Funding the Future

The IMF can't join the dots between interest rates and ...

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The IMF is delivering its usual economic orthodoxy in force at its Autumn Meeting, as this report from the FT suggests:

The IMF has warned that above-target inflation risks becoming entrenched in the UK as it forecast the country would see the highest price growth of any G7 nation over the next two years.

The fund's chief economist said the Bank of England should be wary of lowering interest rates before it has quelled the latest outbreak of inflation, adding that the central bank is likely to hold off further reductions in its key rate until 2026.

So, to beat high prices, the mantra is to keep the cost of money high.

Can no one see the paradox in that?

And does no one appreciate that if the rate were cut, then:

* Rents might fall
* Lease costs (which now have a big impact on household costs) might fall
* The cost of mortgages would fall
* The pressure for high wage settlements will fall
* Spending power would rise, delivering growth if that is what is desired

I could very easily expand the list, but I don't think I need to.

Isn't it now apparent that the reason why inflation is embedded in the UK economy is precisely because we have interest rates that are too high, making us outliers on that issue, as we also are on inflation in the countries that the IMF is comparing us to? Is it really that hard for those in power to join up the dots and realise that there might be a link between the two?