

The Treasury paints another dark picture

A year ago I spoke about the March budget and stated that the official forecasts for were far too gloomy. In particular the deficit would be much lower than the £233 bn for the current year that they expected.

At the half year stage the OBR changed its deficit forecast, slicing a large £50bn off it. I commented that it was still too high. Yesterday they admitted that the second half year saw the need to take another £55bn off the forecast, bringing the total change to a massive £105bn for the year as a whole. A similar overstatement of the deficit had occurred in the previous year. This year's document contains an anguished passage on why they so understated the tax revenues coming in from the lower rates being charged before the rises this spring. The extra revenue is so huge that clearly they do not need the extra £12bn from the National Insurance hike .

It is s pity the Treasury did not grasp the opportunity to use some of the overshoot of revenue to allow some selective further tax cuts. Choose the right ones and you may anyway end up with more revenue, as they did with Stamp Duty.

The Treasury has at last got round to removing VAT from insulation, boiler controls and other products that can help people cut their home heating bills. This EU tax needed to go. It is disappointing to learn they think they cannot remove these taxes for Northern Ireland under the Protocol. That is by no means clear from the text. They say they are seeking a solution from the EU as they acknowledge the UK government needs to be in control of all taxes anywhere in the country. |They could go ahead and abolish these taxes in Northern Ireland at the same time as the rest of the UK, and could buttress the legal position by putting into the law a clause overriding any unhelpful or errant interpretation of the protocol.

The Treasury forecasts are for slowing growth, inflation persistent for this year, and too large a squeeze on incomes. Last year they also got inflation badly wrong, telling us it would run at 1.8% this year, yet it has hit 6.2%. Given the persistent money printing the Bank undertook all last year it is difficult to know why they thought inflation would be so low.