

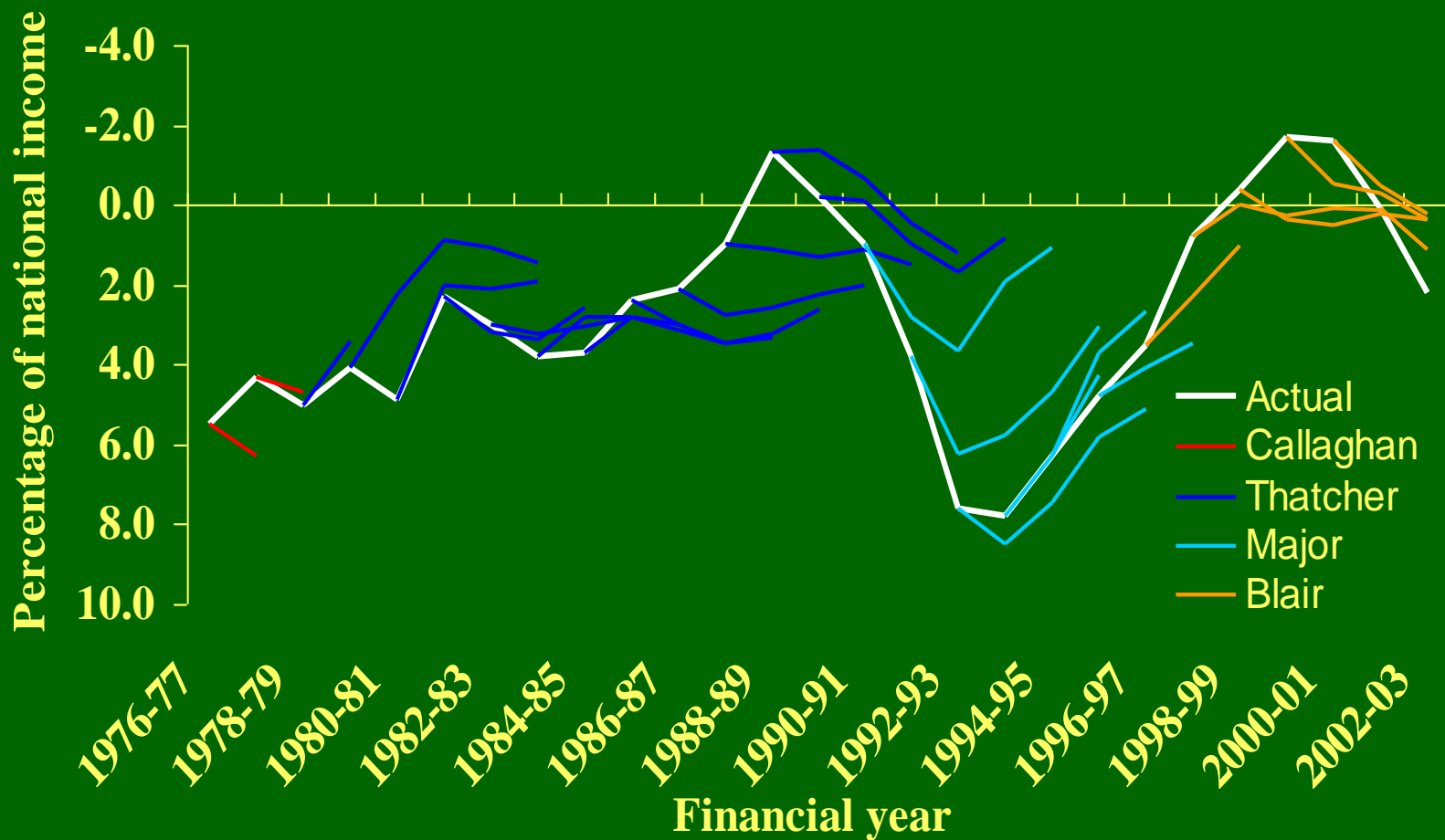
# Uncertainty in the forecasts

Carl Emmerson

# Previous HMT forecasting errors



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# Errors in borrowing forecasts

% of GDP

	1 year ahead	2 years ahead	3 years ahead	4 years ahead
Average error	0.05	0.05	-0.58	-1.10

# Errors in borrowing forecasts

% of GDP

	1 year ahead	2 years ahead	3 years ahead	4 years ahead
Average error	0.05	0.05	-0.58	-1.10
Average absolute error	1.03	1.65	2.22	2.95
Standard deviation of errors	1.26	1.98	2.82	3.62

