CORPORATE SERVICES SCRUTINY PANEL

SUBMISSION SUPPORTING DOCUMENTS

Capital Expenditure

The Strategic Plan gives greater priority to the refurbishment of the States social rented housing stock and to road maintenance than the previous capital programme. The revised capital programme will also include funding for the Town Park, and the commencement of a new reclamation site. The overall capital programme will be increased by £3m a year from 2008 onwards.

	2006 £' m	2007 £' m	2008 £' m	2009 £' m	2010 £' m	2011 £' m
States Revenues (2006 Budget)	472	488	501	514	462	471
Anticipated States Revenues - GST, 20/20			47	49	51	53
Potential States Revenues [1]	**472**	**488**	**548**	**563**	**513**	**524**
Revenue Expenditure Forecasts	441	462	479	492	504	518
Capital Expenditure Forecasts	39	39	42	42	45	46
Total Net Expenditure Forecasts [2]	**480**	**501**	**521**	**534**	**549**	**564**
Expenditure growth	*2.8%*	*4.4%*	*4.0%*	*2.5%*	*2.8%*	*2.7%*
Contribution from Dwelling Houses Loan Fund [3]		4	7	7	7	7
Expenditure growth after Dwelling Houses Loan Fund	*2.8%*	*3.5%*	*3.4%*	*2.5%*	*2.8%*	*2.7%*
Projected Suplus/(Deficit)	**(8)**	**(9)**	**34**	**36**	**(29)**	**(33)**

would have been: (£13) (£13) deficits

Notes to the forecast:

Potential States Revenues [1]

The potential States revenues are those previously reported in the 2006 Budget with the addition of the anticipated revenues from the Goods and Services Tax and the phasing out of income tax allowances for higher earners (20/20). These revenue estimates, particular in the later years, are likely to change and should be treated with caution. The revenue projections will be reviewed at least twice yearly and the updated figures will be published in the States Business Plan and the Annual Budget.

Total Net Expenditure Forecasts [2]

The net expenditure forecasts provide for the new initiatives identified within the plan and the additional costs to implement GST and the new income support scheme. £2.3m? Does this include £1m Brown Agents fee? supposed to help fill the £60–£100m o/10 the shortfall.

+ additional costs to admin. costs of GST?

ZERO-TEN

Letters to the editor

10/5/05

FOCUS ON: Tax reforms

Business is booming

So why do we need these tax measures?

From Preston Hobbs.

TODAY the States will debate the '20% means 20%' tax strategy and GST to partially plug the £100m tax deficit that zero-ten taxation will create in 2009. Well, in 2003 we heard a lot about the EU tax package consisting of a draft directive on the Taxation of Savings Income and a Code of Conduct on Business Taxation that sought voluntarily to restrict tax measures considered to be harmful.

We were happy to sign the taxation of savings income agreement, which may finally start on 1 July, so that is out of the way. As for the second part, over the past two years we have seen hundreds of international business companies and other companies either being dissolved or transferred, but nearly all of them had English names, surely resulting from the determined UK Inland Revenue crackdown on offshore tax avoidance and therefore nothing to do with the EU.

With the most important item, the tax on savings interest, out of the way, what serious threat from Brussels remains?

The BIG DEBATE

With the turmoil over budget and constitution problems (mounting opposition to EU diktats and a federal European state), there is no threat at all. Therefore there is no further reason for Finance to say that zero-ten has been forced on the Island by EU pressure.

While EU pressure has been scarcely mentioned over the past two years, what has been said over and over again is that a zero-ten tax regime is absolutely necessary to keep the finance industry competitive. Yet we have seen a non-stop succession of reports of how well it is doing.

The Oxera May 2002 report to Finance reveals that there is a small but real possibility that the demand for offshore financial services supplied in Jersey could decrease as a result of other jurisdictions reducing their tax rate or action by the OECD, EU or individual onshore governments reducing the total world demand for financial services supplied in low-tax locations, although with Jersey's competitive position this is unlikely to have a significant impact here. On the contrary, while the tax rates vary when comparing locations, many customers require a well-regulated location, political stability, the legal basis and proximity to Europe, and it is in those areas that Jersey remains highly competitive.

Oxera concluded in 2002 that 'compared to its main competitors, Jersey's current tax rates appear to be sufficiently competitive to maintain the financial services sector at its present level' — and that is amply borne out in our successful finance industry today.

Just as Oxera foretold, quite clearly there is no need for a zero-ten tax regime to keep the finance industry competitive, so there is no need for GST to partially fill a £100m tax shortfall.

Business recovered last year and new company registrations are now twice the rapidly reducing number of companies which have notified intention to deregister. Business is booming again.

Mollington,
Plat Douet Road, St Saviour.

This brave man is building our future prosperity !

From Paul Harding.

THE contrast between your full-page editorial and the adjacent letter from Chris Parlett on 5 May could not have been greater. We are very for-

The BIG DEBATE

On the matter of the level of taxation, I suggest that the order of priorities should be as follows.

Firstly, our States Members must have uppermost in their

Senator Le Sueur

Investment hits record levels

£184.6 bn held at the end of 2005

By political correspondent Ben Quérée
bqueree@jerseyeveningpost.com

MORE money than ever is being invested in Jersey, with a record £184.6 bn in deposits held at the end of last year.

Jersey Finance Ltd say deposits rose by 16.8% on 2004 figures, and that the value of funds climbed by 33% to £137.4 bn at the end of December.

And chief executive Phil Austin says there are already promising signs for 2006 and further into the future, with more business expected from the recent trip to the Middle East.

Phil Austin of Jersey Finance

'The statistics for 2006 show that generally across the board the start of the year has been really strong for the industry,' he said.

'And of course we are anticipating that the recent trip to the Middle East will produce some rewards from that direction.'

The quarterly report issued by Jersey Finance for the end of 2005 shows growth across finance sectors. It says:

- Bank deposits grew to £184.6 bn, up 16.8% on 2004.
- The net asset value of funds under administration was £137.4 bn, up 32% on 2004.
- The total value of expert funds rose by £10.2 bn, and the number of

(Cont on page 2)

Snow Patrol are currently on a sell-out tour of the US and Canada

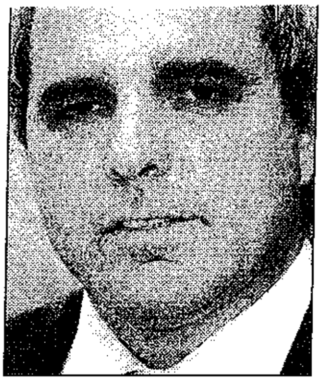
Festival books Snow Patrol

JERSEY Live's growing reputation as one of Britain's best music festivals was underlined today with the news that platinum-selling band Snow Patrol have been signed as headline act for this year's event.

The band are currently on a sell-out tour of the US and Canada,

(Cont on page 2)

Jersey Live Festival of Music 05



Planning Minister Freddie Cohen has been urged to revisit 2000 consultation

nomic growth, developers' profit and tall buildings have taken over and the aim of building a waterfront that would benefit the whole Island has been left behind.

In a letter to Planning Minister Freddie Cohen, the Trust urge him to revisit the objectives of Waterfront 2000 consultation exercise and 're-alistically consider how these might be achieved'.

National Trust for Jersey president Colin Smith said: 'The Trust feels that it is highly unlikely that a world-class waterfront, which would be of benefit to the Island as a

National Trust for Jersey

whole, can be achieved without a degree of public investment and engagement.

'The current strategy of attempting to develop the site solely through private sector investment has resulted in the submission of a number of ill-fitting schemes with token public benefits such as viewing galleries. Such tokens and jarring architecture will not make the waterfront an easily accessible and inherent part of a thriving St Helier.

'If a world-class waterfront is the main objective then a considerable amount of planning and design is required which will draw the disparate elements together to provide a cohesive and engaging vision.'

