

IMF forecasts

The IMF thinks all the western advanced economies will slow down a lot this year. Of course they will, because the Federal Reserve Board in the USA, the European Central Bank and the Bank of England have shifted from very inflationary policies to very tight policies. They have hiked interest rates, stopped buying up bonds and encouraged a credit squeeze. On top of this the UK has had a tax raising budget to add to the squeeze, whilst the Bank of England has gone for an ultra austere policy of selling bonds it owns at losses to drive up mortgages and other interest rates. The IMF as a result puts the UK towards the bottom of the pack for the year ahead after a great 2022. It may be too optimistic about some of the others, given the need for the Euro area to take more action to get inflation down.

These lurches of policy by advanced countries are unhelpful and unnecessary. Switzerland, China and Japan avoided the high inflation figures of the USA and Europe/UK by not buying up so many bonds and running such a loose policy. Only the UK has added a large rise in business tax and substantial fiscal drag on personal income taxes by not raising allowances in line with inflation. These tax changes will ensure slower growth. The business tax rises when added to the windfall taxes hitting the energy sector will ensure weak investment flows in the year ahead adding to the downturn. The Bank of England should reduce the severity of its bond sales, allowing its balance sheet to shrink as bonds fall due for repayment. The Treasury should abandon its tax rises and understand that it will collect more revenue if it allows more growth.