# Uncertainty over path of PSNB

- Forecast errors are normally distributed
- Average error is zero
  - But forecasts are based on ‘cautious assumptions’
- Accuracy is the same as past
  - This will *understate* true forecasting errors as previous errors not adjusted for subsequent policy changes

# Uncertainty over path of PSNB



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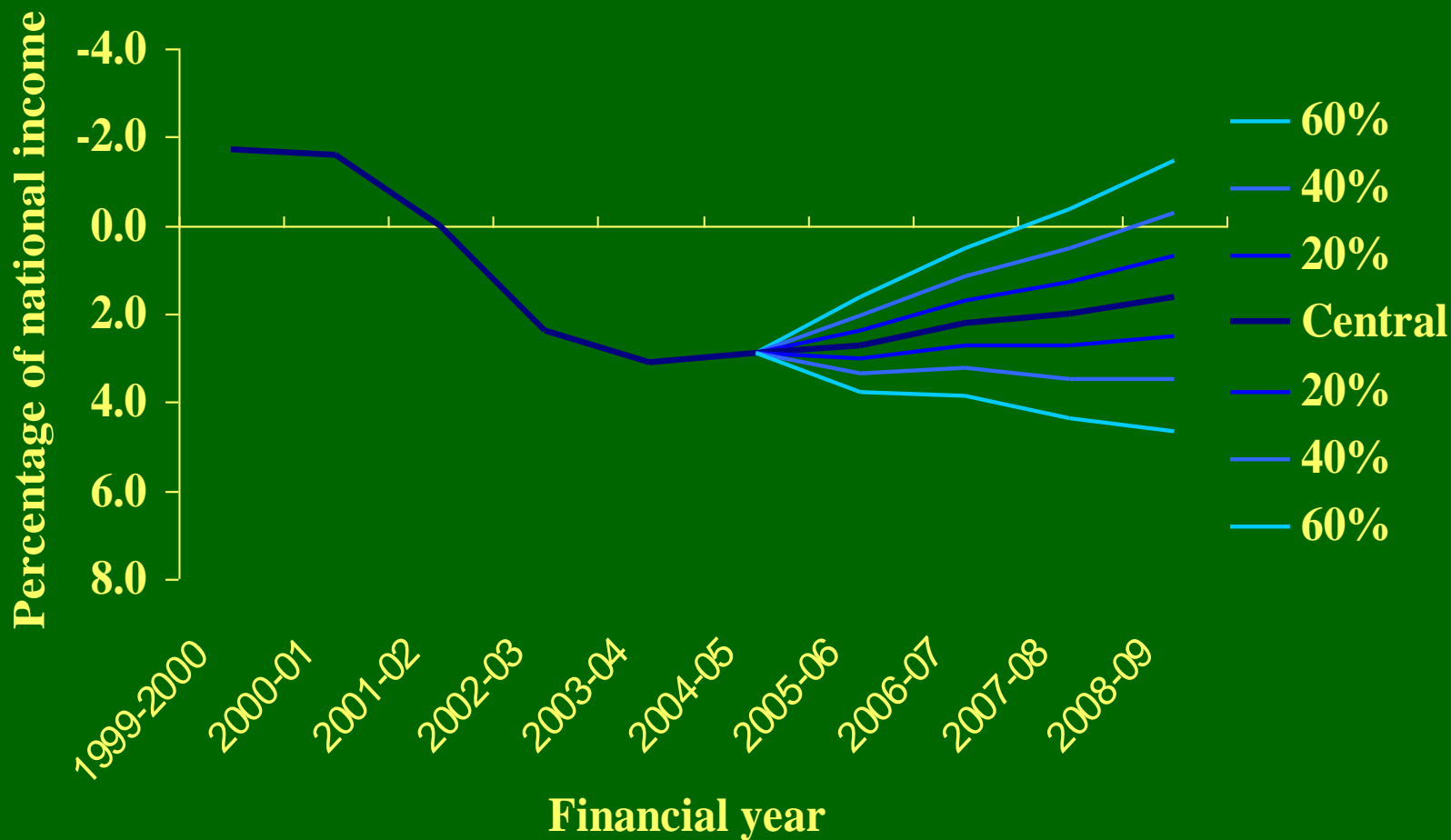




