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Following last week's controversial British mini-budget, questions are being asked about what this uncertainty means for businesses in Ireland, the rest of the EU and Canada. ICCC Director James Fitzgerald takes a look at what the experts are saying as to how the Truss-effect may spread beyond her shores.

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ECONOMIC VOLATILITY AND FEAR IN U.K. SET TO SPREAD ACROSS THE ATLANTIC

Ineffectual British Prime Ministers are a bit like the 46A Dublin omnibus from the Phoenix Park to Dún Laoghaire – you wait for what seems like 65 years for one and then four come along in a row. I was speaking to a pal of mine recently, an Anglo-Irish chap who, much to his continued chagrin, embarrassment and trauma, attended Eton College with Boris Johnson. As a youth, he never thought he would be treated to a British PM so erratic as to take the title of "worst ever" away from the hapless Anthony Eden.

Yet, in the past 12 years, Downing Street has been occupied by David Cameron, who thought it would be a good idea to put the UK's continued membership of the European Union to the people in order to, essentially, win a bet; Theresa May, who was unable to get Brexit – or anything else – done; Johnson, complete with his lies and law-breaking; and now, Liz Truss, who has managed to plunge her country and its currency into crisis by employing a trickle-down tactic that was discredited by economists as far back as the 1980s, even though she has been in residence at No. 10 hardly long enough to learn which night to put the bins out in that part of London SW1A.

I don't know whether Eton College is to blame – it educated Cameron, Johnson and 18 other PMs, including Eden – but according to my pal, the British people deserve better from their "first among equals". Market turmoil since the UK Chancellor of the Exchequer, Kwasi Kwarteng (another Etonian, by the way), announced the debt-funded giveaway 'mini-budget' a couple of weeks ago had seen the UK's borrowing costs soar and a shorting of the pound. It also prompted the International Monetary Fund and leading debt ratings agency, Moody's, to criticize the plan.

Share prices in Bank of Ireland, Greencore and other Irish-listed companies most exposed to the UK economy, have nosedived since the plan was announced to cut £45 billion of taxes over five years and spend around £60 billion over the next six months alone subsidizing energy bills for households and businesses. Ms. Truss has promised to freeze household gas and electricity bills for two years, using money the UK Government does not have to pay for it.

According to The Irish Times, “financial markets are predicting the Bank of England will need to hike its main interest rate from 2.25 per cent to 6 per cent to shore up the pound and counteract the inflationary effects of the mini-budget — at a time when UK inflation is already running at about 10 per cent”, leading some commentators to predict a full-blown recession and a sharp fall in property prices.

Even the partial U-turn taken by Ms. Truss and Mr. Kwarteng on elements of the budget have done little to placate the spooked markets. “The U-turn represents a concerted effort to soften the narrative regarding the government’s economic agenda but little to change the direction,” said Neil Mehta, a portfolio manager at BlueBay Asset Management, as quoted by the Financial Post. “This dynamic should support the pound in the short-term, but we think this will be short-lived, as confidence in the government is shot and policies come home to roost over a difficult winter for the UK economy.”

So, what does all this mean for Canada, for Ireland, for the EU and for the trade outlook within the highly connected and interdependent global commerce ecosystem?

Clearly, and as many observers warned the UK Government in advance, a fall in the pound’s value was inevitable and this will create some short-term opportunities for Irish and Canadian businesses (not to mention tourists) to take advantage of a drop in price of imports from the UK. With exchange rates being what they are, now would be a good time to visit that long-lost cousin in Wales or import a palette-load of haggis from Scotland. However, there is concern within EU Governments that this volatility in what is traditionally one of the most stable economies and currencies in the world, could spread to other markets.

“Fear is contagious,” said Ben Kumar, senior investment strategist at Seven Investment Management LLP, speaking to Bloomberg TV. “Higher bond volatility in the UK caused by fund liquidations prompts pound selloffs due to instability, which prompts UK equity outflows, which prompts parallel selloffs worldwide.”

Jacqueline Best, a professor at the University of Ottawa who studies the politics of finance, told CBC: “Part of the problem is that while extreme currency moves are caused by genuine worries, they also act like blood in the water to attract the sharks of the foreign exchange world: currency speculators. Obviously, we have massively increased volatility right now in currency markets, which is worrying. Normally, the system of floating exchange rates between national currencies works well and allows gradual changes in currency values as the relative strengths of economies vary. But their downside is they can become very volatile and that volatility can be self-reinforcing as speculators and traders start trying to make bets on where currencies are going.”

The underlying message, therefore, from economists, financial experts – even the International Monetary Fund – is you can take your chances with what will certainly be continued fluctuations around the world but given elevated inflation pressures in many countries, including the UK, EU and Canada, it is not recommend to engage in large and untargeted fiscal packages at this juncture. That advice is as applicable for small to medium sized businesses at this time, as it is for the governments of major national economies.

We have been warned.

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