Chancellor Kwasi Kwarteng bids to reassure markets after IMF rebuke

K
wasi Kwarteng will step up efforts to reassure the City about his economic plans after the International Monetary Fund (IMF) criticised the Government's strategy – and as the pound suffered further falls on Wednesday.

The Chancellor remains under pressure to reassure the markets after the Bank of England suggested sharp interest rate rises could be on the way.

Representatives from Bank of America, JP Morgan, Standard Chartered, Citi, UBS, Morgan Stanley and Bloomberg will all attend a meeting with Mr Kwarteng on Wednesday, following days of turmoil which saw the pound buffeted and Government borrowing costs increase after his mini-budget spooked the markets with its package of tax cuts and increased borrowing.

In an extraordinary statement, the IMF said it was "closely monitoring" developments in the UK and was in touch with the authorities, urging the Chancellor to "re-evaluate the tax measures".

It warned the current plans, including the abolition of the 45p rate of income tax for people on more than £150,000, are likely to increase inequality.

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The move came as the Bank of England signalled it was ready to significantly ramp up interest rates to shore up the pound and guard against increased inflation.

The pound suffered further falls on Wednesday morning, falling back to 1.06 US dollars after reaching 1.08 US dollars on Tuesday.

The FTSE 100 Index also fell sharply after opening on Wednesday, falling more than 100 points to 6872.7 – a drop of 1.6% – following market losses in the US overnight

The Chancellor insisted he was “confident” his tax-cutting strategy will deliver the promised economic growth.

Sterling slumped to a record low against the dollar on Monday before recovering and the Chancellor has sought to convince City investors he has a “credible plan” to start reducing the UK’s debt mountain.

But the IMF said in a statement: “We understand that the sizeable fiscal package announced aims at helping families and businesses deal with the energy shock and at boosting growth via tax cuts and supply measures.

“However, given elevated inflation pressures in many countries, including the UK, we do not recommend large and untargeted fiscal packages at this juncture, as it is important that fiscal policy does not work at cross-purposes to monetary policy.

“Furthermore, the nature of the UK measures will likely increase inequality.”

It urged Mr Kwarteng to change course when he comes back to Parliament in November with a package intended to show how he will get the public finances back on track.

“The November 23 budget will present an early opportunity for the UK Government to consider ways to provide support that is more targeted and re-evaluate the tax measures, especially those that benefit high-income earners,” the IMF said.

In response to the criticism a Treasury spokeswoman said: “We have acted at speed to protect households and businesses through this winter and the next, following the unprecedented energy price rise caused by (Vladimir) Putin’s illegal actions in Ukraine.”

The Government was “focused on growing the economy to raise living standards for everyone” and the Chancellor’s statement on November 23 “will set out further details on the Government’s fiscal rules, including ensuring that debt falls as a share of GDP (gross domestic product) in the medium term”.

Labour leader Sir Keir Starmer, fresh from a party conference where his party positioned itself as the government-in-waiting, said that the IMF rebuke should not be ignored and urged Mr Kwarteng to change course.

On BBC Radio 4’s Today programme, he said the economy had suffered “self-inflicted” wounds, adding: “It’s the worst of all situations for our country to find itself in.

“Rather than coming on and disparaging the IMF, the Government needs to come on and urgently review the plans that it set out last Friday.”

The Liberal Democrats have also called for Parliament, which is currently in conference recess, to be recalled to fix what the party called a “mess”.

The Bank of England’s chief economist Huw Pill warned Threadneedle Street “cannot be indifferent” to the developments of the past days, seen as a signal the cost of borrowing will have to go up to protect the pound and keep a lid on inflation.

“It is hard not to draw the conclusion that all this will require significant monetary policy response,” Mr Pill said.

Former US treasury secretary Larry Summers told Newsnight that Britain was facing a “very ominous” combination of factors.

“I can’t in all honesty remember a time when a set of policy announcements from a G7 country elicited so negative a response, both from markets and from economic experts,” he said.

Interest rate rises could lead to increased mortgage costs and make business borrowing more expensive.

With some analysts predicting the Bank of England’s base rate, currently standing at 2.25%, will have to rise to as high as 6% next year, some lenders began withdrawing mortgage products amid the uncertainty.

The crisis was triggered by Mr Kwarteng on Friday when he unveiled a massive £45 billion of tax cuts funded by Government borrowing.

At meetings on Wednesday with investment banks, the Chancellor is expected to emphasise the importance of the reforms ministers will be setting out in the coming weeks to boost growth, including his “Big Bang 2.0” measures to further liberalise financial market regulation.

Despite some disquiet among Tory MP about the market chaos, backbench allies of Ms Truss have insisted that she should stand firm and commit to her plan.

“My message today is that the Government are right to see the main threat for the year ahead is recession, not inflation,” Sir John Redwood told Sky News.