When it comes to tall buildings, the trust outline some questions they say need to be asked, including:

- What are the benefits of tall buildings?
- Will tall buildings deliver economic growth?
- Is th
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they are

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Investment at record levels

(Cont from page 1)

funds grew by 90 to 134.

- Funds under investment management rose to £49.2 bn, up 43% on 2004.

Mr Austin added that the spread of growth across the industry was an encouraging sign.

He said: 'It is pleasing and encouraging to have finished 2005 with all key sectors of the industry continuing to report strong growth. We believe this reflects Jersey's position as a leading, influential and reputable international finance centre which continues to enjoy the confidence of international investors and their advisers around the globe.

'2005 has been particularly successful for our funds sector, which has seen very positive growth in the number and value of specialist alternative funds established and/or administered in the Island.'

Jersey Live books Snow

(Cont from page 1)

while this year's UK tour sold out within 30 minutes of the tickets going on sale.

Their third album, The Final Straw, sold 1.4 million copies and industry insiders say that the follow-up Eyes Open will out-sell even that when it is released in May. The first single from the new album, You're All I Have, is being championed by Radio One's Colin Murray and Edith Bowman, and the video for it was shown exclusively on Channel 4 last week. It is due for release on 24 April.

Promoters

Jersey Live promoters Positiv are delighted at securing a headline act who are set to be huge again this summer.

'I think it shows that our reputation is growing and from the feedback we get, bands are asking about Jersey Live and they want to play it,' said Positiv's Warren Holt. 'We are getting recognised now as a quality festival and there's a real buzz about the event in the industry, which is great for the event and great for Jersey.'

Positiv hope that Snow Patrol will help them hit their target of 2,000 visiting fans – last year an estimated 1,000 people travelled to the Island for the event, now in its third year at the RJAHS showground in Trinity. A total of 7,500 people were at the festival last year to see bands including Kasabian, The Bravery and The Ordinary Boys and world-renowned dance act 2ManyDJs.

Positiv are now working hard to secure the rest of the line-up, and further announcements will be made in the Jersey Evening Post, again the official media partner for the event.

Tickets will go on sale for the event – which takes place on Saturday 2 September – in early May.

Positiv's Warr
is gro g'

SUDOKU No 4 Rating: Medium

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Solution tomorrow

Yesterday's solution

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2	8	1	4	3	9	6	7	5

IN TODAY'S JEP

Alasdair Crosby

Page 22

WEATHER

● Forecast in detail: Page 34

TONIGHT:
Outbreaks of rain.

TOMORROW:
Scattered showers.

NEWS

Record lending in home market

1,322 properties changed hands in 2005 – and Islanders borrowed £597m

By Anna Heuston
aheuston@jerseyeveningpost.com

HOUSE prices are expected to rise in Jersey after Islanders borrowed a record £597 million in 2005.

Last year 1,322 properties changed hands in the Royal Court, up from 1,284 sales and lending of £394 million in 2004 and businesses say Jersey's property market is likely to see an active year ahead.

Sales

The figures are revealed in today's edition of the Jersey Evening Post's award-winning lifestyle supplement Homelife. Mortgage Shop Plus managing director Peter Seymour says the apparent increase in sales and borrowing came as a surprise and could lead to a rise in house prices in the future.

'The figures seem to suggest an increase in activity in 2005 which we were very surprised by,' he said. 'This increase is probably due, in part, to the number of first-time buyer developments that have been coming into completion. Interest rates are low and lending criteria imposed by lenders are very different in the Channel Islands.'

He said that in the UK potential home-buyers would be likely to be granted three times their joint income, while in Jersey they could be granted up to six times that income. 'If you have a good credit history it is possible to get some very,very high loans,' he said.

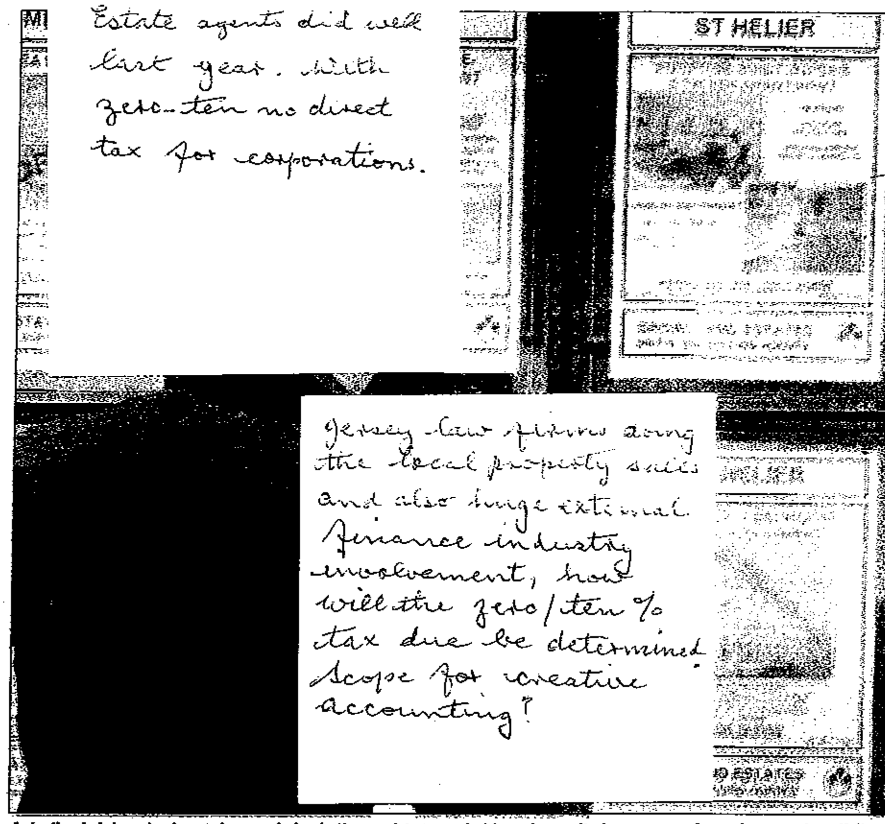
He went on to say that 100 per cent guaranteed mortgages were due to be introduced in the Island, which would offer a chance for young professionals with high income potential to get their feet on the property ladder earlier on in their career.

'I think the demand will satisfy the majority of the flats being constructed,' he said. 'There are more house buyers and the economy is starting to head up again. I believe the situation we are now looking at could have been different if 20 means 20 had been brought in at the time originally proposed. Now, with the market starting to rise, and the States desire to increase economic activity and reduce the housing qualification period, we are likely to also see house prices rising.'

Troys Estate Agency managing director George Louis agreed that conditions in the Island had led to the increase in activity. He said: 'I would say the decline in interest rates, more choice in the mortgage market and the tax situation are such that you can easily asses how much money you have got available, and people are all piling in. The Island as a whole looks likely to have a very productive year.

'We have a phenomenal amount of people registered as looking, and I would say we are going to see a larger price push this year.'

The managing director of the Mortgage Shop Plus, Peter Seymour: 'I think the demand will satisfy the majority of the flats being constructed'



Estate agents did well last year. With zero-ten no direct tax for corporations.

Jersey law firms doing the local property sales and also large external finance industry involvement, how will the zero/ten % tax due be determined. Scope for creative accounting?

A decline in interest rates and more choice in the mortgage market have been cited as reasons for an increase in activity

BUSINESS

Dubai agreement 'of mutual benefit'

By business editor Christine Herbert
cherbert@jerseyeveningpost.com

JERSEY'S financial services watchdog has cemented its relationship with the regulators in Dubai.

The memorandum of understanding was signed yesterday by David Carse, the director general of the Jersey Financial Services Commission, and David Knott, chief executive of the Dubai Financial Services Authority.

