

Marking the homework
of Britain's economic watchdog

**THE OBR:
A STRAITJACKET
OF FAILURE**

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INTRODUCTION

In 2010 the Coalition Government created the Office for Budget Responsibility. It is the UK's independent forecaster, providing scrutiny of the government and the compatibility of its policy with its own fiscal and economic rules. Before the creation of the OBR, the Treasury was responsible for the production of its own fiscal forecasts.

The main responsibilities of the OBR are:

- The production of economic and fiscal forecasts that look five years into the future. These accompany the Chancellor's budget and spending reviews.
- Assessing the government's performance against its own fiscal rules.
- The production of a Fiscal Risks and Sustainability Report, evaluating any long-term risks to the economy and financial system.
- The production of a welfare trends report.
- Assessing the accuracy of its own forecasts.

BACKGROUND

THE OBR ORTHODOXY

Since 2010 the OBR and its Budget Responsibility Committee (BRC) have exercised a vice-like grip over the UK's economic levers. The Chancellor is required to put great emphasis on the OBR's growth forecasts, yet, by its own admission they repeatedly lull policymakers into a false sense of security.

For example, in his most recent statement, the Chancellor Jeremy Hunt leaned heavily into the OBR's forecasts, referencing the body over 50 times in the duration of his address to the House of Commons, once every 128 words¹.

Indeed, such is the weight of the OBR's proclamations that, following the Chancellor's statement, much of the media chose to focus on the growth forecasts produced by the OBR. The Times, for example, placed great emphasis on the fact that "UK growth forecast (had been) slashed by Office for Budget Responsibility"², whilst The Sun had the headline "Gloomy economists threaten to spoil Jeremy Hunt's upbeat Autumn Statement by cutting growth forecasts"³ – almost as if the Chancellor was powerless to pull the UK's economic levers.

This is indicative of how the political narrative can be seized by the OBR, and the perception that it enjoys of being an infallible forecasting body beyond reproach. The BBC best surmised the control and influence that the OBR enjoys in its reporting of the Chancellor's statement:

*"The OBR's judgement on whether the government's plans are sound is important to investors. They help fund government spending by buying its bonds - which are a type of IOU. This means some of the government's borrowing costs depend to a great extent how the financial markets respond to the OBR's assessments and forecasts."*⁴

The Daily Telegraph has put the situation even more starkly:

*"On public finances, the buck stops with the Office of Budget Responsibility" and describes Richard Hughes, the Chairman of the OBR, as the "most powerful man in Britain."*⁵

Most ominously, the Labour Party has said that, if it were to win the next election, it would strengthen the power of the OBR and increase its ability to comment on – and therefore ultimately control – government economic policies.⁶ This would be an admittance of defeat, cementing a forecasting model with serious, systemic problems.

Last month, the OBR was forced to admit that its March

2022 forecast had contained “genuine errors, which would have been corrected before the forecast was finalised if we had spotted them”.⁷ This included underappreciating the inflationary shock that would result from Russia’s invasion of Ukraine and being too optimistic about the level of economic activity in the British economy.⁸ This was the last OBR report produced before the Kwasi Kwarteng/Liz Truss mini-budget.

On 26 November 2023, The Sunday Times reported that, in the lead up to his autumn budget, OBR forecasters had told the Chancellor in October that he faced a £27bn “blackhole”, before changing its mind just 5 weeks later and stating that he in fact had £32bn of “headroom”⁹ – a £59 billion oscillation.

In March this year, David Miles, who sits on the OBR’s all-powerful Budget Responsibility Committee, admitted that its forecasts were “almost guaranteed to be wrong.”¹⁰

This report argues that there has been no urgent pursuit of pro-growth policies precisely because the OBR has said time and again that there is nothing to worry about. This is clearly a mistake, as any fair assessment of the UK economy would be hard pressed not to conclude that growth has been in very short supply in recent years.



THE OBR ORTHODOXY

Since 2010, the OBR has released 28 forecasts, alongside government budgets and financial statements, that seek to anticipate the rate of GDP growth, and public sector net borrowing, over 1-, 2-, 3-, 4-, and 5-year time horizons.

The OBR is required by its founding statute, the Budget Responsibility and National Audit Act 2011, to review its forecast performance once a year and compare its predictions with the actual outturn¹¹. However, these yearly “Forecast Evaluation Reports” look only at the most immediate performance of the OBR, and do not track its modelling success over the long-term.

In August 2023, for the first time, the OBR released a working paper titled “The OBR’s forecast performance” which, it says, “takes a more comprehensive look at our overall forecasting record since the OBR was established in 2010. The paper compares the OBR’s economic and fiscal forecasts against the latest outturns using data from all 27 of the Economic and fiscal outlooks (EFOs) we published between June 2010 and March 2023.”¹²

This document states its intention to “evaluate our forecasting record over the past 13 years” and is the first time that such a review has been conducted.

