

The UK economy is poised for its first recession since the early 1990s. A perfect storm of rising inflation on the back of high commodity prices, a collapsing housing market and battered financial sector have combined to darken the skies. How bad will it get ask Bill Jefferies and

Keith Harvey

WHEN GORDON Brown had a reputation he was known as the Iron Chancellor. His boast was that under his stewardship (1997-2007) the UK economy had experienced its longest period of uninterrupted growth. In 2000, at the Labour Party Conference he declared that, as a result of his economic wisdom, Britain had seen the end of “boom and bust”.¹

By then the UK had seen constant expansion since the last recession in 1991. All in all there were to be 63 successive quarters of expansion. But no more; in the second quarter of 2008 the UK economy came to a full stop.

This seemed to be the cue for the ex-chancellor’s hubris to give way to the current chancellor Alistair Darling’s hysteria about the state and fate of the UK and world economy. According to Darling, in his infamous Guardian interview, “The economic times we are facing are arguably the worst they’ve been in 60 years”.²

So what is happening to UK PLC and what are its prospects? Is the hysteria as misplaced as the hubris?

The UK economy is currently suffering from a triple whammy. First, like the US, the UK’s liberalised financial and mortgage markets have encouraged a major housing asset bubble by loose lending, added to by the government and private sector’s failure to increase the housing stock in line with demand.

As a result household indebtedness has grown more than anywhere else in the G7 and is now unwinding painfully. House sales in August were the lowest for 30 years. The fall out in the construction sector and associated retail sector has been heavy.

Second, the explosion in prices for energy and foodstuffs in the last year (mainly prompted by exceptionally high levels of economic growth in Asia over the last five years) has hit households and businesses hard, eroding profits and wages and hence dampening retail spending and business investment, the motors of economic growth.

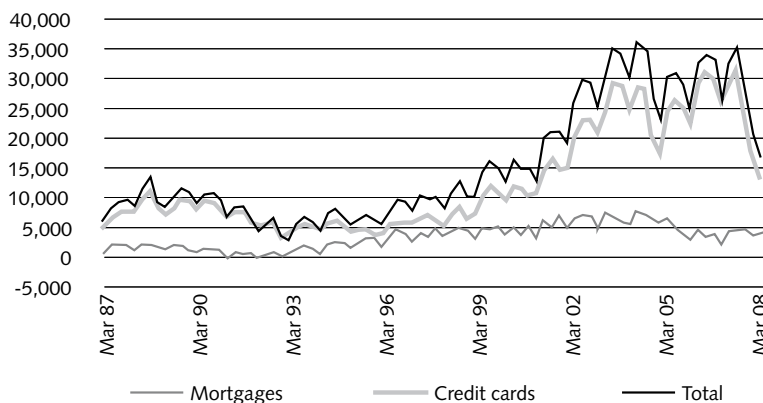
Third, the credit crunch, now more than one year old, has hit the UK financial sector hard, exposed more than anywhere else apart from the US to the losses from the sub-prime fiasco. Given the large relative weight of the financial sector in the UK economy, the rapid downturn in its fortunes was bound to take its toll on profits and employment. In addition it has made credit more expensive while the banks hold back on lending while they try to repair their balance sheets.

Housing price collapse

As in the US, the UK’s housing sector has been the source of most of the present economic woes. Mortgage borrowing increased six-fold between 1999 and 2007, with quarterly increases rising from £5bn to £30bn – see fig 1.

Between 1997-2006 house prices soared threefold as cheaper and easier mortgages mushroomed while the housing stock grew at a snail’s pace.

