



Office for
**Budget
Responsibility**

The OBR at 10

Robert Chote
Chairman

Society of Professional Economists
24 September 2020

A quick guide to the OBR

- **Created by the Coalition Government in 2010 and legislated for in 2011**
 - “It is the duty of the Office to examine and report on the sustainability of the public finances”
- **An ‘independent fiscal institution’ (IFI) – non-partisan analysis of the public finances and the impact of policy measures on them**
- **Crown Non-Departmental Public Body (NDPB) – a type of quango**
- **3 person ‘Budget Responsibility Committee’ + 35 staff + 2 non-execs**
- **Located in the ugliest building in London**

The OBR vs the *Cour des Comptes* in Paris



What do we do?

- Forecasting the UK economy and public finances
- Scoring/costing policy measures and packages
- Assessing progress against government fiscal and welfare spending targets
- Analysing and commenting on monthly public finance statistics
- Assessing the long-term outlook for and riskiness of the public finances
- Assessing performance of past forecasts
- Forecasting sub-nationally devolved tax revenues and expenditure
- Publishing data and other analysis
- Engaging with domestic and international stakeholders

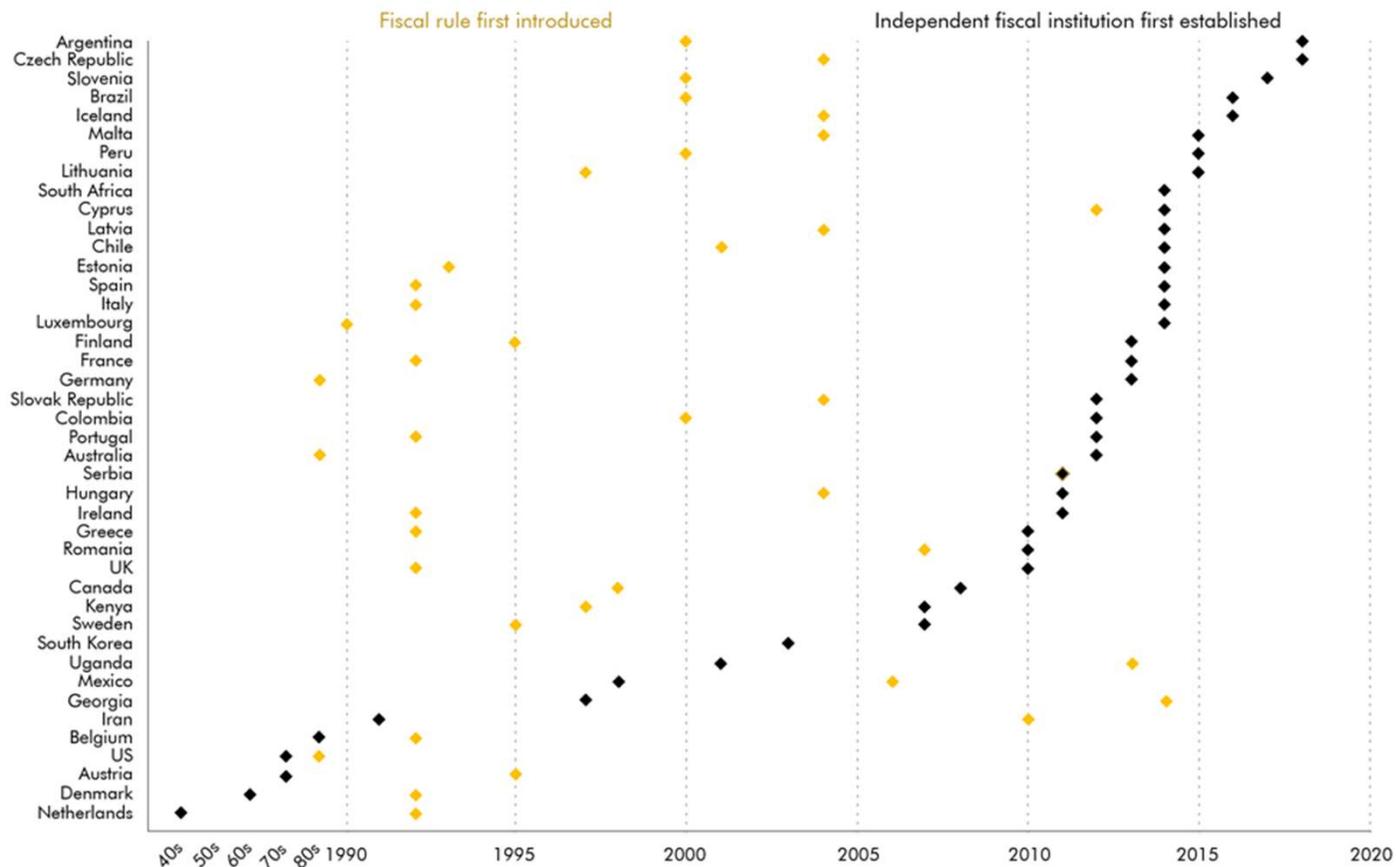
What don't we do?