The new agreement sets out formally the arrangements for mutual cooperation and information sharing and recognises that both regulators rely on the quality of standards in each other's jurisdiction.

Mr Carse said this was the latest in a number of agreements between the Commission and other international regulators, reflecting the Jersey authority's commitment to cross-border cooperation.

The Dubai Financial Services Authority is an independent authority responsible for the regulation of all financial and ancillary services conducted in or from the Dubai International Finance Centre, including asset management, banking, securities trading, Islamic finance, re-insurance and an international financial exchange.

The centre was launched in 2002, when Jersey Finance first started visiting the United Arab Emirates, and since then has attracted substantial business, including a number of Jersey-based firms who have set up offices there.

The latest to obtain a licence to operate within the DIFC is Lloyds TSB Offshore Ltd, which has its headquarters in Jersey and which will be promoting its wealth management services and offshore funds to the professional and institutional market.

Adrian White, director of Lloyds TSB Offshore, said: 'Dubai is a key market for the offshore banking division and we are delighted that we are now in a position to extend our services into this important area.'

Mr Knott, a former chairman the Australian Securities and Investment Commission and of the technical committee of the International Organisation of Securities Commissions (IOSCO), has been in the post since 2005. He said: 'The business links between financial firms in Jersey and Dubai are significant and, with the introduction of trust and collective investment fund regimes in the DIFC this year, these links will become increasingly significant.'

The new agreements comes towards the end of the Jersey Finance delegation's tour of the Middle East, which includes the Island's Chief Minister, Frank Walker.

Signing in: David Carse (left) and his counterpart in Dubai, David Knott

Finance on a mission in the Gulf

14/3/06

By Ben Quérée
bquerree@jerseyeveningpost.com

GOVERNMENTS in the Gulf state region are supporting Jersey's finance industry and encouraging investment in the Island, says Chief Minister Frank Walker.

The Senator is half-way through a trip to the region with representatives of Island banks, law firms and trust companies in a bid to drum up business.

Progress

The group, now numbering around 30 and including Economic Development Minister Philip Ozouf and representatives of Jersey Finance, has been to Bahrain, Qatar and Abu Dhabi and arrived in Dubai today.

'There is no doubt now that we have the support of the governments in the region, and without that it is very difficult to make real progress,' said Senator Walker.

Finance Minister Frank Walker: 'We now have the support of the region's governments'

He added that the meetings in Qatar had been particularly successful. 'We have had serious meetings aimed at attracting investment in Qatar, not just from private individuals and companies, but also from the Qatar government,' said the Senator.

Significant

'The wealth here has to be seen to be believed. All we can ever hope to get is a very small proportion of that, but in our terms it is hugely significant.'

So far, the group has met the Bahraini Prime Minister, the Economics Minister of Abu Dhabi and the Governor of the Central Bank of the United Arab Emirates, who is also the financial services regulator for the UAE. The group is due back in the Island this weekend.

More trips planned to Middle East

By Ben Quérée
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THREE or four more trips to the Middle East will be made over the next year to boost Jersey's chances of winning billions of pounds worth of investment in the region, according to Economic Devel- opment Minister Philip Ozouf. He says that there is £150-200bn worth of offshore investment available from the region, and that Jersey needs to do all it can to secure a chunk.

Chief Minister Frank Walker and Senator Philip Ozouf negotiating on their recent trip to the Middle East

The Senator wants to extend the trips to include countries such as Oman, Saudi Arabia and Kuwait in the next round. He says: 'Jersey enjoys a good reputation in the Middle East as a stable, well-regulated jurisdiction. These trips are designed not just to secure that position, but to enhance it.'

Senator Ozouf answered questions from Deputy Alan Breckon in the States this week on the recent visit he made with Chief Minister Frank Walker and representatives from Jersey Finance and the finance industry.

He told the House that the cost of his trip had been £4,900, and that had been paid by his department. He had checked the rules of the register of States Members' interests and realised that he did not have to include the trip as it was paid for out of his department's budget.

Hosting receptions

Similarly, the costs of Senator Walker's trip had been picked up by the Chief Minister's department. Jersey Finance had spent around £50,000 on the trip, covering flight costs, accommodation, printing promotional material and hosting receptions for industry and government figures.

'This is an investment to secure Jersey's position in the Middle East. It is a hugely important market for Jersey. In the future there will be billions of pounds and dollars coming from this area which will be invested somewhere.'

The Senator added that his department would be working hard to attract banks from the Middle East to set up offshore offices in the Island.

He said: 'There are a number of Middle Eastern banks that will become some of the world's largest. 'And there are a number that fall into our "top 500" criteria. We met the representatives of two banks in order to explain to them just how exciting Jersey is and what a good place it would be to base one of their offshore locations.

'There are already a couple of Middle East banks with activities here, but we would like to see them with full banking licences. We are working very hard to try to secure banking licences for some of the very big Middle Eastern players because that will provide more diversity.

'I want to see the Island not just regarded as offshore UK or as offshore City of London, but also offshore for a number of the world's leading financial centres,' he said.

Expansion into China!

Jersey Economy

Chinese script spells out a promising future

By Christine Herbert

cherbert@jerseyeveningpost.com

JERSEY'S company registry has set up its first structure using Chinese script.

Elite Business Consultants (Jersey) Ltd has been incorporated by the Langtry Trust Group on behalf of investors in China. The Chinese characters appear alongside the English name in the registry.

Victor Ho, director of Langtry Trust, said that if the Island was to develop its business in China, it was crucial to list companies in the Chinese language.

Deputy registrar Julian Lamb said that the commission had been pleased to provide suitable software that enabled them to use Chinese characters, in order to assist Jersey firms dealing with clients in the Far East.

Co-operation

This latest move follows several initiatives last year to foster co-operation between the regulators in both jurisdictions. In October two members of the China Banking and Regulatory Commission spent three months working at the JFSC, following the visit to China by the Jersey Commission's deputy director general, Helen Hatton, and Steve Harvey of Lloyds TSB, as part of a European Union-sponsored project.

And in November Jersey Finance, the industry's promotional agency, visited Hong Kong, Singapore and Shanghai and held two formal presentations.

Phil Austin, chief executive of Jersey Finance, said that a number of organisations in Jersey were already represented in Hong Kong and that he location was an important source of fiduciary business. But Jersey had 'some work to do' yet to raise its profile, he added, although this first visit had given them a platform on which to build.

