‘Don’t prolong the pain’: IMF criticises UK government for ‘undermining’ Bank of England

The head of the International Monetary Fund has delivered a blunt condemnation of the UK government’s mini-budget – pointing out government and Bank of England policies should not be working against each other.

Kristalina Georgieva was speaking at a news conference in Washington after the government’s mini-budget unleashed chaos in the markets when it was announced last month.

Asked by US correspondent Mark Stone if she had any messages for Prime Minister Liz Truss and the UK, Ms Georgieva said: “Fiscal policy should not undermine monetary policy.

“Because if it does, the task of monetary policy becomes only harder and it translates into the necessity for an even further increase of rates and tightening of financial conditions.

“Don’t prolong the pain. Make sure that actions are coherent and consistent.”

She added that it is “correct to be led by the evidence, so if the evidence is that there has to be a recalibration, it’s right for governments to do so”.

Fiscal policy is how the government spends money, while monetary policy is the control of interest rates exercised by the Bank of England.

Ms Georgieva’s remarks come after the IMF’s chief economist told Sky News the chancellor’s mini-budget “complicated matters” for the Bank of England as it battled to bring down inflation.

Olivier Gourinchas also said the tax cuts announced by Chancellor Kwasi Kwarteng late last month threatened to cause "problems" for the UK economy, coming as they did when the Bank was attempting to raise interest rates.

Mr Kwarteng's mini-budget announcement, which included billions of pounds worth of unfunded tax cuts meant to encourage growth, has led to a contradiction in policy between the Bank and the government.

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While the government is trying to encourage growth, the Bank is attempting to suppress it, by raising interest rates, to bring inflation down to its 2% goal.

The thinking behind the interest rate rises that have been brought in by central banks across the world, including the Bank of England, is that raising interest rates will bring down inflation.

Higher interest rates make repaying debt more expensive but the Bank believes the action will lead to a shorter economic downturn than not acting to stem inflation.

Ms Georgieva also praised UK institutions at the news conference in Washington on Thursday.

She said: "You have a country with strong institutions and strong traditions, transparent, evidence-based policymaking.

"And it is the foundation of these institutions, of course, the independent Bank of England, the Office for Budgetary Responsibility, the engagement of the parliament, the public, you from the press that gives the reputation of the UK, of a country with a strength in economic policymaking.”