

## UK's credit rating misery

How will the recent downgrading of the UK's AAA credit rating affect the economy in the future?

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Photo credit: World of Lard

Last week the UK AAA credit rating was downgraded one level to AA1 by ratings agency, Moody's. This was not unexpected and brings the UK in line with France and America. However, the UK's AAA rating was seen as George Osborne's saving grace and was continually used as proof that his economic plan was working. This fall may have political repercussions for him along with the coalition government with Labour continuously calling into doubt his competency as chancellor.

So the repercussions of this downgrade have been more political than economic. The UK still enjoys low borrowing rates and confidence remains unaffected. Many commentators have questioned the integrity of these rating agencies following the shambles of their rating decisions prior to the global economic crisis. Before the crisis they rated Lehman Brothers and AIG as AAA or AA respectively until the minute they collapsed. However, the ratings agencies do still maintain power and are still used as a guide for investing.

In the short term, this downgrade will not have a huge effect on the UK economy both domestically and globally. The main problem relates to the fact that turmoil has been building in the economy for months, a fact that can be seen through the ever falling value of sterling. The sterling has continuously been depreciating following the Government backed scheme quantitative easing.

However, if this downgrade continues to push us down the slippery slope to an even weaker currency, the prices of imports are going to continue to skyrocket, the most important of which are oil and food. If the price of these two basic commodities climbs it will hit the average family hard with big increases to their monthly bills. This increases inflationary pressures, which would push interest rates up, resulting in a catastrophic impact on household incomes. The ratings downgrade does not mean anything in itself but rather is representative of the wider malaise of the economy and the problems it could have in the future.



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Eduardo

5 Mar '13 at 3:11 pm

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