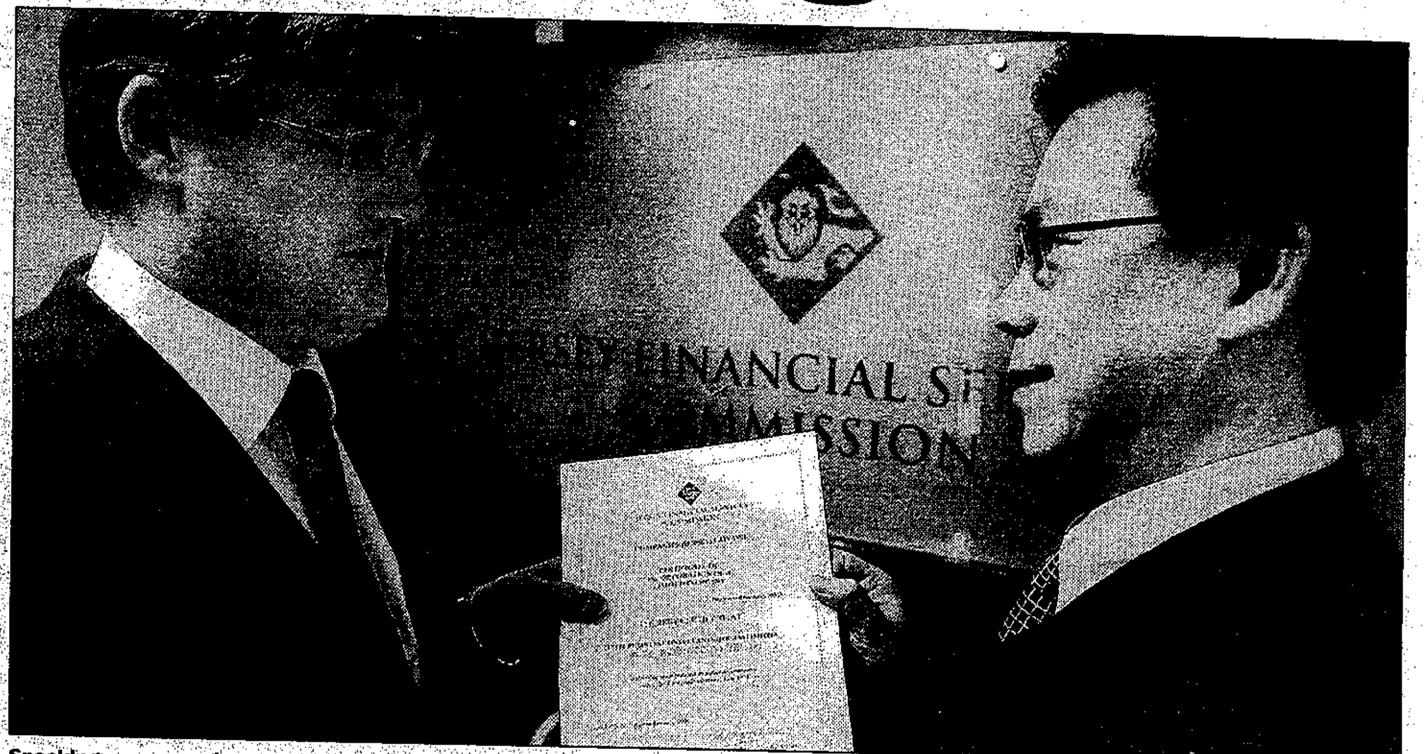
'We are aware that Caribbean jurisdictions are currently viewed as the favoured route for funds and company structures, for example, and Singapore would also be a strong competitor for trust business,' said Mr Austin. 'To be successful in China, for example, Jersey will have to demonstrate that it is fully committed to doing business there.

'Close co-operation between the government and regulator will be vital, and the recent secondment of staff to the Jersey Financial Services Commission will play a critical role in fostering links.

The move to use Chinese characters on incorporations is a simple but very effective method of demonstrating the Island's commitment.'

Last year several Jersey-registered companies were listed on the Alternative Investment Market (AIM) of the London Stock Exchange with the specific purpose of helping Chinese companies looking for foreign investment.

Hiren Patel, a lawyer at Crills Advocates who was involved in setting up the first of these, said: 'AIM provides substantial tax breaks for investors, and if a Jersey company is used as a listing vehicle, its tax-neutral status provides it with further benefits. There is significant potential to build this business.'



Speaking a common language: Deputy registrar Julian Lamb with Langtry Trust director Victor Lo (00291349)

APPOINTMENTS

FINANCE FOCUS

How the UK Budget will affect us

Tax expert John Riva of KPMG looks at some of the technical details of the UK Budget which are likely to affect Jersey's finance industry and other sectors

THE headline proposal in Gordon Brown's latest Budget which affects our finance industry is the removal of the stamp duty land tax exemption when UK property is transferred into a newly formed unit trust in consideration of the issue of units. This puts an end to one of the main fiscal benefits of using Jersey private unit trusts, often called JPUTs.

The other measures, which although not directly aimed at the finance industry in the Islands might nevertheless affect it, are:

- Proposals to extend the inheritance tax regime for discretionary trusts to new and certain existing interests in possession trusts and accumulation and maintenance trusts.
- The proposal to establish UK real estate investment trusts (REITs).
- Confirmation that preventative measures will be considered if businesses continue to exploit the VAT-free threshold on imports of small commercial consignments by shipping their products from offshore locations.
- Confirmation of the government's commitment to continue the process of reviewing the residence and domicile rules as they affect the taxation of individuals.
- A package of measures to modernise the tax system for trusts.
- Various anti-avoidance measures targeted at specific tax avoidance schemes.

Removal of stamp duty land tax exemption for unit trusts

THE Chancellor announced the removal of the relief from SDLT when property is transferred into a newly formed unit trust in consideration of the issue of units. As such, for future transfers, a charge on the market value of the transferred property will apply.

Aligning the inheritance tax regime of trusts

IT is proposed to extend the inheritance tax regime for discretionary trusts to interest in possession trusts and accumulation and maintenance trusts.

Broadly, subject to the usual excluded property exemption for trusts established by non-UK domiciled individuals, all trusts will now be subject to the following charges:

- An immediate charge to inheritance tax of 20% on lifetime transfers to trusts that exceed the inheritance tax threshold.
- A ten-year periodic charge of a maximum of 6% on the value of the trust assets over the threshold.
- An exit charge proportionate to the ten-year periodic charge when funds are distributed out of the trust.

The proposals state that the current rules for interest in possession trusts and accumulation and maintenance trusts will continue to apply to:

- Existing interest in possession trusts until the interest in the trust property at 22 March 2006 comes to an end.
- Existing accumulation and maintenance trusts, with certain provisions.
- A trust created by the parent on his or her death for a minor child who will become absolutely entitled to the assets in the trust at the age of 18.
- Trusts created on death for the benefit of one life tenant in order of time whose interest cannot be replaced.
- Trusts created either in the settlor's lifetime or on death, for a disabled person.

UK real estate investment trusts

REITs, which will come in on 1 January 2007, are intended to be an onshore alternative to offshore property companies and offshore property unit trusts.

Broadly, REITs will benefit from a UK tax exemption on profits from a qualifying property letting business and an exemption for qualifying chargeable gains. The exemptions will apply provided certain conditions are met, some of which are detailed below.

- The REIT must be a UK tax resident company listed on a recognised stock exchange.
- The REIT will be required to distribute at least 90% of its taxable profits — not gains — of the tax-exempt property letting business during the relevant calendar period.
- The REIT will be required to withhold tax, at the basic rate of 22%, from distributions to shareholders, even those who are non-UK resident.
- No one shareholder is permitted to have more than a ten per cent interest in the REIT.
- Companies or groups converting into REITs will be required to pay an entry charge of two per cent of the market value of their investment properties. This charge may be spread over four years.
- The ratio of interest on loans to fund the tax-exempt property letting business to rental income must be less that 1.25:1.
- The REIT must derive at least 75% of its total profits from its tax-exempt property letting business and at least 75% of a total value of the assets held by the REIT must be held for the tax exempt business.

Tax information exchange agreements

PROVISIONS will be introduced to enable the UK to enter into exchange agreements in relation to indirect tax matters as well as direct tax matters.

VAT-free threshold

ALTHOUGH there are no current published proposals to reduce or remove the VAT-free threshold on imports of small commercial consignments, the UK is aware that certain businesses are exploiting the rules and that the relief now costs the Exchequer around £85 million per year.

The Budget papers state that if the relief continues to be exploited by businesses using offshore locations, the government will consider changes to prevent this type of behaviour.

Residence and domicile review

FOR the fourth year running the Budget has restated the government's commitment to review the residence and domicile rules as they affect the taxation of individuals. There is no indication of the date for the publication of any consultation paper, or indeed if a consultation paper will be forthcoming.

Reform of the tax treatment of trusts

THE main changes to be introduced are:

- A common test to determine whether the trustees of a settlement are resident in the United Kingdom.
- Provision for the trustees of a settlement to elect that a sub-fund of a settlement be treated as a separate settlement.
- Common definitions of 'settlor', 'settled property' and 'settlement'.
- An increase of the standard rate band to £1,000.