Fig1: UK lending quarterly change in £millions 1987 – June 2008



Source: Bank of England³

THE CREDIT CRUNCH AND BEYOND

From hubris to hysteria

House price changes

Year	Average price (£s)	% change
1997	68,504	6.3
1998	72,196	5.4
1999	77,405	7.2
2000	85,005	9.8
2001	92,256	8.5
2002	108,342	17.4
2003	132,589	22.4
2004	156,831	18.3
2005	165,807	5.7
2006	179,601	8.3
2007	196,478	9.4
2008 (July)	177,351	-9.7%

Source: HBOS August 2008⁴

At these prices, and given wages were not keeping pace, it was inevitable that mortgage payments as a percentage of take home pay for first time buyers, would rise dramatically – from 1996 at 46.2% to 2008 – 136.8%.⁵

The house price to earnings ratio rose from 2.1 in 1995 to 2.5 in 2000 before peaking at an astonishing 5.4 times in 2007.⁶ Total mortgage, loan and credit card debt rose to £1.44bn during the year to the end of June 2008, outpacing total UK output, which currently stands at £1,41bn.⁷

This scale of indebtedness would normally cramp consumers' ability to spend on other areas, but it was masked while the houses they were buying were going up in value and they could tap into that wealth for current spending purposes. Then came last year's credit crunch.

The credit crunch, which caused the collapse of Northern Rock a year ago and prompted a government bail-out, announced the start of a generalised crisis in the housing market because the scale of the banks' bad loans tied up in the housing market forced banks to restrict new mortgage lending.

The requirement for higher deposits and fewer low

fixed-rate deals have seen new loan approvals fall 77% in a year, knocking the floor from under housing market demand. As a result prices have dropped sharply – 11% in the last 12 months.

This has prevented homeowners releasing equity in their homes and spending it on consumer goods, so knocking a huge hole in high street spending, a large element of GDP growth. Household consumption fell by -0.1% in the second quarter of this year. To this has been added the effect of increased prices for food and energy over the last year which has forced many people to cut back on their spending on non-essential items since their wages have failed to keep pace with inflation.

The hike in global food and energy prices are due directly to the sharp capitalist expansion in Asia and

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Russia since the millennium. The booming economies of Russia, China and east Asia grew at an unprecedented pace, so raw materials prices (oil, food, iron) that had collapsed when the ex-centrally planned economies of the USSR and eastern Europe crashed in the 1990s, rose very sharply. Oil hit \$147 a barrel in July – a rise of 90% in just 12 months – before falling back to \$105 as recession fears gripped the market.

But rising inflation meant that in 2008 UK real wages – after years of modest increases for many in the private sector at least – declined at their fastest rate in the last two decades.⁸

Business troubles

British business too has taken a hit. The UK has the most advanced financial sector in the world and accounts for a higher percentage of national economy than anywhere else. The credit crunch has naturally hit the sector badly, from banks exposed directly to sub-prime crisis, to the restrictions on lending which has affected fixed income businesses such as mergers' advice.

In early August 2008, the Royal Bank of Scotland posted a loss of £691m – its first in four decades – after writing off almost £6bn, while “HSBC reported a 29% drop in profits, a day before Northern Rock revealed a loss of almost £600m, and . . . Barclays said its profits were down by a third in the first half of this year. Last week saw Lloyds TSB and HBOS report 70% drops in profits.”⁹

UK banks credit crunch losses (\$billions)

Firm	Write down and loss	Capital raised
HSBC Holdings Plc	\$27.4	\$3.9
Royal Bank of Scotland Group Plc	\$14.3	\$23.4
Barclays Plc	\$9.9	\$18.1
Lloyds TSB Group Plc	\$4.8	\$4.8
Alliance & Leicester Plc	\$1.3	\$0.0

Source: Bloomberg August 27th¹⁰

Mergers and Acquisitions (M&As), a key source of banking profits, have declined sharply.

“The value of mergers and acquisitions in the first half sank by nearly a third from the same period last year to \$1,860bn as the collapse of the buy-out boom prompted a steep drop in the number of high-value deals.”¹¹ so that, “The amount of advisory revenue merger bankers generated during the first half sank 27%, illuminating the extent to which the deal making slump has affected banks' businesses.” The global issue of bonds backed by mortgages has fallen from a peak of over 2006 \$2.5tn to \$500bn in January to August 2008.¹²

As bank and construction firms' profits have fallen so has their net worth, and hence stock market valuation. The UK's FTSE stock market index has fallen from a 12 month peak in October 2007 of 6,750, to a trough in July 2008 of 5,200,¹³ a decline of more than 20% – the definition of a bear market.

