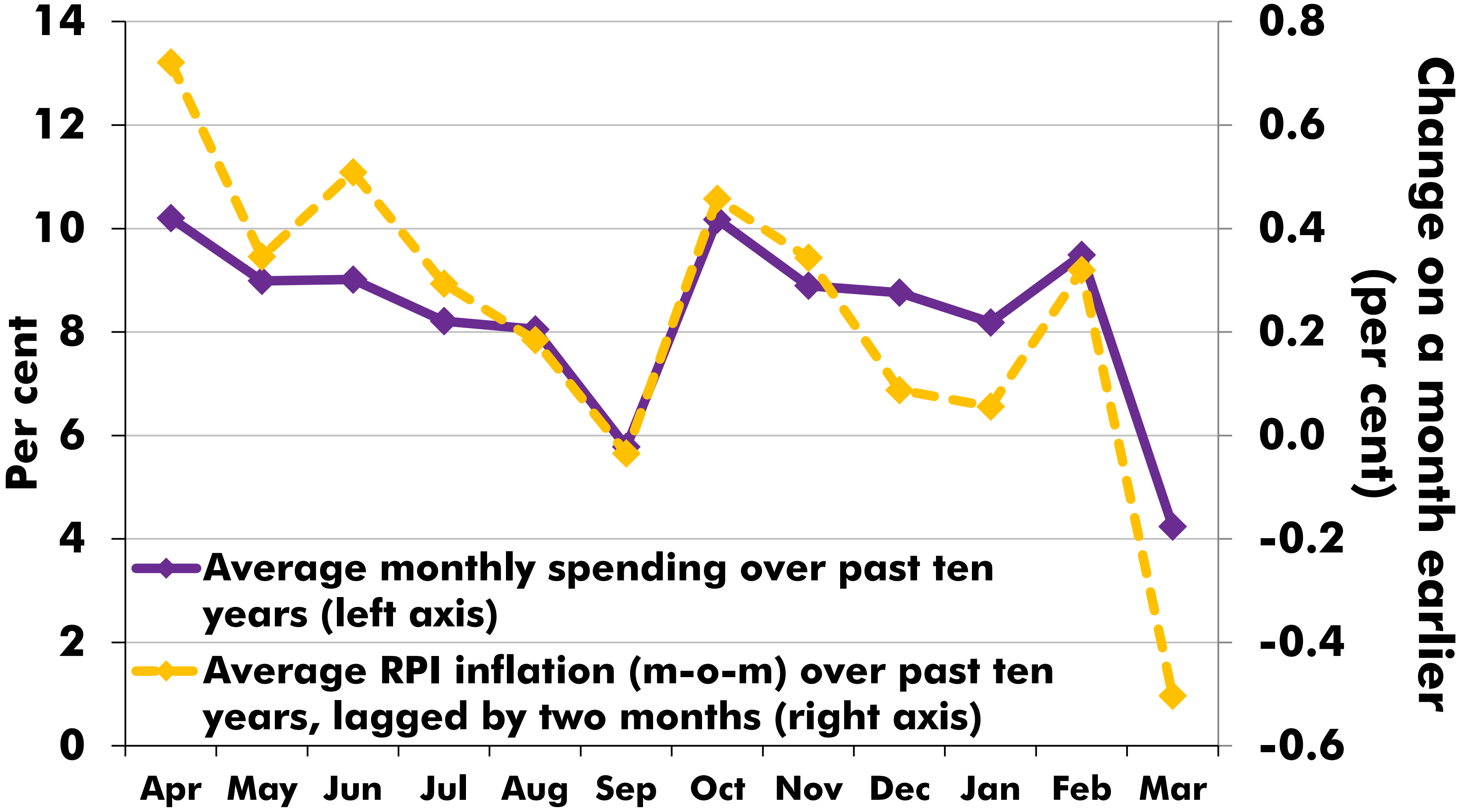
Receipts month by month



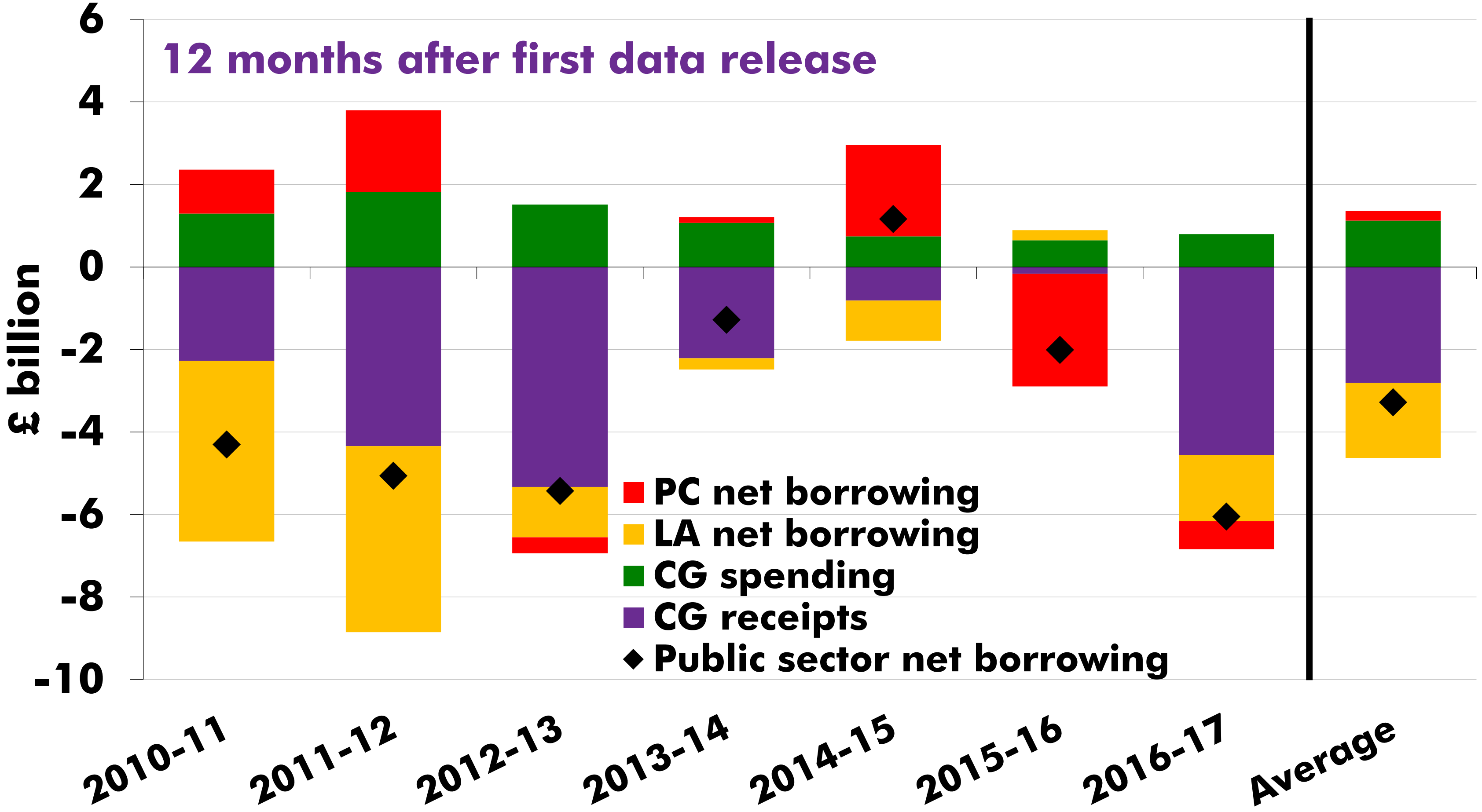
Spending month by month



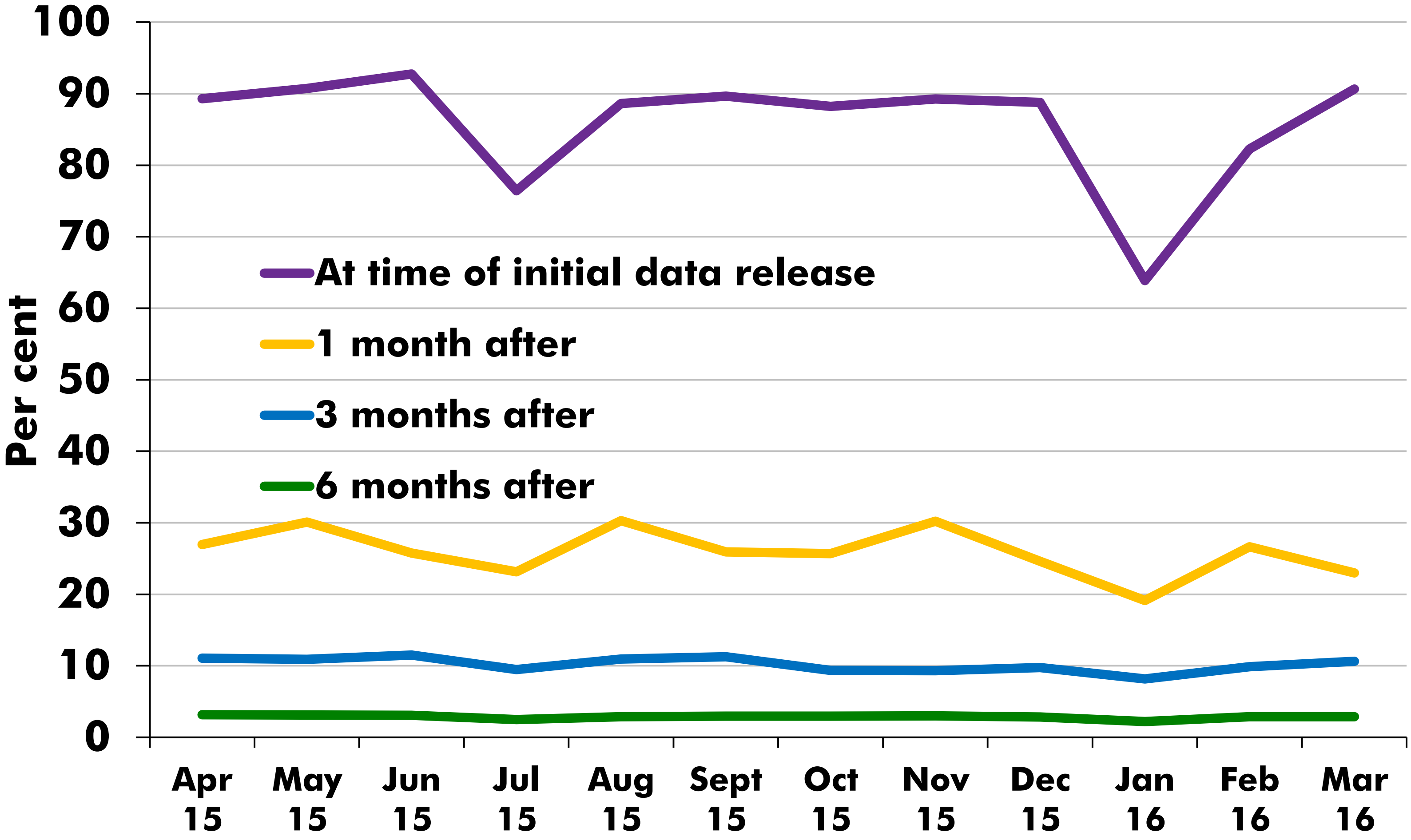
Debt interest spending