Anti-avoidance provisions

NEW anti-avoidance rules to close a number of avoidance schemes are being proposed. This is a continuing trend for this government, and the large number of anti-avoidance rules seems to be a direct consequence from the application of the disclosure provisions introduced two years ago.

Some of these proposals are as follows:

- Measures to stop tax advantages of certain financial products.
- Rules to stop companies which take part in schemes involving capital losses.
- Legislation preventing trustees exploiting the 'bed and breakfast' rules to avoid tax on disposal of shares and other securities.

Again nothing to do with the EU or international competition!

 21/3/06

New Budget changes to hit offshore industries?

By Christine Herbert
cherbert@jerseyeveningpost.com

Stamp duty on property is among the proposals

JERSEY financial services practitioners will be keeping a close watch on UK Chancellor Gordon Brown tomorrow when he announces the Budget measures for the forthcoming year.

A number of changes have been anticipated recently which will affect certain sectors of the offshore industry.

Not least is an expected change to the rules governing UK stamp duty on property. In the past two years Jersey's lawyers, accountants, funds specialists and the Jersey Financial Services Commission company registry have all benefited from a surge in Jersey Property Unit Trusts, which take advantage of a ruling allowing exemption from stamp duty.

Rival

Towards the end of last year the British Property Federation set up a working party in expectation of a clampdown, as they believe the UK Treasury will be looking to claw back the four per cent exemption. The UK government also announced in November that it would be bringing in a new rival structure, the Real Estate Investment Trust (REIT), although details are still sketchy and up for consultation.

Jersey practitioners, however, say they are confident that the level of service currently available to clients offers more in terms of value than simply exemption from stamp duty.

Another possibility is that Mr Brown may decide to tighten the VAT arrangement under which Jersey's fulfilment industry operates. The UK-based Forum of Private Business has been lobbying hard for a reduction of the Low Value Consignment Relief which allows VAT-free export from the Channel Islands of goods valued at £18 or less.

They want the LVCR to be lowered to around £5 or abolished altogether.

Economic Development Minister Philip Ozouf announced earlier this month that firms trying to set up in the Island solely to ship goods to the UK would have to apply for a 12-month Regulation of Undertakings licence, after which they would be expected to cease their operation.

The States say this is partly to protect the Island's international reputation.

Guernsey has since followed suit, with Deputy Commerce and Employment minister Carla McNulty Bauer announcing that third-party operations were 'not welcome'.

But the UK lobby group says the islands have not done enough to stop unfair competition by the bigger players such as Amazon, Asda and Tesco. They have also raised their concerns with the UK Treasury, the Office of Fair Trading, and HM Revenue and Customs.

Other possible measures that could affect tax practitioners in the Island include changes to the rules for non-domicile UK residents, who live on the mainland but are not liable there for tax purposes. However, although a review has been on the cards for several years, it is unlikely that Mr Brown would want to jeopardise the considerable income derived from such residents in relation to their business interests and personal expenditure.

● The Jersey branch of the Institute of Financial Services with RBC Regent Tax Consultants are holding a post-Budget analysis breakfast on Thursday morning, from 7.30 am at the Pomme d'Or Hotel. For more details telephone 604912 or e-mail publicityofficer@ifsjersey.com

GST

Economy 6/12/05

Notice of increase in water charges

Jersey Water announces that, as from 1 April 2006, all water rates and charges and the price of water sold by volume or agreement will be increased by 1.95%. The price of water sold by meter shall be £2.18 per cubic metre.

The standing charge will not be increased.

A deduction of £1 per quarter will continue to be allowed on all bills where the customer elects to pay by direct debit mandate.

Customers who have questions concerning water charges should contact the Customer Accounts Department on 707301.

JerseyWater

Mulcaster House, Westmount Road, St. Helier, Jersey, JE1 1DG
Telephone: 01534 707301 Facsimile: 01534 707401
Email: info@jerseywater.je Website: www.jerseywater.je

Jersey Water is the trading name of The Jersey New Waterworks Company Limited.

7/12/05

Water price rise

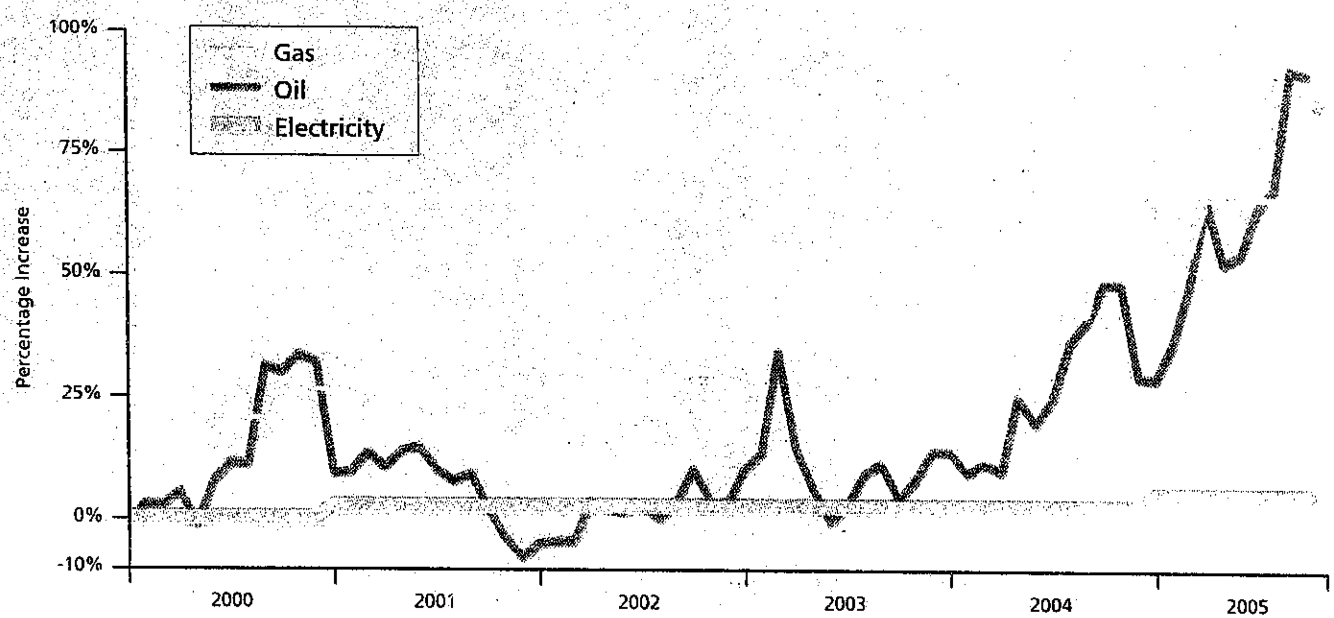
Below-inflation tariff increase announced

price of water is to in- se by just under two ent from next April.
sey Water has an- ced tariff increases for of 1.95 per cent, just v the current rate of in-

Mr Snowden said customers can save money by switching to a water meter.
'With a meter, you only pay for water used and, in some circumstances, this can reduce water bills,' he

25/11/05

Household energy price trends in Jersey

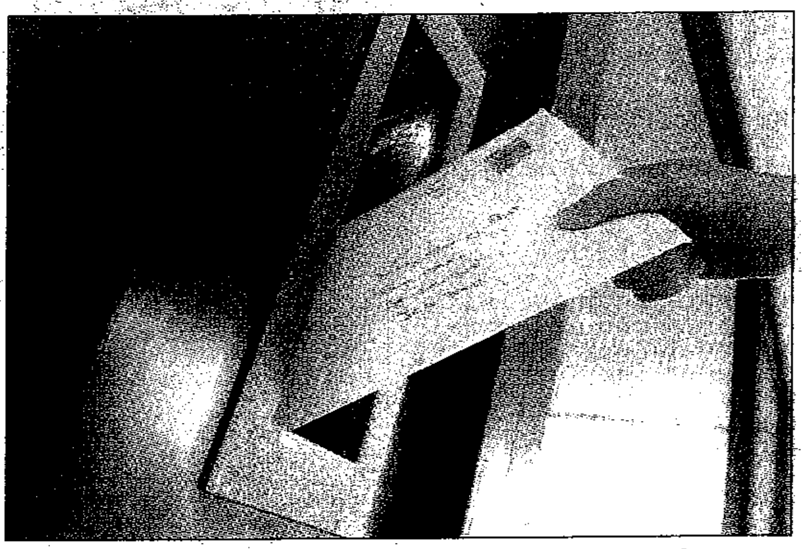


4/10/05

Letters to the editor

FOCUS ON: Stamp prices

Jersey Post go charging ahead



How can Jersey Post explain the huge increase in local postal rates?