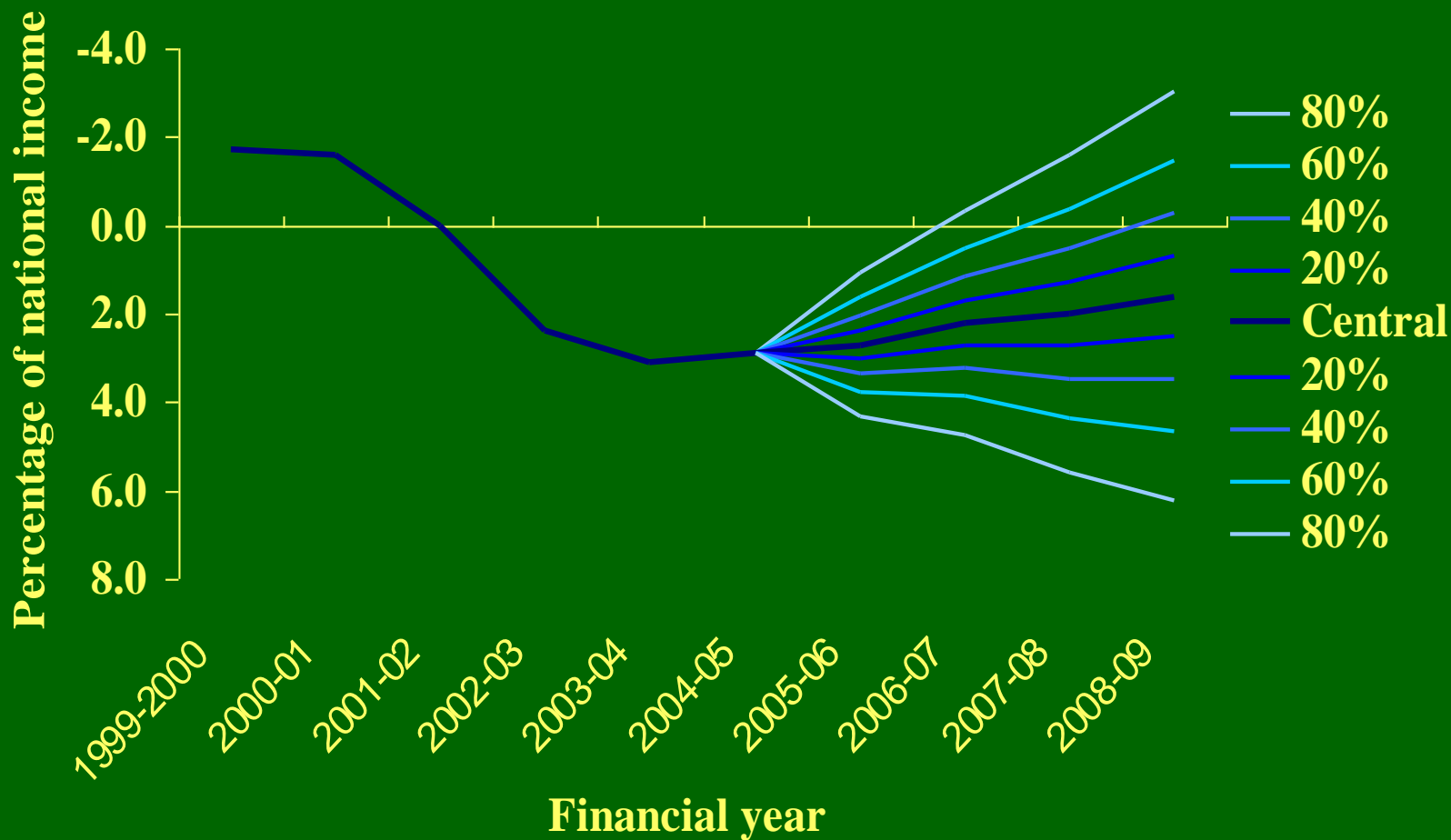
# Uncertainty over path of PSNB



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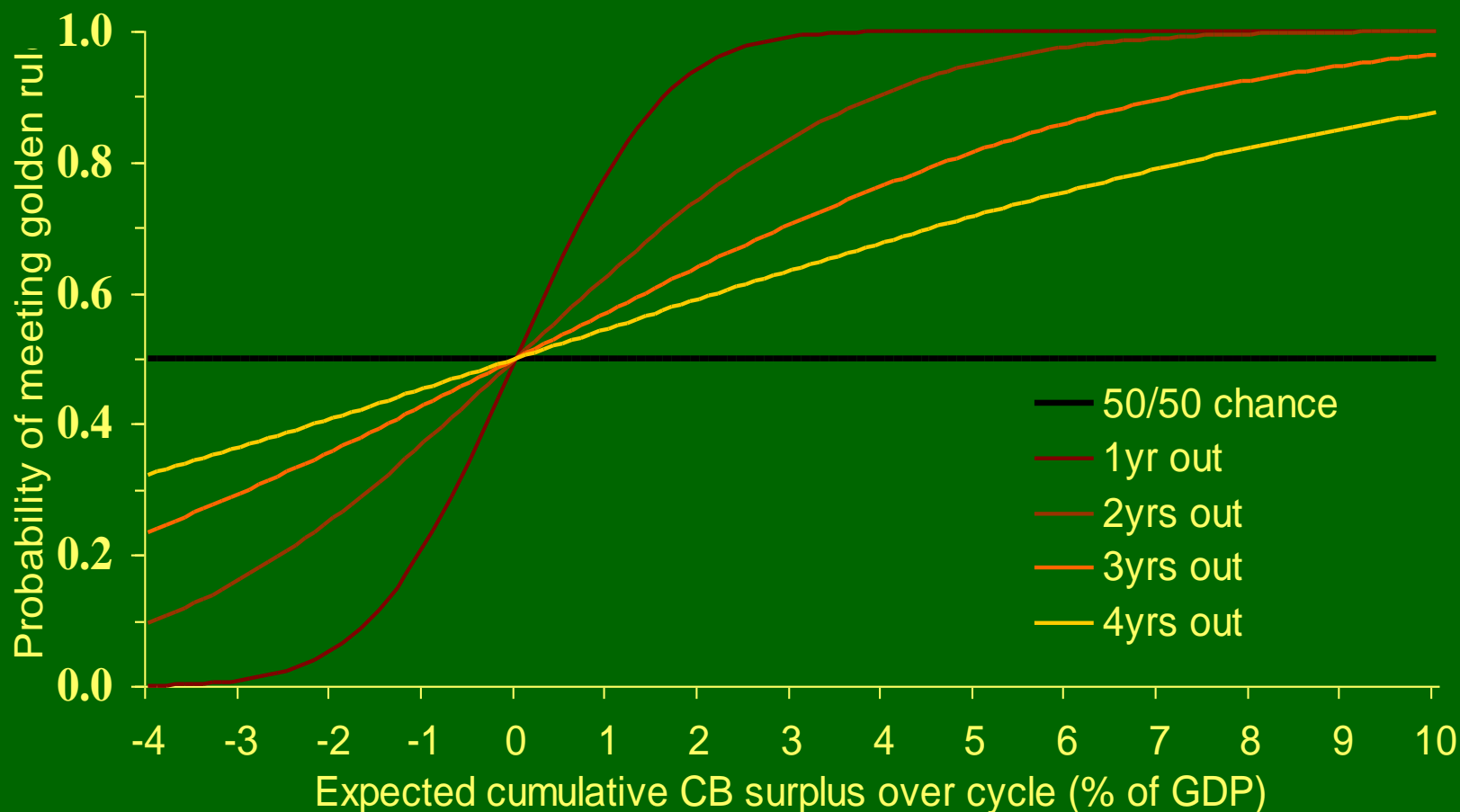
# Uncertainty over path of PSNB



