# City turmoil 'more to do with interest rates' than tax measures, says Rees-Mogg

T
he Bank of England's failure to raise interest rates in line with the US is driving turbulence in financial markets rather than Kwasi Kwarteng's mini-budget, Business Secretary Jacob Rees-Mogg has said.

His comments came as Liz Truss prepared to face MPs with the Government battling for credibility over its economic policies as turmoil in the markets continued.

The Prime Minister will face her first Commons questions since Mr Kwarteng's £43 billion mini-budget tax giveaway was blamed for unleashing chaos in the City.

There was further turbulence overnight as sterling fell against the dollar after Bank of England governor Andrew Bailey insisted that his emergency intervention to support pension funds would end this week.

Mr Rees-Mogg insisted he had confidence in the governor but stressed the importance of the Bank's role in ensuring the orderly functioning of markets.

[‘In order to move forward, we’ve got to find a way to work together’]

He suggested the market turbulence could primarily have been the result of the Bank’s failure to raise interest rates in line with US policymakers, rather than Mr Kwarteng’s September 23 mini-budget.

“What has caused the effect in pension funds, because of some quite high-risk but low-probability investment strategies, is not necessarily the mini-budget. It could just as easily be the fact that the day before the Bank of England did not raise interest rates as much as the (US) Federal Reserve did,” he said.

He told BBC Radio 4’s Today programme that “jumping to conclusions about causality is not meeting the BBC’s requirement for impartiality” after presenter Mishal Husain suggested the Chancellor’s actions had been the trigger for the fluctuations in sterling and Government bonds.

Mr Rees-Mogg said the mini-budget’s announcements as a percentage of gross domestic product (GDP) – a measure of the size of the economy – were “not that enormous” and “not out of the run of the mill of events that come before Parliament”.

The market response was “much more to do with interest rates than it is to do with a minor part of fiscal policy”.

On September 22 the Bank’s Monetary Policy Committee (MPC) raised rates by 0.5 percentage points to 2.25% – the highest since December 2008 – from 1.75%, in an effort to grapple big increases in the cost of living.

The day before, the Federal Reserve raised rates by 0.75 percentage points, taking its benchmark rate to a range of 3% to 3.25%.

But Lucy Coutts, investment director at wealth management firm JM Finn, said the market reaction was a “self-inflicted wound” as a result of the mini-budget.

She told Today that bond yields were rising because there is “so much uncertainty about the fiscal policy of the Government”.

Ms Truss is likely to be forced to defend her economic plan, which is focused on borrowing money to fund growth-boosting measures, when she faces Prime Minister’s Questions.

Britain’s economy unexpectedly shrank in August as factories and consumer services firms struggled, putting the UK on track to contract overall in the third quarter, according to Office for National Statistics figures.

GDP dropped by 0.3% between July and August, down from growth of 0.1% the previous month.

Ms Truss will also address Tory MPs at a private meeting of the backbench 1922 Committee following a fractious party conference overshadowed by the U-turn over plans to scrap the 45p rate of income tax for top earners.

That measure was originally included in the Chancellor’s September 23 statement but was abandoned in the face of Tory opposition.

The Prime Minister and Chancellor are under pressure from MPs across a range of other policy areas, including whether benefits will rise in line with inflation.

Uncertainty in the City around Ms Truss and Mr Kwarteng’s plans have seen rising yields on Government bonds, increasing the cost of state borrowing and having a knock-on impact on pension funds.

On Tuesday the Bank intervened for the second time in as many days to buy up Government bonds, warning of a “material risk to UK financial stability" with "fire sales" of assets if it did not act.

But speaking in Washington, Mr Bailey said there could be no further support beyond Friday and it was up to the funds concerned to rebalance their holdings.

"My message to the funds involved – you've got three days left now. You have got to get this done," he said.

The pound was lower against the dollar and euro on Wednesday morning amid continued unease among financial traders.

Sterling fell by 0.85% to 1.099 against the dollar. The pound had risen as high as 1.1180 on Tuesday but slumped sharply after the governor's warning to pensions funds.