- Take policy decisions
- Assess alternative policies (ours, the Opposition's or the Government's)
- Comment on the merits of particular policy measures or targets
- Provide policy advice or recommendations

Context: international

- **OBR is one of around 40 IFIs worldwide**
 - 2/3 fiscal watchdogs and 1/3 Parliamentary Budget Offices
- **Rationale for IFIs:**
 - Tackling 'deficit bias' and 'pro-cyclicality'
 - Encouraged by distorted political incentives and opacity of the public finances
- **But earliest IFIs not motivated by deficit concerns (eg CPB and CBO)**
- **Fresh waves post financial crisis and as result of EU 'Two pack'**
- **IFIs typically supplement fiscal rules**

IFIs and fiscal rules: dates of creation



Note: Data points for IFIs established between the 40s and 2015 are taken from the IMF Fiscal Council Dataset. IFIs established after 2015 are taken from other sources.
Source: IMF, OECD

Origins of the OBR

- **The UK could have been an ‘early adopter’, but**

“[Margaret Thatcher] was enthusiastic [in opposition] about what we were doing and subsequently sent Sir Keith Joseph, one of her chief lieutenants, to CBO to get more details and formulate a plan for a UK version of the CBO. Not long thereafter, however, she became prime minister and her interest evaporated. As leader of the government, she must have realised that an independent fiscal office could only cause her grief” (*Alice Rivlin, founding Director of the Congressional Budget Office*)

- **Gradual progress to greater forecast transparency and independence**

- The Medium Term Financial Strategy in the 1980s
- *Inflation Report*, ‘Ken and Eddie Show’ and Panel of Independent Forecasters post ERM exit
- Code for Fiscal Stability, new fiscal publications and NAO auditing of key assumptions under Brown
- Conservative and Lib Dem proposals for IFI embedded in the NAO at 2005 election
- Conservative proposal for stand-alone OBR in 2008
- Darling considered IFI during financial crisis, but Labour remained opposed up to the 2010 election
- Labour supported OBR creation post 2010 election, given adequate independence

What determines role, structure and timing?

- Where power resides in budget setting
- Nature of disease you are trying to cure
- Other relevant domestic institutions
- Impact of supra-national surveillance

What determines role and structure?

- **Where power resides in budget setting**
 - Executive > Parliament ; Treasury > Rest of executive (normally)
- **Nature of disease you are trying to cure**
 - Overoptimistic forecasts and rule-fiddling
- **Other relevant domestic institutions**
 - IFS second-guessed forecasts but without access to information
- **Impact of supra-national surveillance**
 - No IMF programme and EU scrutiny has little political impact
- **Hence OBR designed to act as watchdog over Treasury rather than helping consider policy choices. Adequate resources and information access. No broader opening of Budget process**

Medium-term forecasts: purpose

- An input into policy-making process (pre-measures and scoring)
- Full and transparent assessment for Parliament/public (post-measures)
- Judging whether Govt on course to hit fiscal rules (and other objectives)
- Baseline against which to judge significance of incoming data
- Scrutiny and challenge of HMRC and DWP experts

- And why us? Professional judgement, not politically motivated wishful thinking

How does this shape forecast approach?