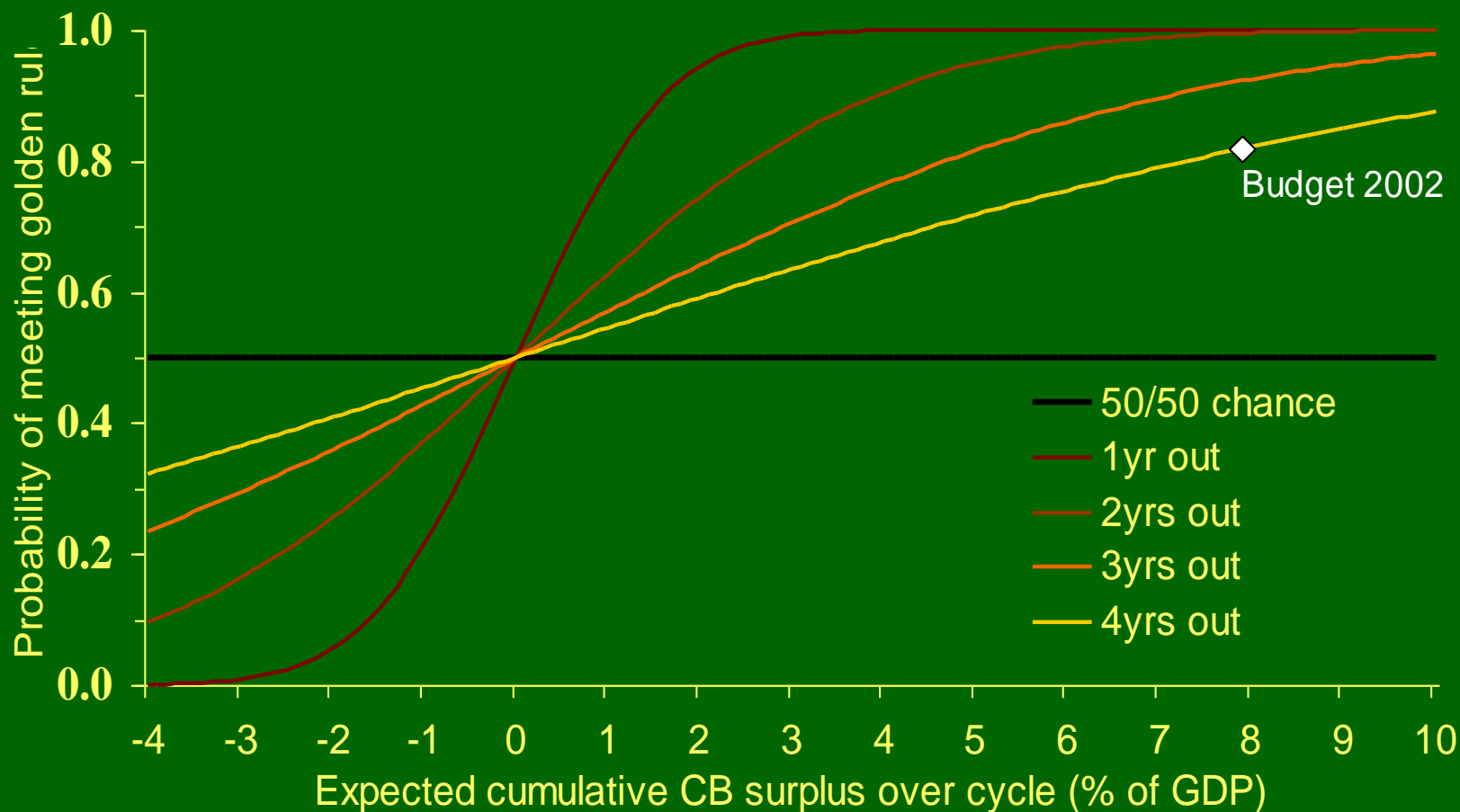
# Uncertainty over path of CBS

- Forecast errors are normally distributed
- Average error is zero
  - But forecasts are based on ‘cautious assumptions’
- Accuracy is the same as past
  - This will *understate* true forecasting errors as previous