● **From John Shield.**

IN the year 2000 our postal rates were 22p locally and 27p for Guernsey and UK.

Next year they are to be 34p and 37p, representing increases of 54.5% and 37%, or an average of 9% and 6% every year.

Jersey Post inform us that the Royal Mail has raised its handling charges but can they please explain the huge increase in local postal rates?

What has gone wrong?

Cantamo, Rue du Galet, St Lawrence.

Jersey Evening Post

Poverty still coexists with wealth

IT is all too easy to become carried away by the idea that Jersey's prosperity, now founded on a highly successful offshore finance industry, extends to every part of Island society. However, a moment's intelligent reflection is enough to confirm that poverty still coexists with the great wealth that is so evident all around us.

Through the welfare and benefits systems we have a safety net which is meant to catch and protect the substantial numbers of Islanders who do not share in the bounty of finance or other buoyant sectors of the economy. In spite of this, there is evidence that some families are falling through the net and are struggling not to enjoy the luxuries of Island life but merely to survive.

Millionaire Colin Taylor, who has so generously offered to use his personal wealth to help those who genuinely cannot make ends meet, has been surprised to discover just how many people are living in poverty. His conclusion is that the welfare and benefits systems are failing to cope with an issue that is both real and reprehensible in one of the world's most prosperous communities.

Thanks to Mr Taylor, at least some of the families in difficulty will find their problems eased. However, charity cannot be a complete answer – despite this Island's remarkable record of care and good works.

If Jersey is not to slip towards becoming a two-tier society of haves and have-nots, poverty – which, only a few years ago, was targeted by the States for abolition – must once more become the focus of determined attention.

Fortunately, the framework for this to happen is already being constructed. A goods and services tax will soon be added to our armoury of weapons designed to raise public revenue. It has been recognised that this new tax could have a disproportionate effect on the less well-off. As a result, there will be comprehensive reform and consolidation of our income-support measures.

What better opportunity could there be to tighten the mesh of the poverty safety net in a sincere effort

Millionaire's shock at poverty levels

19/11/05

Calls on charitable trust show that Islanders are slipping through benefits net, says philanthropist

By Harry McRandle
hmcrandle@jerseyeveningpost.com

A MILLIONAIRE is handing out food vouchers to the needy who have apparently slipped through the Island's benefit net.

Colin Taylor has been shocked to discover the extent of poverty after the JEP published his plea for needy Islanders to contact him for help through his charitable trust.

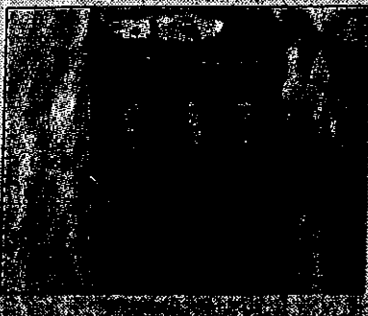
He cannot believe the struggle some people are having just to survive. And he says cases he has encountered show there is something wrong with the social benefits system in the Island.

The Scottish-born tax exile said: 'There is real poverty here. There are gaps in the benefits system people are falling through. We're talking about people who just need a little bit of money but they don't qualify under the rules of whatever scheme it may be.'

Mr Taylor said he had received a text message recently from a woman asking for some tins of baked beans to feed her family. 'We are now handing out food vouchers to allow people to buy some shopping,' he said. 'That will continue as we try to concentrate on helping urgent individual cases. These people appear to have slipped the net and there are gaps in the system that need to be addressed.'

Mr Taylor said it was 'shocking' in

LIVING
Pigeon on the menu
PAGE 14



TREASURE TROVE
FREE advertising
PAGE 50

Millionaire shocked at poverty levels

(Cont from page 1)
a wealthy place like Jersey that there are people genuinely in need who do not know where to turn. 'These people have absolutely nothing,' he said.

Meanwhile, he has made a plea to those who have written asking for assistance to be patient, as the trust is trying to get round to dealing with the appeals. One project – the William Helena Taylor Trust, which is named after Mr Taylor's parents – will help elderly people to afford dental treatment. Mr Taylor said they have come across cases where people need to go to the dentists but just cannot afford to pay, so the trust is looking at contributing to an insurance scheme and is talking to dentists to see what can be achieved.

Meanwhile, the trust is closing an appeal set up only last week to help the family of a three-year-old girl waiting for a heart transplant. Honor Merchant desperately needs a new heart and is top of critical waiting lists of UK transplant centres. Her parents were suffering financially and through an appeal launched in the JEP last Saturday, £2,350 has been raised.

'This has changed their lives,' said Mr Taylor, 'and I cannot thank everyone who has contributed enough.'

The family will be given the money in cash next week.

Honor suffers from a terminal illness and a successful transplant will give her a better quality of life. It is hoped that an operation will allow her another six years.

Honor's mum, Joanne, wrote to Mr Taylor after seeing the article about the trust in the JEP because of the financial struggle paying for medicines and living costs. The trust gave the family £500 last week and volunteered to contribute another £100 a week.

Honor has been treated regularly at both Southampton and Great Ormond Street Hospitals for the last 19 months.

Jersey Democratic Alliance spell out effects on middle-income families

GST: Average household 'will pay £800 a year'

AVERAGE households will be paying £800 a year in sales tax at the same time that '20 means 20' plans will be biting into tax allowances, according to the Jersey Democratic Alliance.

And they say middle-income parents with children at university will be hardest hit.

The removal of allowances hits joint incomes of around £80,000 hardest, the same level at which States support for the £10,000 annual bill of sending a student to university fades out.

But Education, Sport and Culture president

By Ben Quérée
bqueree@jerseyeveningpost.com

Senator Mike Vibert says the firm details of the tax package have yet to be worked out and accused the JDA of scaremongering.

He said the minister taking over the work of his committee would discuss the matter with the future Treasury and Resources Minister when the firm proposals were drawn up, and that a range of options including tax breaks for further education would be considered.

But Deputy Southern said the tax rises had to be put into context.

'The cost of a three per cent goods and services tax, with no exemptions for the average household, will be over £800 per year, according to Crown Agents, authors of the report behind the move to impose sales tax on the people of Jersey,' said the JDA chairman.

The Deputy, who is standing for Senator, added that while three per cent did not sound like much, a further £800 tax bill put the rise into a context that all Islanders could understand. 'Middle earners will be hit even harder, as sales tax will add to the "20 means 20" tax increases of the order of £2,000 for two-earner professional households.

'Many such families will have to re-examine the possibility of university education for their children.

'Those who have experience of higher education grants know that maintenance grants reduce to zero around incomes of £80,000, the same point at which "20 means 20" has maximum impact.'

(States 1/3/05)
JEP 3/3/05

Income support scheme needs another £1.8m

0
15/2/06

By Harry McRandle

hmcrandle@jerseyeveningpost.com

ANOTHER £1.8m will be spent on technology to make sure that the new income support scheme will run effectively, the States were told during questions yesterday.