- **Conditioned on Government policy, even if no-one believes it will last**
- **Highly disaggregated bottom-up fiscal forecast**
- **Detail on individual lines and diagnostics for changes since last forecast**
- **Forecast numbers accompanied by comprehensible narrative**
- **Economic forecast designed to help generate fiscal forecast**
- **Model toolkit quite old-fashioned – large-scale macro-econometric**
- **Main economic forecast choices have been judgement calls, not modelling**

- **Coronavirus: running commentary plus use of scenarios**

Impact

- **Greater transparency and more information**
 - Outputs and process
- **Stakeholders say they have more faith in ‘the numbers’**
- **More discipline in the policy process (until recently)**
- **Policy impact – but only when ministers choose**
 - Rules breaches responded to in different ways
- **Forecast accuracy and bias – improvements pre-shock**

Net borrowing: forecast errors vs median

	Per cent of outturn GDP					
	Fiscal years ahead					
	In-year	One	Two	Three	Four	Five
Forecast differences (colours reflect magnitude relative to pre-OBR median)						
June 2010 ¹	-0.1	-0.7	0.1	1.5	2.4	3.0
November 2010	-0.7	0.0	1.4	2.4	3.2	3.1
March 2011	-0.5	-0.3	0.8	1.9	2.6	2.5
November 2011	-0.6	-0.3	0.3	0.8	1.3	1.3
March 2012	-0.4	-0.2	0.4	1.1	1.4	1.5
December 2012	-0.2	-0.3	-0.2	-0.1	-0.2	0.8
March 2013	-0.3	-0.8	-0.7	-0.9	-0.8	0.3
December 2013	-0.3	0.0	0.0	0.0	1.2	1.6
March 2014	-0.1	0.0	0.2	0.4	1.5	1.7
December 2014	-0.3	-0.3	0.1	1.1	1.3	
March 2015	-0.2	-0.2	0.1	1.2	1.3	
July 2015 ¹	-0.1	0.1	-0.1	0.7	0.8	
November 2015	-0.1	-0.3	0.9	1.0		
March 2016	0.0	-0.5	0.2	0.2		
November 2016	-1.2	-0.8	-0.9			
March 2017	-0.3	-0.7	-0.6			
November 2017	-0.4	-0.7				Smaller than median absolute difference
March 2018	-0.2	-0.6				Median sized difference
November 2018	-0.1					Less than ½ std. dev. above median absolute
March 2019	0.0					More than ½ std. dev. above median absolute

Real GDP growth: forecast errors vs median

	Per cent ¹					
	Calendar years ahead					
	In-year	One	Two	Three	Four	Five
Forecast differences (colours reflect magnitude relative to pre-OBR median)						
June 2010	0.7	-0.8	-1.3	-0.8	-0.1	-0.3
November 2010	0.1	-0.6	-1.1	-0.8	-0.2	-0.3
March 2011	-0.2	-1.0	-0.8	-0.3	-0.4	
November 2011	0.6	0.8	0.0	-0.1	-0.6	-1.1
March 2012	0.7	0.1	-0.1	-0.6	-1.1	
December 2012	1.6	0.9	0.6	0.1	-0.8	-0.9
March 2013	1.5	0.8	0.1	-0.8	-0.9	
December 2013	0.7	0.2	0.2	-0.7	-0.8	-1.3
March 2014	-0.1	0.1	-0.7	-0.7	-1.1	
December 2014	-0.4	0.0	-0.3	-0.5	-0.9	
March 2015	-0.1	-0.4	-0.4	-0.9		
July 2015	0.0	-0.4	-0.5	-1.0		
November 2015	0.0	-0.5	-0.6			
March 2016	-0.1	-0.3	-0.7			
November 2016	-0.1	0.5	-0.3			
March 2017	-0.1	-0.2				Smaller than median absolute difference
November 2017	0.4	0.0				Median sized difference
March 2018	-0.1					Less than ½ std. dev. above median absolute
November 2018	0.1					More than ½ std. dev. above median absolute

Some challenges

- **Forecasting in era of coronavirus**
 - What is a central forecast in current context?
 - How do you best illustrate uncertainty around it?
- **Robustness of forecast/policy process**
 - Constant policy process impedes scrutiny and forecast integrity
- **What does ‘fiscal discipline’ mean these days?**
 - Fiscal rules in abeyance – what is the anchor?
 - R-G and MMT critiques
- **But case for transparency undimmed**