However, British capitalists entered the downturn with strong balance sheets. During the last two recessions UK non-financial companies were indebted to the tune of 1.5%-5.5% of GDP; this time they are in balance.¹⁴ Nor are they suffering from any lack of access to borrowing as a result of the credit crunch. Moreover, the overall profitability of UK private non-financial corporations in the first quarter of 2008 was 15.3%,¹⁵ marginally lower than the revised estimate of 15.4 % the previous quarter. The annual net rate of return for private non-financial corporations in 2007 was 15.1 %. The net rate of return for oil and gas extraction companies increased in the first quarter of 2008 to 57.6 %, compared to the revised estimate of 51.3 % recorded in the previous quarter. This is higher than the average of 35.2 % for 2007.¹⁶

These are historic highs, as is demonstrated in fig 2. During the 1960's boom, the rate of return hovered around 10-11%, dropping to 5% in 1974 before recovering under the impact of Thatcherism in the 1980s and rising to 15% in 2007. Profitability and investment in British firms fell quite sharply in the year or so before the 1989 and 2000 financial shocks to the global economy. Not so this time.

By increasing the cost of borrowing, and especially the rise in raw material and energy costs over the last 12 months, the credit crunch has significantly dented not only the profits of the banks and mortgage companies but also industry. Manufacturing companies' net rate of return was estimated at 4.9% in the first quarter. This is lower than the average of 6.6% for 2007 and is having a sharp impact on their investment plans, further aggravating the projected fall to GDP in the year ahead.

Although the European Union has not been badly hit by the credit crunch, and grew quite strongly in the first three months of this year, it has taken a beating over the spring and summer due to the soaring costs of food and energy, causing EU output to flatline. Since this is the UK's biggest export market it is no surprise that, taken together with the fall in domestic demand, UK manufacturing output has declined during the first half of the year. The index of manufacturing output in the UK fell in the second quarter by 0.8%, and a further 0.3% in the second three months, but remains ahead of the trough of 2003, which it also sank to in 2005.

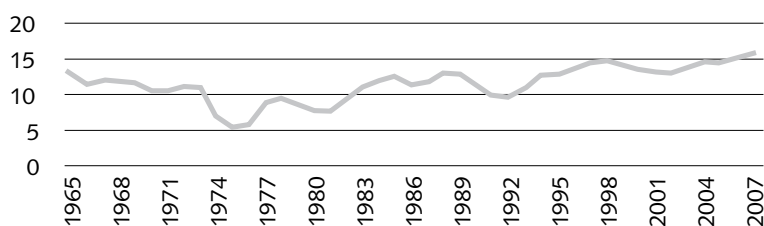
Recession?

The OECD's interim report in September 2008 suggested that, out of the member countries in the G7, the UK will experience a decline in output during the whole of the second half of this year – a total of 0.6% – although the European Commission has suggested that Britain will be joined by Spain and Germany.

Is this the first step on the road back to a major recession in the UK? Does this herald a return to the loss of output, unemployment and inflation of 1980-82 or 1990-91? Or – as the optimists suggest – will inflation fall sharply next year after peaking at about 5%, with unemployment peaking by mid-2009 at around 6.5%, and output picking up thereafter?

Without a major systemic collapse in world financial markets or a collapse of the Asian growth engine, the UK

Fig 2: UK rate of return annual %



Source: ONS 2008¹⁷

economy looks set for a period of stagnation rather than a recession, even one on the scale of the early 1990s.

The recession of 1980 saw GDP fall 6% from peak to trough, the recession of the early 1990s showed a 2.5% decline. In addition the last three recessions in Britain (and globally) were triggered by significant interest rate rises, to stem rising inflation. In May 1980 the retail price index, less mortgage interest, rose to 20.8% and in October 1990 it hit 9%. This July this year, however, it was only 5.3%. In these circumstances the interest rate rise deemed necessary to break the back of inflation is certain to be much smaller. Remember that in 1979-81 Bank of England rates shot up from 6% to 17%.

