

Lots of borrowing, but well below forecast

I sympathise with the official forecasters at a time of big change in the economy, with a large fall in output and incomes stemming from the measures to curb the pandemic. Getting forecasts right when the economy is falling further and faster when the measures go in and recovering faster and more when they are removed than in previous cycles makes it difficult to get the numbers right. I have had less sympathy with the undue gloom the OBR put into their November 2020 and March 2021 forecasts, and said at both times I thought they were exaggerating the deficit. So it has proved.

In November they forecast a deficit of £394 bn for 2020-21. In March this year forecasting the year to end March which had almost ended, they said the deficit would be £354bn, a £40bn fall in four months. Yesterday they announced the provisional outturn at £303bn, £51 bn down on a few weeks ago and £91bn down on November. They point out they were thinking in March of £27bn of losses on loans which have not yet materialised and would not be a new demand for cash or borrowing anyway. Even taking this out it still leaves the forecasts way too gloomy. They underestimated the amount of tax revenue collected, and overestimated state spending.

I am raising this again because it will have knock on effects on future years. The £51bn revision downwards to the estimated deficit between this March and April is twice as much as the government now thinks it needs to add to tax revenue in 2024-5 to control the deficit. Could it be that those future years forecasts are also wrong? Might they be too pessimistic, so how necessary is the extra tax? I have other issues with the future tax policy over how you do secure more revenue and what the role of growth is in meeting the state's requirements. Even in their own terms, however, the OBR should examine the possibility that they have been too pessimistic for future years, and consider the need for some caution in drawing early policy conclusions for future years from forecast numbers which have recently proved so unreliable. Did they urge a needless or undesirable tax rise?