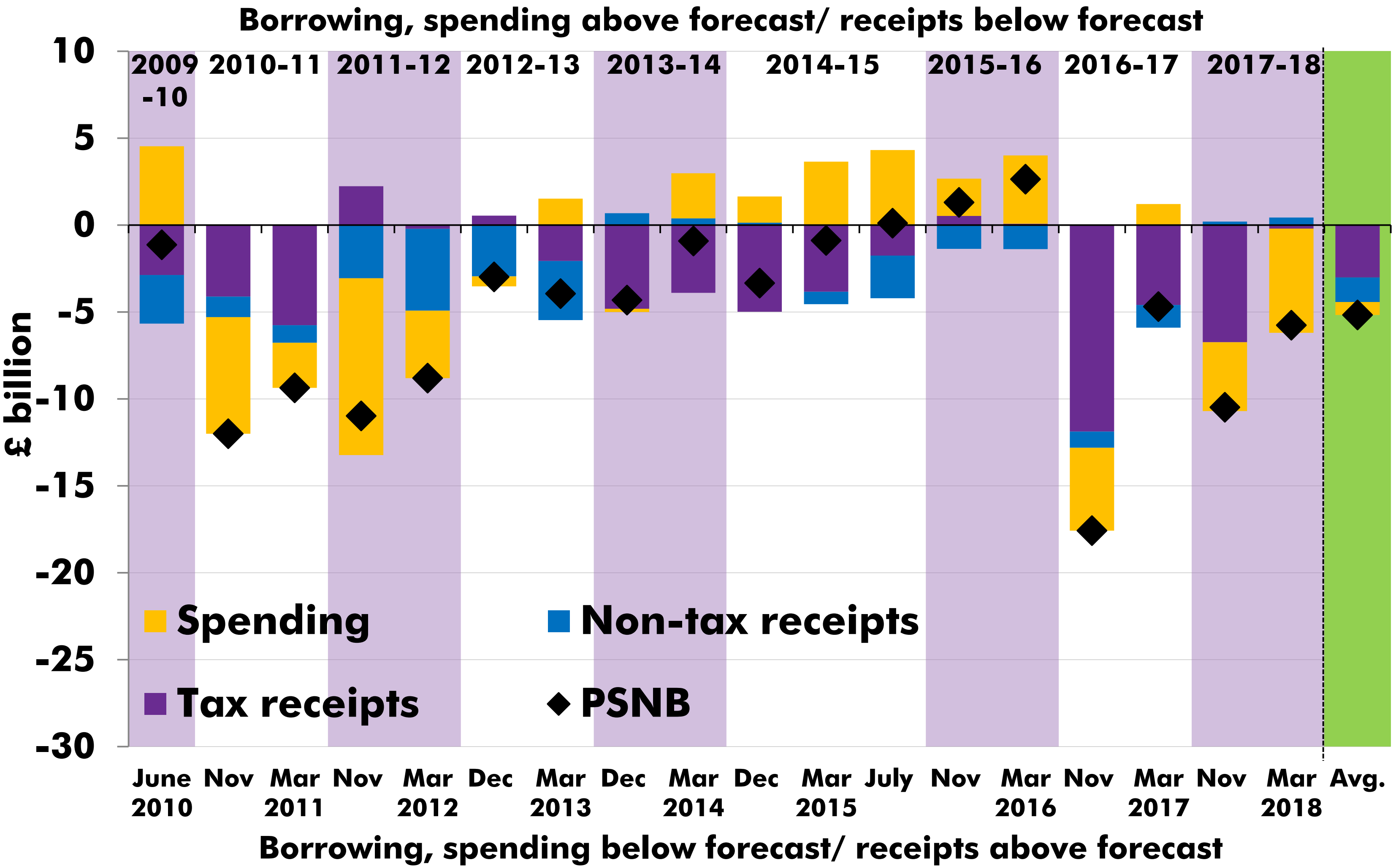
Data revisions



When outturns are forecasts



Forecast v outturn: net borrowing



Conclusions: approach

- Use different arithmetic approaches
- Adjust for known timing and one-off effects
- But be ready for significant revisions

Conclusions: performance

- Our in-year forecasts have over-predicted deficits
- Partly because of methodology and data revisions
- Our forecasts somewhat better than outside average

- Lessons for us
  - Look carefully at bonus payment assumptions
  - Refreshed approach to CT forecast
  - Investigate bias in gross operating surplus data
  - Beware challenge of universal credit