In the run-up to the early 1990s recession, rates doubled from 7.5% to 15%. But this time around interest rates have already fallen from 5.75% to 5% – barely 0.5% higher than the 2005 trough in the last business cycle. Most money is on the next move in interest being down, sometime next year, as inflation begins to fall and growth falters.

This difference is important, since the interest rate shock on the last two occasions, in the 80s and 90s, put both businesses and households into trauma almost overnight. Profit margins were wiped out by the cost of borrowing and many homeowners were put into arrears as a result of the increase to their mortgage and credit card payments. In turn this depressed consumer spending sharply, as millions struggled to cover basic outgoings. In the two years from mid-1988 to mid-1990, the average interest rate on mortgages increased by about 5.5%. This time the jump is likely to be only 1%. Although arrears and repossessions are rising in 2008 and into 2009 they are nothing like the levels of the 1990s.¹⁸ Economists at Morgan Stanley suggest that even another 10% decline in house prices on top of the 11% so far would see consumption cut back by only 0.7%, spread over a year.

As to unemployment, in February 2008, unemployment fell to its lowest level in 30 years. Since then it has been rising, although unemployment still remains low in historic terms. The rate of 5.4% in June 2008 was up 0.2% over the previous quarter, but unchanged over the year. The number of unemployed people increased by 60,000 over the quarter and by 15,000 over the year, to reach 1.67 million.

Compared to the decades of the 1970s-90s this is very low. Following the collapse of the post war boom in 1973, unemployment steadily increased through the 1970s, before reaching 11.8% in 1984. It then fell marginally before rising again to 10.4% in 1993 following the recession of the early 1990s. Since the turn of the millennium, however, it has never exceeded 5.4%. Moreover, the size of the workforce is still growing. The number of people in employment for the three months to June 2008 was 29.56 million, up 20,000 over the quarter and up 384,000 over the year. In contrast during the 1991-93 recession the UK workforce fell by between 1% and 1.5% every quarter.¹⁹

Since 2000 the employment rate has exceeded 74% each year, compared with a nadir of 70% in 1993 and 68% in 1982. Many commentators suggest that while unemployment will almost certainly rise to 6.5% by this time next year and the employment rate fall a percentage point or two, the impact will be mitigated by (mainly older) people

leaving the labour market altogether, if and when they lose their job, and through the reverse flow in migration.

In the last four years the number of migrants, mainly from the new EU states such as Poland, has expanded the workforce greatly. Between May 2004 and June 2006 427,000 workers from eight EU accession states successfully applied for work in UK. Over half (62%) were Polish, 82%

Prospects of the government winning an election in 18 months time depend in large measure on just how bad the economy gets in the year ahead

are aged 18-34, 56% working in factories. Since then the figure has edged nearer the million mark.²⁰ But reports suggest that a mixture of rising wages in booming eastern Europe states and a downturn in the British economy is leading to many thousands of immigrants returning home, which will dampen the official unemployment statistics in the year ahead.²¹

It is likely that UK unemployment will increase to or above the two million mark by the end of 2008 or early 2009. While this is domestic misery and poverty for those that experience it, it does not automatically mean that unemployment will become a convulsive social and political issue as it did in the 1980s, with urban riots and devastation of whole communities blighted by factory closures or the decimation of whole industries.

Countering the recession

Gordon Brown's personal fate as leader of the Labour Party and the prospects of the government winning an election in 18 months time depend in large measure on just how bad the economy gets in the year ahead, what measures are taken to offset any recession and to protect its electoral base from its worst effects.

However, Brown's fate and that of the government is not entirely in his hands. The depth and scope of the downturn depends on the health of British capitalist business as it enters a recession, the shape of company balance sheets, and whether the international economy offers any sort of lifeline for flagging domestic sales.