errors not adjusted for subsequent policy changes
- Assume similar errors in forecasting current budget surplus and net borrowing
- Account for correlation in errors from all forecasts made at the same time

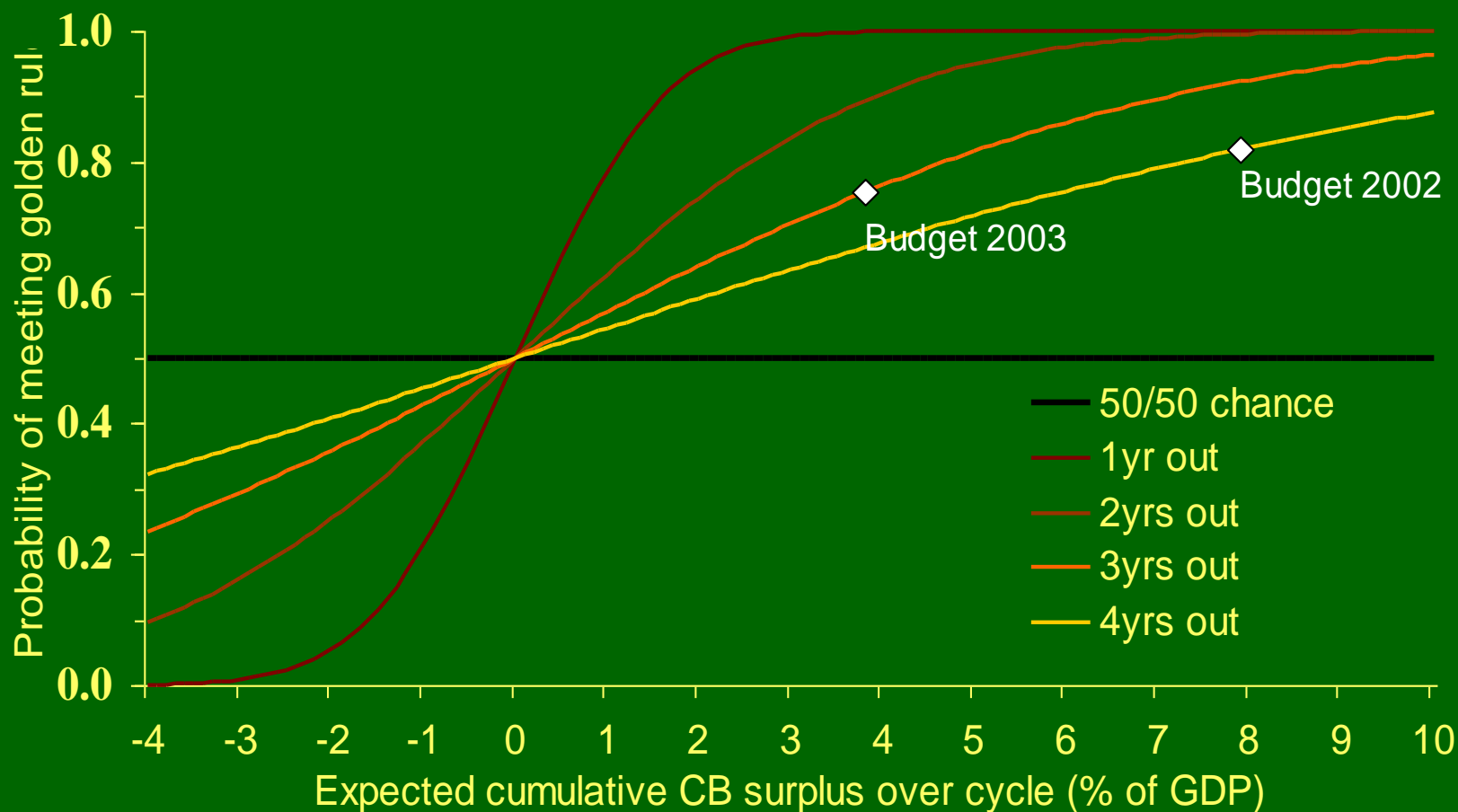
# Will the golden rule be met?