Social Security Minister Paul Routier said that the money would have to be spent to integrate the scheme into the computerised system.

The Senator, who was responding to questions from St Saviour Deputy Roy Le Hérissier, said that the earlier spending of £7.2m represented good value for money as it was a fixed price contract under which the contractors did not make as much profit as they had anticipated.

The new income support scheme will come into effect in May next year and a further £1.8m would have to be spent on the software update.

FOR GST ??

In response to Deputy Geoff Southern, who asked how accurate income distribution figures were going to be obtained to include in income support calculations, the Senator was adamant that the department would have up-to-date and reliable figures available.

How!

He did, however, agree to give a written explanation to Deputy Southern on the way that the figures would be compiled.

NEWS

Income support scheme aims to cushion GST's impact

THE new income support system will be designed to target people falling under the net of existing benefits, according to the Employment and Social Security Committee.

Their proposed income support scheme will come into force next year, and will tie existing benefits together and aim to protect the least well-off from the impact of the proposed 3% sales tax.

In reply to questions from Deputy Geoff Southern, Employment president Senator Paul Routier said that no firm decisions about the rates of benefits had been made. But he said that income support rates were normally set below contributory benefit rates to maintain the incentive to work.

New system

Senator Routier added that presentations to States Members would be made before the scheme was formally lodged with the States, to give politicians the opportunity to put forward their views and propose changes before the new system is finalised.

In response to a separate question from Deputy Southern, Senator Routier said that the department's new computer system had been installed, and would help officers to process claims more effectively and reliably.

But he added that the workload had increased by up to half due to increased sickness claims due to the weather and an influx of seasonal workers. Senator Routier said that there had been problems switching to the new system, despite staff working overtime and being shifted to high priority areas, and that anyone whose claim was being held up should contact the department.

STATES: Estimated bill revealed for protection against goods and services levy

Tax: Protecting poor could cost £9m a year

(Sales Tax)

BY ANTHONY LEWIS

IT could cost £9 million a year to protect the poor from the impact of the goods and services tax.

The claim was made in the States and was not denied by the Finance president, who said that the full details of the tax and its implications were still being worked out.

Senator Terry Le Sueur also admitted that his committee did not know at what salary level income tax allowances for single people would be phased out as part of the '20% means 20%' policy for higher earners. Joint incomes will be affected from £80,000.

His responses have led to renewed claims that his committee are rushing through a strategy without giving the public the full picture.

Deputy Geoff Southern, who tabled yesterday's questions, told the JEP: 'I do not think they have thought about this beyond stage one, which is getting it through the States. It is ill thought out. How can they expect us and the public to take a decision when we simply do not know what the impact is going to be?'

Allowances

'They are still making up what they are going to do. We do not know where single people's allowances are going to be phased out – the committee say they are going to ask the public for a figure. They can't do it like that.'

But Senator Le Sueur made no apology for not having all the answers. He

HAND REARED WITH CARE . . .

Twin baby black lion tamarins born at the Zoo recently are being hand-reared because their siblings were giving them too much attention and they were not getting enough of mum's milk. Born to Telva and dad Pinon, the male babies, from a critically endangered species, are spending a few weeks with mammal keepers who take it in turns to feed them at two-hourly intervals at their homes overnight. It is hoped that the twins can be gradually reintroduced to their parents and eventually their group

Picture: MATTHEW

told the States that his committee were seeking a decision on the principles and that the detail would follow, probably in the 2005 Budget.

When Deputy Southern suggested a £9 million tag for the income support system – based on figures from the States economic advisers Oxera – the Senator said 'the precise arrangements have yet to be determined'

Senator Le Sueur revealed that in future separate income tax assessments could be required from husbands and wives, although he said there was no advantage for a married couple in electing for separate assessments because the total tax bill paid would be the same.

He said the committee did, however, recognise the distinction between a married couple and two single people living together in the same house.

'As part of the proposals to phase out allowances for higher earners, the committee intends consulting on a radical reform of personal taxation aiming at fair and consistent treatment of all taxpayers, with the possible end result of individual tax assessment for everybody.'

The Senator also told the House that there was nothing the States could do to stop businesses charging the equivalent of VAT and adding the new 5% sales tax on top.

He said it was an issue for consumers to decide whether they were willing to pay the prices being charged or shop elsewhere.

NEWS

Medical GST cover could cost £600,000

By Anna Heuston
aheuston@jerseyeveningpost.com

COVERING the cost of a goods and sales tax on doctors' visits and medicines could cost Health an extra £600,000 a year.

The suggestion was made by Employment and Social Security president Senator Paul Routier in the States on Tuesday. He said that it would be a way of protecting Islanders from the financial impact of GST being applied to doctors' visits and prescription medicines.

'The existing Health Insurance Scheme would be able to mitigate the effects to all patients through benefits under that scheme,' he said.

Senator Routier added that every year the committee carried out a review of the level of refunds given for visits to GPs and prescription charges, which, under ministerial government, wo[illegible] be undertaken by the social secu[illegible]y minister. 'At the time of the introduction of GST this will be taken into account, together with any other fee increase, by increasing the medical benefit refund or maintaining the prescription charge at the level prior to GST,' he said. He added that the extra cost could then be absorbed by the Health Insurance Fund rather than the patient.

'This would be an untargeted mechanism which would cover all residents using health insurance services,' he said.

'With annual health insurance expenditure running at £20 million approximately, a three per cent increase would draw a maximum of an additional £600,000 from the fund.'

He said that this was a cost which the fund should be able to cover.

OTHER ECONOMIES

Daily Mail, Thursday, January 12, 2006

Trade gap hits a record £6bn

By **Edmund Conway**

BRITAIN'S trade deficit has widened to £6billion, sparking fears that the economy is heading for a slump this year.

The shortfall between exports and imports in November was the greatest since records began in 1697, when William of Orange was on the throne.

City experts say UK factories are failing to keep up as the market is flooded with cheap foreign imports. They warn that the economy may be in a much weaker position than previously suggested.

The figures, released by the Office of National Statistics, will come as a blow for Gordon Brown, who has already had to admit that growth last year failed to meet his optimistic initial target.

The Chancellor's 'tax grab' on oil companies in last month's Pre-Budget Report was also slammed, as the figures showed Britain imported more oil than it exported for the fifth consecutive month.

George Buckley, chief UK economist at Deutsche Bank, said: 'The figures were, to be blunt, hideous. The deficit is nearly £1.5billion higher than was reported a month ago.'

The Centre for Economics and Business Research said the widening trade deficit meant Britain was losing its competitiveness.

'The increasing uncompetitiveness will be a drag on growth in 2006,' said analyst Thushani Gajasinghe. 'However, we still believe the Bank of England will keep interest rates unchanged.'

The Bank, whose Monetary Policy Committee decides on interest rates today, is forecasting that the economy will bounce back this year after a disappointing 2005. However, a raft of poor recent statistics means it may have to think again.

Philip Shaw, chief economist at Investec, said: 'The figures are very disappointing. They paint a pretty ugly picture of the size of the UK's trade balance.'

The dollar is expected to weaken throughout the world today when figures are published showing the U.S. trade deficit was $66billion (£37billion) in November, only a fraction down on the record $68billion in October.

However, the Bush administration claims the U.S. economy is showing signs of recovery after almost six years in the doldrums.

Treasury Secretary John Snow forecast yesterday that the economy would grow 3.5 per cent this year.

City – Page 72

Trade deficit worst since records began

By **Edmund Conway**

BRITAIN could be set to lose its oil independence much sooner than expected it emerged yesterday, as falling exports of crude inflated Britain's trade deficit to the highest level since 1697.

The UK Offshore Operators Association criticised Gordon Brown for levying a windfall tax on North Sea oil companies, saying this could drive away investment and shorten the life of UK fields.

