The Treasury and Bank have responded to the market's reaction to Friday's Growth Plan announcement

Both the Treasury and Bank of England have tried to calm investors' concerns about UK fiscal policy. The Chancellor will set out his Medium-Term Fiscal Plan on 23 November

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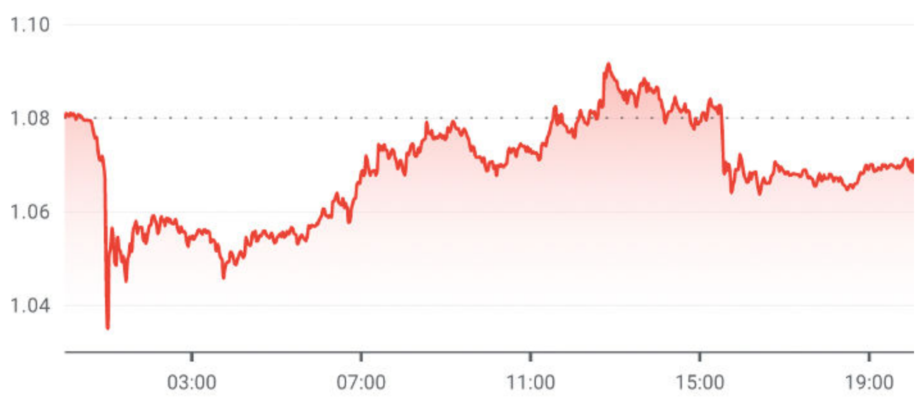

Monday 26 September was not a great day for the pound sterling. As the above graph shows, it sunk to $1.0349 early in the day. Some of that reflects thin trading in Asian markets, but even with a recovery as the day wore on, the pound ended a long way from the $1.1263 at which it started on Friday, the day of the Chancellor's maxi-mini-Budget.

Market rumours suggested that the Bank of England would be making an emergency rate hike to stabilise the currency, a move that would have been manna from heaven for the Labour Party as its conference got underway. In the event, both the Chancellor and the Bank did no more than issue calming statements.

The Chancellor provided what the Treasury described as 'an update on Growth Plan implementation'. This revealed:

- Mr Kwarteng will set out his Medium-Term Fiscal Plan on 23 November. This will provide further details on the Government's fiscal rules, including ensuring that debt falls as a share of GDP in the medium term. The subtext is that the rules introduced by Mr Sunak in January 2022 will be ditched as they cannot now be met.

- Also on 23 November, the Office for Budget Responsibility (OBR) will publish its Economic and Fiscal Outlook (EFO), the document that many said should have emerged last Friday.

- Cabinet Ministers will announce "further supply side growth measures" in October and early November, including changes to the planning system, business regulations, childcare, immigration, agricultural productivity, and digital infrastructure. And, next month, the Chancellor will, as part of that programme, outline regulatory reforms to the UK's financial services sector.

- There will be no Autumn Budget (Friday's event was officially not a Budget). The next Budget will be in Spring 2023, accompanied by a fresh OBR EFO. That makes 2022 a year with three Chancellors, but no Budget.

- The Government 'is sticking to spending settlements for this spending review period.' This bland statement is close to austerity by stealth. The spending review was settled last October, at a time the OBR was projecting inflation would peak at around 5% this year. By keeping to the nominal cash numbers in that review, the Treasury is effectively making significant real terms cuts. Before the announcement there had been suggestions the spending review would be reopened because of the squeeze implied by the 2021 assumptions.

The 'Statement from the Governor of the Bank of England' was shorter. Press reports say that the Monetary Policy Committee (MPC) had not been briefed on The Growth Plan before its meeting last week, so it is not surprising Andrew Bailey says 'I welcome the Government's commitment to sustainable economic growth, and to the role of the Office for Budget Responsibility in its assessment of prospects for the economy and public finances.' The Governor also kicked the can down the road to November (the 3rd, in this instance), explaining that the MPC 'will make a full assessment at its next scheduled meeting of the impact on demand and inflation from the Government's announcements, and the fall in sterling, and act accordingly.

Comment

The Chancellor will not be happy that he and the Bank were forced to produce don't-panic statements on the first working day after his 'fiscal event'. Whether the markets will now quietly wait until November for more news is far from certain.