

UK: Implications of Kwarteng's sacking

Prime Minister Liz Truss has sacked her chancellor Kwasi Kwarteng, replacing him with relatively centrist Jeremy Hunt, in a desperate bid to calm the pushback from her own backbench MPs, markets, and voters. The dramatic move constitutes a double-edged sword: it is both testament to the PM's extremely precarious position and exactly the bold move Truss needs if she wants to signal to various audiences that she is serious about turning the page on a disastrous first month in office.

Kwarteng's sacking highlights that there were no good options left for Truss. As of Tuesday, when MPs returned to Westminster from party conference recess, it became immediately clear that staying the course would not be possible. As discussed, the welfare and spending cuts that would have been required to balance Kwarteng's tax cuts are simply undeliverable for the Tories now that the party has won many structurally disadvantaged constituencies outside London from Labour. On top of that, the damage that Truss's government has done to the Bank of England's credibility only increased the urgency of a major adjustment to her tax cuts agenda.

Firing Kwarteng enables Truss to perform another major U-turn without having to resign from office. Apart from scrapping initial plans to lower the top rate of income tax, the government had already also brought forward the date for its debt-cutting plan to end-October, announced that it would publish the forecast from the independent Office for Budget Responsibility, and reversed earlier plans for senior appointments at the Treasury. Today, Truss combined the announcement about replacing her chancellor with reversing her plans for undoing previously planned corporation tax hikes—the first U-turn with meaningful fiscal implications, saving an estimated GBP 14bn.

Truss's disastrous standing in UK politics and in global markets necessitated some drastic changes to distance herself from what had been her own political program so far. At the same time, the charade of ordering close ally Kwarteng to leave the ongoing IMF and World Bank meetings in Washington and fly home to be fired the next morning will only further remind audiences in the UK and beyond of the PM's extremely desperate situation.

Meanwhile, Jeremy Hunt's appointment should be treated in the same way as reports about various policy U-turns: seen in isolation, it is comparably positive news. Having so far acted like a clueless ideologue pitching a nostalgic vision of Thatcherism four decades too late, Truss is now bringing in a senior party figure who represents a more moderate, center-right brand of Conservative politics. In principle, this could also bode relatively well for the economic and fiscal policy outlook—were it not for the fact that Truss is making this concession while fighting for her political life, acting out of desperation rather than any long-standing conviction or strategic plan.

Truss will hope that her drastic moves today win time to stabilize her own position, that of her party, and of her country in global markets. Her bet will be that today's shake-up will increase the chances of her not getting challenged by her own MPs. But even if the PM's zombie-style interpretation of Thatcherism has crashed spectacularly, her own position is so weakened and the Conservatives remain so deeply divided that policy uncertainty—and speculation about the PM's own future—will remain elevated for the foreseeable future.

Carsten Nickel

Deputy Director of Research
+44 20 7186 8873
carsten.nickel@teneo.com

[Client Portal >>](#)

Carsten Nickel

Deputy Director of Research
+44 20 7186 8873
carsten.nickel@teneo.com

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