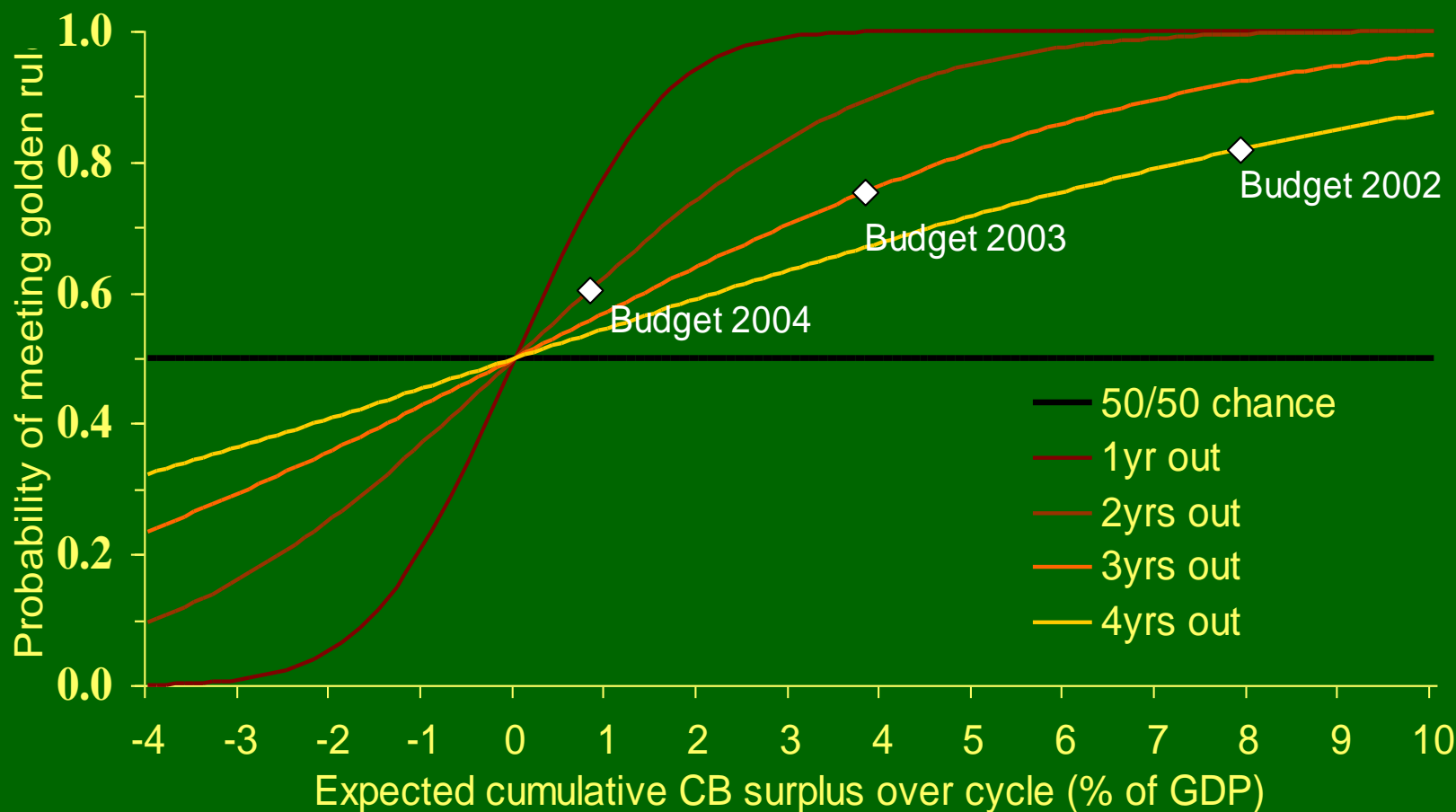
# Will the golden rule be met?



