Times letters: Chancellor's £21 billion spending bonanza

Sir, Your editorial ("Big Spender", May 27) and Paul Johnson's analysis ("Giveaway is on target — but this can't go on for ever") praise aspects of Rishi Sunak's latest fiscal package but also warn that it carries risk. In fact, the timing of the U-turn on the windfall tax, only one day after the publication of the Gray report, increases the suspicion that the government wants to deflect attention from the report's findings. It will also raise expectations that further fiscal stimulus will be implemented when the MPs start their investigation into whether Boris Johnson lied to parliament about the Downing Street parties.

All this is likely to raise the interest rate that investors demand over and above international interest rates to bring, or even keep, their money in UK bonds, which will have an adverse impact on the UK economy. The Bank of England estimates that a higher interest rate in the UK relative to international interest rates reduces consumer spending and delays investment decisions, which in turn harm GDP for as many as four years. Therefore, the short-term beneficial impact of Sunak's "blowing with the wind" fiscal stimulus on the economy risks being outweighed by its negative economic impact in the medium term.

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