The OBR’s key findings are that its models are overly optimistic when it comes to estimating GDP growth, and

that they fail to appreciate the true size of public sector borrowing:

“Our economic and fiscal forecasts have shown relatively little tendency to overoptimism or overpessimism over the first two years but have overestimated real GDP growth and underestimated government borrowing in the medium term”.

The document defines “forecast accuracy” as “the absolute average difference between outturn and forecast values, which ignores the sign of the difference (i.e. whether it is positive or negative).”¹³

These findings reflect an increasingly widespread view that the OBR’s proclamations do more harm than good, and that continuing to abide by its edicts traps the UK in a straitjacket of failure. This was conveyed by the former Conservative Party leader, Sir Iain Duncan Smith, who said: “the OBR...have got their forecasts completely wrong in essence up until now, and we risk over-tightening the economy at a time when we should actually be easing it back into full recovery.”¹⁴

GDP forecasts and outturns

Calendar years ahead:	Per cent					
	In-year	One	Two	Three	Four	Five
Forecast differences (colours reflect magnitude relative to pre-OBR median)						
June 2010	1.2	-1.2	-1.4	-1.1	0.5	-0.3
November 2010	0.6	-1.0	-1.2	-1.1	0.4	-0.3
March 2011	-0.6	-1.1	-1.1	0.3	-0.4	
November 2011	0.2	0.7	-0.3	0.5	-0.6	-0.8
March 2012	0.6	-0.2	0.5	-0.6	-0.8	
December 2012	1.5	0.6	1.2	0.1	-0.5	-0.4
March 2013	1.2	1.4	0.1	-0.5	-0.4	
December 2013	0.4	0.8	0.2	-0.4	-0.3	-1.0
March 2014	0.5	0.1	-0.4	-0.2	-0.8	
December 2014	0.2	0.0	0.0	0.0	-0.6	-0.7
March 2015	-0.1	-0.1	0.1	-0.6	-0.8	
Julv 2015 ¹	0.0	-0.1	0.0	-0.7	-0.8	-13.4
November 2015	0.0	-0.2	-0.1	-0.7	-0.7	-13.3
March 2016	0.2	0.2	-0.4	-0.5	-13.1	
November 2016	0.1	1.0	0.0	-0.5	-13.1	5.6
March 2017	0.4	0.2	-0.1	-12.9	5.6	
November 2017	0.9	0.3	0.3	-12.3	6.1	2.5
March 2018	0.2	0.3	-12.3	6.2	2.7	
October 2018	0.4	0.0	-12.5	6.1	2.6	
March 2019	0.4	-12.5	6.0	2.5	-1.6	
March 2020	-12.1	5.8	2.6			
November 2020	0.3	2.1	-2.5			
March 2021	3.6	-3.2				
October 2021	1.1	-1.8				
March 2022	0.3					
November 2022	-0.1					
						Smaller than median absolute difference
						Median sized difference
						Less than ½ std. dev. above median absolute
						More than ½ std. dev. above median absolute

Median absolute differences over the 20 years preceding the creation of the OBR

Public sector net borrowing forecasts and outturns

Fiscal years ahead:	Per cent of outturn GDP					
	In-year	One	Two	Three	Four	Five
Forecast differences (colours reflect magnitude relative to pre-OBR median)¹						
June 2010 ¹	-0.1	-0.8	0.1	1.5	2.5	3.0
November 2010	-0.7	0.0	1.4	2.4	3.2	3.1
March 2011	-0.6	-0.3	0.8	1.9	2.6	2.5
November 2011	-0.6	-0.3	0.3	0.8	1.3	1.4
March 2012	-0.5	-0.2	0.4	1.1	1.4	1.6
December 2012	-0.2	-0.3	-0.1	-0.1	-0.1	0.9
March 2013	-0.3	-0.8	-0.7	-0.8	-0.7	0.3
December 2013	-0.3	0.0	0.0	0.1	1.2	1.7
March 2014	-0.1	0.0	0.2	0.4	1.5	1.8
December 2014	-0.2	-0.2	0.1	1.2	1.4	3.8
March 2015	-0.2	-0.2	0.2	1.2	1.5	3.1
July 2015	-0.1	0.1	0.0	0.7	0.9	3.2
November 2015 ²	0.0	-0.2	0.9	1.1	3.3	15.9
March 2016	0.0	-0.5	0.2	0.4	3.3	15.7
November 2016	-1.1	-0.8	-0.8	1.9	14.2	4.7
March 2017	-0.3	-0.7	-0.5	2.0	14.2	4.7
November 2017	-0.4	-0.6	1.2	13.5	4.0	4.3
March 2018	-0.1	-0.5	1.2	13.6	4.1	4.5
November 2018	0.1	1.3	13.7	4.2	4.5	
March 2019	0.2	1.5	14.0	4.5	4.7	
March 2020	0.6	12.4	2.4	2.9		
November 2020	-3.8	-1.8	1.2			
March 2021	-2.0	-4.8	1.0			
October 2021	-2.6	2.0				
March 2022	-0.2	1.3				
November 2022	-1.7					
March 2023	-0.7					
					Smaller than median absolute difference	
					Median sized difference	
					Less than ½ std. dev. above median absolute	
					More than ½ std. dev. above median absolute	

