

The Bank of England forecasts a poor future

From the first official forecasts of poor outcomes if we dared to vote Brexit to the continuing gloom of OBR and Bank predictions on growth, unemployment and tax revenues I have correctly argued they have been far too pessimistic. This year again the deficit is £60 bn below their forecast, employment is strong and growth excellent.

So let me surprise you. This time I do not think the Bank and doubtless the OBR who usually are similar are too pessimistic about 22-3 or 23-4. I think now the savage attack on the economy by the Treasury with its big tax rises and the Bank with its severe monetary tightening will indeed deliver little growth, rising unemployment and less buoyant tax revenues in the next two years.

I agree the Bank needed to tighten a bit to correct the excessive laxity of extended Quantitative easing or money printing. They needed to curb the inflation they had created. They were right to end all QE this year. They should have done so last year as the recovery took hold. It does not need, however, to rush to Quantitative tightening. Neither the Fed nor the ECB plan to do that and they both have worse inflation than us.

My main complaint is aimed at Treasury policy. The fastest way to get the deficit down is growth. Their excessive tax rises strategy will slow the economy too much, impeding getting the deficit down. One simple message for them. Stop it.

The Bank correctly forecasts a hit to real incomes this year as the energy price rises and tax rises kick in April. They may have underdone that forecast. This will slow the economy markedly without needing a monetary jolt as well.

The government needs a growth strategy for its own sake and to cut the deficit.