

By **Duglass Frazzlers**, Our Nae Comment Business Editor



**World markets reacted badly this morning to the UK's credit rating downgrade from AAA to AA1, the first time the UK has lost its cherished AAA rating since 1978.**

**The pound fell to a 31-month low against the dollar and a 16-month low against the euro amid fears of sluggish growth in the UK.**

Late Friday afternoon Moody's Investors Service downgraded the domestic- and foreign-currency government bond ratings of the United Kingdom by one notch to Aa1 from Aaa.

According to Moody's the key interrelated drivers of Moody's downgrade action are:

1. The continuing weakness in the UK's medium-term growth outlook, with a period of sluggish growth which Moody's now expects will extend into the second half of the decade;
2. The challenges that subdued medium-term growth prospects pose to the government's fiscal consolidation programme, which will now extend well into the next parliament;
3. And, as a consequence of the UK's high and rising debt burden, a deterioration in the shock-absorption capacity of the government's balance sheet, which is unlikely to reverse before 2016.
4. However, a significant threat to the UK's balance sheet is a YES vote in the 2014 Scotland independence referendum as the massive natural resources of Scotland are torn from the asset base of the UK.
5. Investors could take flight in the event of a YES vote, moving their money and investments to the new independent Scotland.

Official figures from the Office for National Statistics graphically demonstrate sluggish growth over the last few years.





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