# Will the golden rule be met?

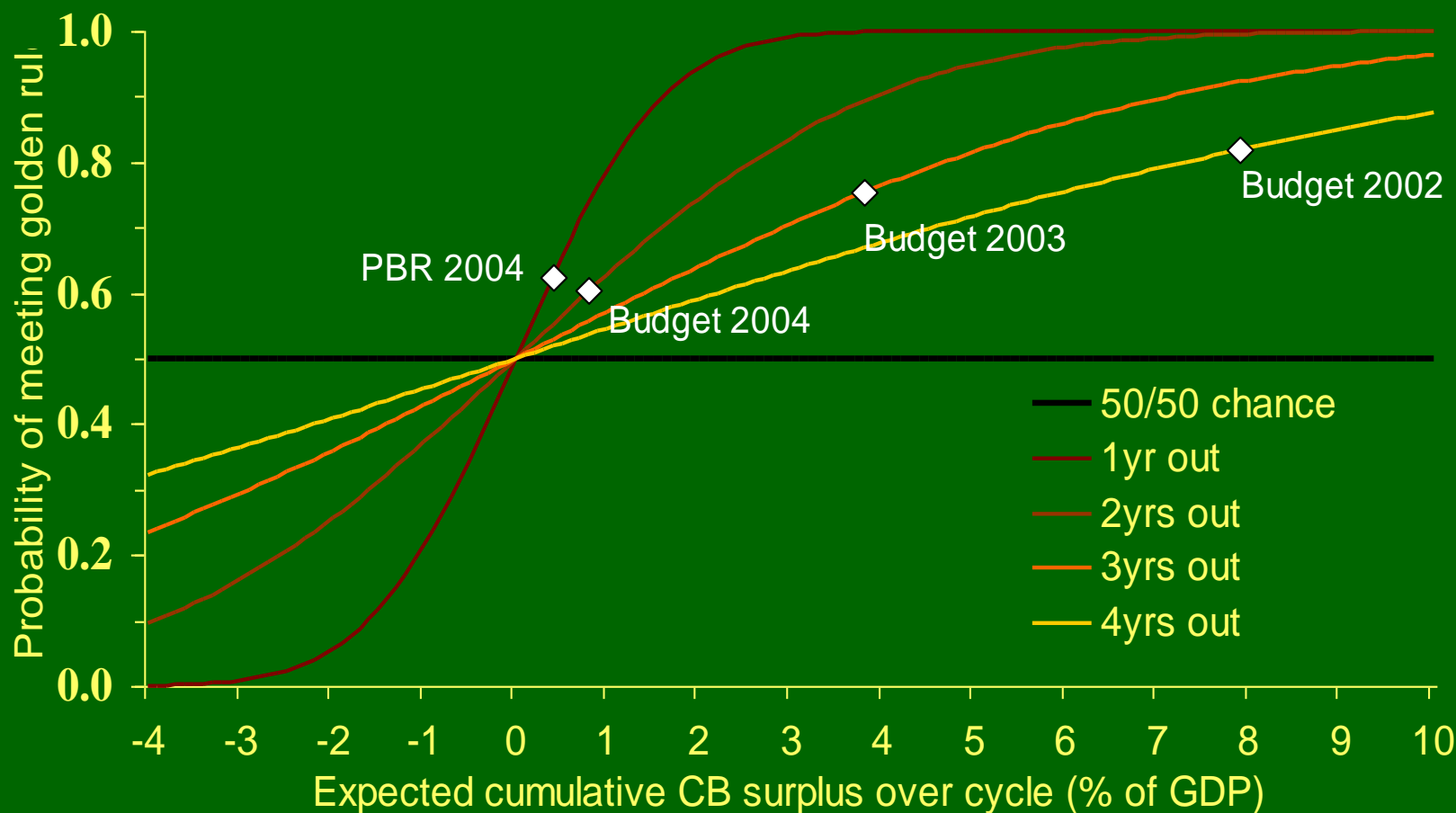


# Will the golden rule be met?

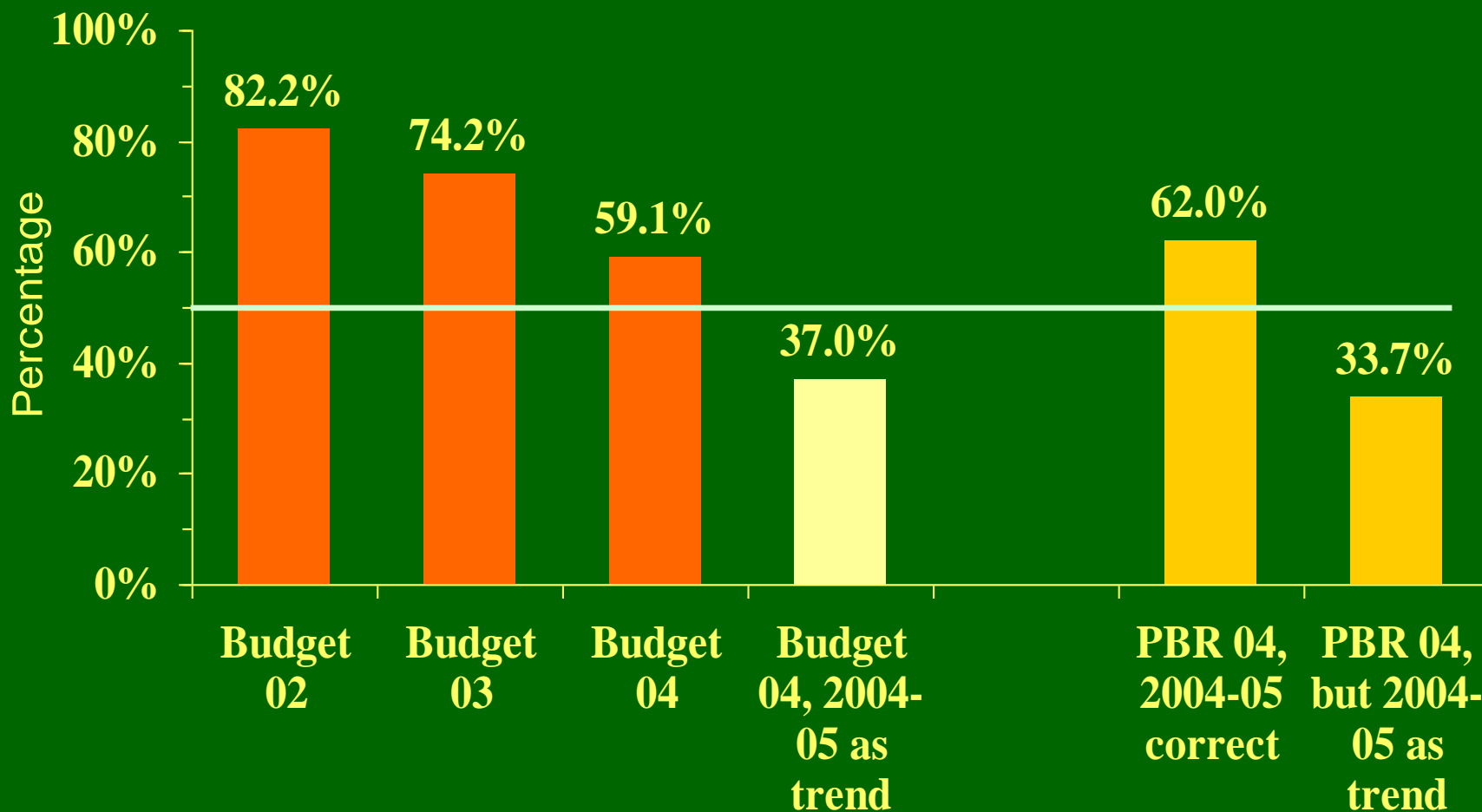




# Will the golden rule be met?



# Will the golden rule be met?



# Conclusions

- Over the current economic cycle:
  - Treasury forecast for Golden rule to be met
  - At best a 62% chance of success
  - Relies on stronger growth in receipts and slower growth in spending
- Looking forwards
  - Treasury forecast for Golden rule to be met
  - Relies on strong growth in tax receipts
  - Not expected to be met under ‘cautious case’