Box 9

TRACK RECORD OF BUDGETARY FORECASTS IN STABILITY AND CONVERGENCE PROGRAMMES

Under the European surveillance procedure, all EU Member States are requested to submit stability and convergence programmes annually to the Council and the Commission. These programmes should provide information on the medium-term objective for the budgetary position, the main assumptions about expected economic developments, and policy measures. The forecast of the future paths for the government balance and debt ratios should cover at least the subsequent three years.

A systematic evaluation of forecasts relating to budgetary balances and real GDP growth, as published by 15 EU Member States[1] in their programmes since the start of Stage Three of EMU, shows differences between those countries with a sound budgetary position and those with significant fiscal imbalances.

Uncertainty about future economic developments in the course of the economic downturn has led to increasingly inaccurate forecasts and widening errors over the forecast horizon. In addition, countries have often failed to predict correctly the direction of budgetary developments. Forecasts of fiscal consolidation or expansion have therefore not been fully reliable.

Accurate forecasts of future developments should be unbiased. However, it appears that only around half of the EU Member States have had no significant bias in their budgetary forecasts (as generally reflected by a value closer to zero in the second column of the table). By contrast, countries with deficits close to or above the 3% GDP reference value generally displayed considerably more optimistic budgetary forecasts than other countries (as indicated by the increasingly negative figures in the second column of the table). Countries not in a close-to-balance position at the start of the programme also tended to make errors more often when projecting a consolidation of the budgetary balance.

Forecasts need to be revised to incorporate new information and correct past errors. Indeed, countries not in a close-to-balance position revised their budgetary forecasts more substantially than others. But these revisions were only tenuously linked to changes in growth forecasts and did not eliminate the larger bias compared with countries in a close-to-balance position. Moreover, downward revisions were often not compensated by a subsequent strengthening of consolidation plans in order to achieve original targets.

The existence of systematic biases for budgetary and economic forecasts in stability and convergence programmes suggests that there is substantial room for improvement. The elimination of forecast biases would increase the transparency of the surveillance process and the credibility of the fiscal framework.

Forecasting biases by country, 1999-2003

(as a percentage of GDP; in percentage points)

Country	Balance	Growth
Luxembourg	0.85	-1.60
Belgium	0.22	-0.63
Finland	0.21	-0.42
Austria	0.12	-0.71
Spain	-0.08	-0.41
Denmark	-0.13	-0.63
Sweden	-0.51	-0.31
United Kingdom	-0.58	-0.08
Ireland	-0.81	-0.26
Netherlands	-0.91	-1.11
Italy	-1.25	-1.21
Germany	-1.36	-1.21
France	-1.43	-1.03
Portugal	-1.62	-1.79
Greece	-1.97	-0.17

Source: ECB calculations based on data from stability and convergence programmes and the European Commission's AMECO database (spring 2004).
Note: Figures present mean errors of forecasts for all programmes issued by a particular country since 1999. Errors are computed as the difference between actual and projected values. Countries are ordered according to the mean error for budgetary balances.

1 New Member States submitted their first convergence programmes in 2004. Therefore they cannot be included in the sample.