As is well known, UK manufacturing has declined in relative terms over the last 30 years and accounts for only about 14% of GDP. As domestic production was replaced with imports from abroad the effect on the UK's balance of payments was dramatic. From the turn of the millennium onwards, as the emerging markets of China, Russia and east Asia reached critical mass, so the UK balance of payments deficit increased to around -2% to -3% a year. This was sustainable up to about 2006 as the cost of many imported goods fell due to the deflationary impact of China's exports. However, as raw materials prices increased from around 2005 onwards, the balance of payments deficit accelerated sharply to -5% in 2005 and then to -6% in 2006-07.

This deterioration has had the effect of lowering the value of sterling,²² making imports dearer and exports cheaper, thus boosting inflation, but making UK firms more competitive abroad. This should help reduce the balance of payments deficit. And indeed the balance of payments deficit did improve to -2.5% in the first quarter of 2008.²³ However, unlike in the US, UK manufacturers have used the fall in sterling to boost prices rather than volumes of production.²⁴ This means that while the balance of payments has benefited from the higher prices paid to UK exporters, the export sector has not increased production, investment or employment.²⁵

Consequently, while the UK export sector has grown, and the proportion of manufactured goods exported at the

start of this year was the highest since the first opening months of 2001,²⁶ UK manufacturing output decreased by 0.8% during April-June 2008 compared with the first quarter. In other words, the growth of the export sector has not offset the scale of the slow down, to the same degree as in the US.

The government's counter-crisis intervention

The collapse of Northern Rock in September 2007 led to its nationalisation and the injection of £25bn government money.²⁷ The Bank of England has cut interest rates from a July 2007 peak of 5.75% to 5% in April 2008. It also

EMERGING MARKETS

Profiting from expansion

BROWN WOULD have us believe that astute policy decisions lay behind the boom and stability of the UK economy under New Labour: independence of the Bank of England, keeping to Tory spending limits in Labour's first term of office, light touch regulation of business (and lack of employment safeguards for the workforce). But the truth is that the UK was in a good position to profit from changes in the global economy after the collapse of Stalinist economies in the early 1990s.

Their vigorous expansion from later 1990s meant for example that the hi-tech bust of 2001-2003 produced the shallowest recession since the 1960s, while it passed Britain by completely. Emerging markets in the former Stalinist centrally planned economies grew very rapidly and British financiers, saw the earnings of their foreign direct investments soar. The destruction of the Stalinist

centrally planned economies between 1989-1991 and their transformation into capitalist ones utterly changed the basis of the world economy.

The 1990s were a period of looting and collapse, perfectly suited to the parasitical exploitation of British finance capital. And at the same time new emerging powers like China and powerful semi-colonies like Brazil and India, were opened up to unlimited exploitation. Nationalised industries were sold off for a song, tariff barriers ripped down, UNCTAD noted Over the period 1991-1999, 94 % of the 1,035 changes worldwide in the laws governing foreign direct investment (FDI) created a more favourable framework for FDI.¹

UK capitalism, with its network of former colonial outposts like Hong Kong, with a working class quiescent following the defeats of the 1970s/80s and with its investments guaranteed by its

larger American godfather, went on a buying spree the like of which the world has never seen. In the period from 1997-2000 the UK had the largest outward flows of foreign direct investment in the world, surpassing even those of the USA. Reaching 19% of the world's total in 2000.²

Earnings from British foreign investments grew by 197% between 1997-2006 from £28,470 million to £84,649 million.

So that even though the scale of investments slowed very rapidly during 2001 as the dot.com crash took its effect on mergers and acquisitions, by -73% and a further -18%⁴ in 2002, the rising profitability of the emerging markets ensured that returns increased throughout this period. When recovery set in after 2003 it was to usher five years of the fastest period of world capitalist growth since the 1960s.