Median absolute differences over the 20 years preceding the creation of the OBR

CWF ANALYSIS

This report has set out to find how wide of the mark the OBR forecasts on GDP growth and Public Sector Net Borrowing have truly been.

Given that the OBR, in August 2023, has produced for the first time in its history a “comprehensive look” at its “overall forecasting record since the OBR was established in 2010”, we decided to do our own first-of-its-kind analysis to translate these failures into practical numbers so that the full extent of the OBR’s failings could be scrutinised widely. This admission of failure from the OBR received no public acknowledgement from Treasury ministers, and no steps have been taken to understand how the OBR is seeking to increase its performance.

Using the OBR’s assessment of its forecasting inaccuracy, as set out in its unprecedented August Working Paper, CWF has then translated that into cash terms using official GDP data from the Office for National Statistics, to quantify the track-record of failure that the OBR has built up since 2010. This report lays this out and seeks to demonstrate what the numbers mean in terms of the size of the economy, household incomes and government expenditure.

Using data from the ONS’ Blue Book National Accounts to gauge the size of the UK economy in pounds sterling, CWF have compared it with the OBR’s one-year forecasts.

The report has also sought to gauge the sheer scale of the OBR's misjudgement of Public Sector Net Borrowing and has again used the OBR's own calculations as to the difference between its forecasts and the outturn, before using ONS data to convert the discrepancy into cash terms.

THE RESULTS OF THE CWF ANALYSIS

It is not sustainable to expect the Chancellor and Treasury officials to be bound by OBR forecasts that repeatedly miss the target by such a wide margin. Infrastructure investment, tax rates, and expenditure on public priorities like the NHS are all affected by these miscalculations.

Despite politicians being acutely aware of these shortcomings, successive governments have been expected blindly to trust the calculations of the OBR, and forced to gamble with the British economy that its sums will add up.

No forecaster can be correct 100% of the time, but it's important for the public debate to recognise and appreciate the huge forecasting inaccuracies that are determining all decision-making at the Treasury.

GDP

Taken as a whole, the findings reveal that the OBR’s one-year budget forecasts have made misjudgements about UK economic growth that total **£558 billion between 2010 and 2023**.

This provides a clearer picture of just how wildly inaccurate the OBR’s forecasts truly are, and unclouds a process which has enjoyed an inscrutable status over British politics for the last decade.

This topline figure means that, on average, the OBR miscalculates the UK’s annual growth by £46.5bn.

For example, the OBR’s budget 2013 forecast (March 2013) overestimated GDP growth in 2014 by 1.4%. In real terms, however, this overestimation was equivalent to a miscalculation of £20.56bn – a figure equivalent to the entire contribution made by the UK fashion and textile industry.¹⁵

YEAR FORECAST MADE	Year forecasting	Forecast inaccuracy*	GDP at start of forecast year (£m)	Forecast Inaccuracy in £m	Total differences in £m
2010	2011'	1.2%	£1,608,553.00	£19,302.63	£19,302.63
2011	2012'	1.1%	£1,662,590.00	£18,288.49	£18,288.49
2012	2013'	0.2%	£1,713,715.00	£3,427.43	£3,427.43
2013	2014'	-1.4%	£1,781,361.00	-£24,939.05	£24,939.05
2014	2015'	-0.1%	£1,862,514.00	-£1,862.51	£1,862.51
2015	2016'	0.1%	£1,916,451.00	£1,916.45	£1,916.45
2016	2017'	-0.2%	£1,991,645.00	-£3,983.29	£3,983.29
2017	2018'	-0.2%	£2,082,482.00	-£4,164.96	£4,164.96
2018	2019'	-0.3%	£2,152,304.00	-£6,456.91	£6,456.91
2019	2020'	12.5%	£2,233,921.00	£279,240.12	£279,240.12
2020	2021'	-5.8%	£2,104,288.00	-£122,048.70	£122,048.70
2021	2022'	3.2%	£2,284,709.00	£73,110.68	£73,110.68
				Total	£558,741.22
				Without 2020	£279,501.10
				Without 2020/2021	£138,149.77

Even if the 2019 forecast is excluded from the figures, due to the unforeseen pandemic of 2020, then the forecasting inaccuracy figure remains at a staggering £279.5bn. If the 2020 budget forecast is also excluded, then OBR errors still add up to £138bn.