NOTES

1. UNCTAD World Investment Report 2000 Overview
2. UNCTAD Handbook of Statistics 2008
3. http://www.statistics.gov.uk/downloads/theme_economy/MA4_2006data.xls
4. 2.1 Net foreign direct investment flows abroad analysed by area and main country, 1997 to 2006 (1) (2) http://www.statistics.gov.uk/downloads/theme_economy/MA4_2006data.xls

UK Outward FDI proportion world outward FDI

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
12.7%	17.6%	18.2%	18.8%	7.9%	9.3%	11.1%	10.4%	10.0%	6.5%

Source: Unctad handbook of statistics 2008

Net earnings from foreign direct investment abroad analysed by area and main country, 1997 to 2006 £ million

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
28,470	29,652	32,496	44,237	46,103	51,379	54,531	62,476	78,667	84,649

Source: www.statistics.gov.uk

made finance available to the banks by allowing them to swap mortgage-based assets for bank bonds at the price of a significant "haircut" from the value of these assets in return for access to this facility.

Meanwhile the government announced a reflationary package of tax cuts – the compensation for the abolition of the 10p band and a delay in the fuel tax rise – amounting to the equivalent of around 0.25% of GDP or £3bn. In September 2008 Brown outlined a series of minor measures worth about £1.6bn in all, aimed at first time buyers and those facing repossession to try to stabilise the house market, the economic effect of which was generally held to be very small.²⁸

JP Morgan has noted that "the size of discretionary easing is still likely to be relatively small in comparison to both the UK's history and the recent measures in the US . . . Discretionary easing of around 0.5% of GDP would be less than half the 1.3% package of measures seen in the US to date." Indeed, the government is constrained politically from doing much more to offset recession, by its commitment to keep public borrowing below 40% of GDP – public sector net debt was 37.3% of GDP at the end of July 2008, compared with 36.1% a year earlier.²⁹

How much larger it gets depends upon the decline in government tax revenues. Alistair Darling forecast that government borrowing for 2008 would be £43bn but most analysts consider it will be in the £50-£60bn range.³⁰ Government borrowing in the first three months of this year was the highest since the Second World War ended and the situation would be worse but for the boost to tax revenues from the high oil price in the first half of the year, forming fully half of all corporation tax receipts in the first three months of this year. As the oil price falls again this boost will diminish.

Politically, Labour could ride a horse and carriage through its golden rule on spending and debt and bust the 40% limit to spend its way out of a downturn. After all, debt peaked at 43.8% of GDP in 1997, and it was due to Brown's "prudence" as chancellor in Labour's first term that this came down to a low of 29.8% in March 2002. Allowing debt to rise to 1997 levels would mean a £72bn increase in spending. If Labour wasn't so in hock to the City and the international bankers, it could go on a Keynesian spending splurge, pleasing its supporters and the

trade unions – and if all went wrong, leaving the Tories to pick up the pieces after the election.

But given the nature of the Brown government, far more likely is a balancing the books by cuts in public spending, with all that this implies for services and jobs in the public sector. Even without the latest blows to the economy Labour was already committed to an end to the levels of real increases in the budgets of education and health that have been forthcoming between 2001 and 2007, with freezes in real terms in the NHS budgets for 2009-12.

Conclusion

The UK credit crunch has exposed the weak side of the pre-eminence of finance capital in the UK economy. As world financial profits have been hit by the losses of the credit crunch and the opportunities for UK financiers to make deals has slowed alongside it, so banking profits have been hit. This has been exacerbated by the collapse of mortgage lending and resultant very sharp falls in house prices. Manufacturing, while enjoying high levels of profitability and productivity in recent years, does not look well-placed to fill the gap given its declining proportion and inability to boost exports significantly, at least while Europe remains near or in recession.

The last time – in 2005 – that manufacturing flirted with recession, the booming financial sector and housing bubble powered the economy along. Now the credit crunch has caused a severe contraction in both banking and construction and impacted upon retail spending – the engine of the domestic economy. A period of rising unemployment and high prices looks set to prevail for the year ahead while real wages will fall unless the trade unions force employers and government to concede major increases.

Whether the stagnation turns into something much deeper or turns out to be a short and shallow downturn depends on how quickly the banks recover from the credit crunch, when the housing market bottoms out and whether the still booming Asian capitalist markets continue to offer a lifeline for the mature, but sickly, developed economies of the west.

ENDNOTES

1. www.guardian.co.uk/politics/2000/sep/25/labourconference.labour6
2. www.guardian.co.uk/politics/2008/aug/30/alistairdarling.economy
3. LPQVTVG, LPQVZQC, LPQVTUQ, www.bankofengland.co.uk/mfsd/iadb/NewIntermed.asp
4. www.hbosplc.com/economy/HousingResearch.asp The drop is in fact 11.2% from the peak in August 2007.
5. www.hbosplc.com/economy/HistoricalDataSpreadsheets.asp
6. With the recent fall in house prices the ratio has returned to five times, still far above its historic norms.
7. www.guardian.co.uk/money/2008/aug/22/debt.consumeraffairs
8. According to the Consumer Prices Index (CPI) annual inflation was 4.4 % in July 2008, up from 3.8 % in June. The Retail Prices Index (RPI) rose to 5.0 % in July 2008.

9. www.guardian.co.uk/business/2008/aug/08/royalbankofscotlandgroup.creditcrunch <http://www.guardian.co.uk/business/2008/aug/08/royalbankofscotlandgroup.creditcrunch>.
10. www.bloomberg.com/apps/news?pid=newsarchive&sid=aDmQ66OoJbfw
11. www.ft.com/cms/s/0/3f30577a-43a1-11dd-842e-0000779fd2ac.dwp_uuid=aec9e9792-aa13-11da-96ea-0000779e2340.html
12. news.bbc.co.uk/1/hi/business/7302341.stm
13. With repossessions rising in the first half of 2008 to 18,900, from a low of 3,900 in the first half of 2004. The previous peak was in the first six months of 1991 at 38,900. newsvote.bbc.co.uk/1/shared/fds/hi/business/market_data/stockmarket/3/twelve_month.stm
14. JP Morgan Global Data watch 5/9/08 p58.
15. www.statistics.gov.uk/cci/nugget.asp?id=196
16. The profitability of service companies in the first quarter of 2008 was 21.1 %, which was slightly lower than the revised estimate

of 21.2 % recorded in the previous quarter and the average for 2007 of 21.4 %.

17. ONS LRWW Gross Rates of return % of all Private Non-Financial Corporations.

18. Council of Mortgages Lenders Research August 2008 www.cml.org.uk/cml/statistics

19. ONS July 2008 Annual Business Inquiry. Redundancies for the three months to June 2008 was 126,000, up 14,000 over the quarter and up 6,000 over the year.

20. This certainly understates the figure, as it excludes unregistered workers, according to the BBC; Mark Boleat from the Association of Labour Providers, suggested another 100,000, workers or possibly a lot more, had arrived without registering. The role of these workers in providing a super exploited, low paid workforce was explicit, the BBC added: The government says the migrant workers are helping to fill gaps in the UK's labour market, especially in administration, business and management, hospitality and catering & It is believed low salaries in Poland, sometimes around £200 a month, is one reason the country's citizens are attracted to working the UK.

21. See Immigration and the labour market, Goldman Sachs, UK Economics Analyst 29 August 2008.

22. The trade-weighted currency has fallen over 11% since July 2007. On 5 August 2008 the bank announced that it had made a loss of £585.4m for the first six months of the year and that £9.4bn of a loan from the Bank of England had been paid back, reducing the amount owed to £17.5bn.

23. AA6H

24. JP Morgan Research Economic Research United Kingdom August 22, 2008.

25. Bloomberg August 28.

26. www.statistics.gov.uk/cci/nugget.asp?id=198

27. news.bbc.co.uk/1/hi/business/7542251.stm

28. see Economist 4 September www.economist.com/world/britain/displaystory.cfm?story_id=12072983

29. www.statistics.gov.uk/cci/nugget.asp?id=206

30. www.gulf-daily-news.com/Story.asp?Article=226857&Sn=BUSI&IssueID=31154