Putting the OBR's miscalculations into perspective is important. These forecasts are so badly wrong that the average yearly error is equivalent to the British automobile manufacturing (£13.3bn), agriculture (£11.1bn), and pharmaceutical manufacturing (£19.1bn) industries combined.

The size of the miscalculation is equivalent to all the revenue generated by corporation tax in 2020/2021 (£51bn), over twice the amount of revenue generated by fuel duties (£20bn), and more than is raised by council taxes (£36.4bn).¹⁶

Such is the magnitude of the OBR's forecasting failures, that it is equivalent to the Treasury forgetting to collect corporation tax next year, or every local authority in England deciding to do-away with council tax for twelve months.

To put it another way, there are twenty government departments that have a Departmental Expenditure Limit that is less than this staggering figure.

These include:

- The Department for Transport (£28.9bn)
- 2x the size of the Department for Levelling Up, Housing, and Communities (£22.6bn)
- Scotland Office (£42bn)
- The Wales and Northern Ireland Offices (£33.7bn)
- 4x the size of the Department for Science Innovation and Technology (£10bn)

Public Sector Net Borrowing (PSNB)

The OBR has consistently misjudged the amount that the UK borrows, **with the total sum of its forecasting errors equating to £630bn for one-year ahead forecasts.**

As the OBR admits itself, its PSNB forecasts tend to underestimate the amount that will be borrowed. Between 2010 and 2023, errors with the quango's one-year ahead modelling have meant that it has underestimated PSNB by £228.6bn.

	In year		One year		Two year		Three year		Four year		Five year	
Total forecasting inaccuracy	£457.7	29.3%	£630.0	37.3%	£1,156.1	59.5%	£1,278.1	60.5%	£1,386.4	60.1%	£1,734.7	81.6%
Total bias	£20.5	7.8%	£228.6	3.6%	£1,145.5	38.6%	£1,251.0	53.3%	£1,358.3	63.1%	£1,707.8	79.3%
	Overestimate		Underestimate		Underestimate		Underestimate		Underestimate		Underestimate	
Excluding Covid-19 (2019/20-2020/21)												
Difference	£319.6	22.8%	£298.0	19.3%	£254.7	14.8%	£636.7	29.9%	£589.8	29.2%	£609.2	28.3%
Bias	£90.0	2.5%	£103.4	11.7%	£244.1	-8.5%	£609.6	-22.7%	£561.7	-25.4%	£582.3	-26.0%
	Underestimate		Overestimate		Underestimate		Underestimate		Underestimate		Underestimate	
Excluding 2019/20												
Difference	£443.9	28.7%	£555.1	31.9%	£1,102.3	57.7%	£1,199.0	57.1%	£1,172.3	57.4%	£1,582.2	74.9%
Bias	£34.3	8.4%	£153.7	-0.9%	£1,091.7	-36.4%	£1,171.9	-49.9%	£1,144.2	-53.6%	£1,555.3	-72.6%
	Overestimate		Underestimate		Underestimate		Underestimate		Underestimate		Underestimate	

These findings mean that in an average year the OBR will misjudge the UK's public sector net borrowing by £52.5bn.

The size of this misjudgement is equivalent to the funding packages of several key areas of public policy. In 2022/2023 core funding for schools in England was £53.8bn¹⁷, whilst in 2021/2022 spending on defence, minus depreciation, totalled £45.9bn¹⁸.

This annual error is equivalent to a tenth of **all** annual expenditure by UK government departments (expected to be £517bn in 2023/2024)¹⁹. It is also:

- Over 3x the size of the Home Office's annual budget (£17bn)
- Over 2.5x the total grants given by central government to local councils every year (£21bn)
- More than the annual budgets of FCDO, Justice, HMRC, DWP, and DEFRA combined (£41bn).

Even if we exclude forecasts that were affected by the pandemic, the OBR still misjudges UK PSNB by £25bn a year.

CWF Recommendation

The Government must look to end its unhealthy dependence on just one economic forecaster and should instead allow a diverse range of perspectives to provide scrutiny of the government's budget and fiscal events.

OBR forecasts would be strengthened by the inclusion of a red-teaming process, which tests and challenges some of the underlying assumptions behind the models.

Working alongside economists with a range of opinions, backgrounds and experience would greatly strengthen the efficacy of the UK's independent fiscal forecasting. The OBR's shaky performance since 2010 risks culminating in a crisis of legitimacy unless it is able to break out of the cycle of miscalculation and error.

Working with economists that do not necessarily share the same academic background, registered interests, or career path would breathe some vitality into a process that has become stagnant and captured by a particular worldview.

Sources

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- [ONS: Gross Domestic Product at market prices: Current price: Seasonally adjusted £m](#)

Footnotes

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