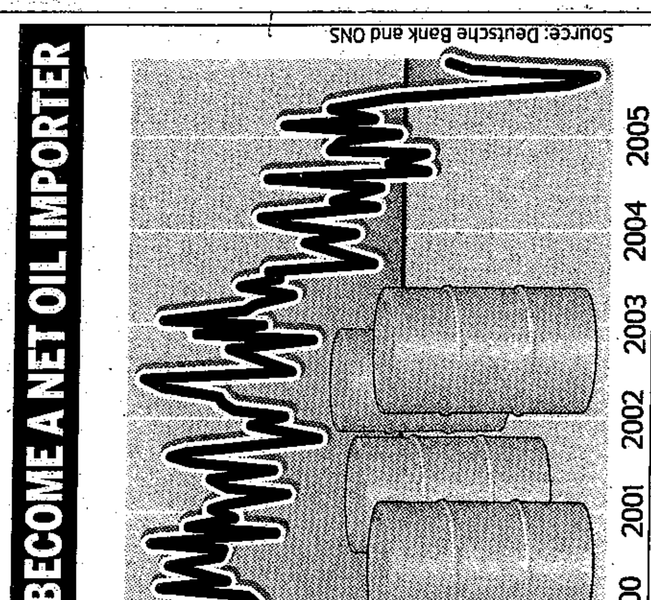
Figures from the Office for National Statistics showed Britain had an oil deficit in November – an unprecedented fifth straight month the nation has been forced to import supplies. This contributed to an overall trade deficit of £6bn – the worst since records began.

The association said its forecast for Britain to remain a net exporter of oil until 2010 may be over-optimistic.

Its economics director, Mike Tholen, said higher North Sea taxes would make matters worse. 'If they increase the tax by 10pc, the value of your development goes down as a result,' he said. 'What might have seemed a minor change in taxes could have quite immodest effects over the long term.'

Economists called the trade figures 'hideous' and warned this could mean weaker economic growth than expected this year.

By contrast, China published numbers showing its trade surplus with the rest of the world more than tripled to £58bn last year.



IMF chief issues dollar alert

THE International Monetary Fund's chief economist has become the latest key commentator to sound the alarm on the massive US current account deficit and the future of the dollar.

Raghuram Rajan said Asian countries could not finance US debt forever, and warned that when they stopped this could cause the dollar to slump. He also warned US house prices could collapse, causing a global downturn.

Brown's optimism sunk by slowdown and a rising deficit

By **Sam Fleming** and **Becky Barrow**

GORDON Brown's optimism about the state of the British economy was seriously undermined yesterday by a series of alarming reports.

The country's total deficit with the rest of the world has ballooned to its highest level since records began after the end of the Second World War.

Economic growth has slumped to its slowest rate in 13 years at just 1.8 per cent last year, well below the Chancellor's predictions.

Separate reports warned that retailers are struggling to increase sales and consumers are cutting back spending under a heavy burden of debt and soaring utility bills.

To make matters even worse, Britons are now saving half as much as they were before the Chancellor came to power in 1997, figures revealed.

The worrying data came exactly a week after the Chancellor used his Budget to paint a rosy picture of the economy.

'Struggling to compete'

Mr Brown predicted that growth would pick up over the next three years and argued that the country had never been more competitive.

But Shadow Chancellor George Osborne said: 'These latest figures are further proof that for all the rhetoric in Gordon Brown's Budget, he is doing little to engage the new global economy. It is little wonder that Britain is struggling to compete in a more and more competitive world.'

The so-called 'current account deficit', which measures money coming in and out of the country, soared to £32billion in 2005, the biggest figure since 1946.

It has done so because of a slump in exports and a sharp fall in the amount of income Britain is earning on overseas investments, the Office for National Statistics said. The report suggests that British exporters are failing to compete against cheap manufacturers in Asia, leading to the loss of thousands of jobs here.

A separate ONS report confirmed that the economy grew 1.8 per cent last year, the slowest rate since John Major was in power in the early 1990s. Just over a decade ago, it was as high as 4.4 per cent.

The economy's performance was dragged down by a slump in household spending growth in the second half of last year.

Consumers were burdened by £1,200billion worth of debt, forcing them to eat into their savings as they struggle to afford the rapidly rising cost of living, the Bank of England's figures showed.

It revealed the first drop in the number of mortgage approvals since November 2004 to 115,000, ending 15 months of improvement.

The figures come on the day that Britain's biggest mortgage lender warned that the housing boom was officially over, and prices could 'stagnate' for the next 20 years.

It said that home-owners should not expect the huge price rises enjoyed in recent years to be repeated until 2016 at the earliest.

Martin Ellis, chief economist, said: 'We expect house prices to rise broadly in line with average earnings over the ten to 20 years plus a bit extra to reflect the failure of house-building to keep pace with household formation.'

Meanwhile, a soaring tax burden and record debts are eroding people's savings, the ONS figures showed. The ratio of savings to spending has fallen to 4.8 per cent, half the level it was when the Labour Government came to power.

The Conservatives attacked the Government for wiping out the savings culture which used to exist in this country.

Their Work and Pensions spokesman Philip Hammond said: 'Gordon Brown has actively deterred people from saving through his obsession with means-testing and his smash-and-grab raid on their savings through his pension stealth tax.'

The news raised fears among experts that the Chancellor will once again have to cut his forecasts after slashing his outlook in December.

But the Treasury insisted last night that there was no cause for concern.

A spokesman said: 'The economy has continued to grow for the longest consecutive period since records began.'

Alex Brummer – Page 79

HOW CRISIS HITS YOU

HOUSE prices could 'stagnate' for the next 20 years, Britain's biggest mortgage lender warned yesterday.

After the record rises, such as the 26 per cent rise in 2002, home-owners could be facing two decades in the doldrums.

Halifax predicts prices will rise in line with average earnings, typically about three per cent a year. It comes as the number of mortgage approvals – a crucial guide to the health of the housing market – has fallen to its lowest level since November 2004.

And on the high-street, retailers say that sales are still 'well down' on last year for the third month in a row.

People are also saving half as much as they were before Labour came to power in 1997. Nearly 40 per cent of people have no pension. Many who do don't pay into it.

... AND THE COUNTRY

THE figures will make gloomy reading for Treasury officials and the Bank of England.

Both predicted a strong recovery in the economy over the next two years. The Treasury expects GDP will rise as much as 2.5 per cent this year and 3.25 per cent in 2007. The bank is predicting a 2.7 per cent jump in 2006, followed by 3.1 per cent growth in 2007.

But reports yesterday of a sharp consumer slowdown at the end of last year, combined with gloomy reports from the CBI about the mood on the high-street, could provoke alarm.

Both the central bank and the Chancellor were forced to retreat from overly optimistic growth forecasts last year. With unemployment rising and bills increasing, they will be worrying their predictions have again been too cheery.

But China has $1trillion in the bank

BRITAIN'S troubled economy is a stark contrast to that of booming China.

Its foreign exchange reserves have passed those of its neighbour Japan to become the world's largest, figures show.

They are on course to exceed $1trillion (£570billion) by the end of this year, according to news reports. These figures are likely to be confirmed by the People's Bank of China next month. The foreign currency reserves have been growing at an enormous $17billion (£10billion) a month on average over the past five months.

This growth is being driven by the rapid increases in the country's exports.

Economists believe around 80 per cent of the reserves are held in dollars. But China is also buying up more and more Euros and Japanese Yen. Britain's foreign currency reserves stand at $48 billion, or £28billion.

Bankrupts toll to hit record as debt soars

City Editor

By **Dan Atkinson**

BANKRUPTCIES are heading for record levels this year as thousands of people choose to go bust rather than face spiralling debts.

Official figures this week are expected to show a staggering rise in personal insolvencies, triggered not just by creditors, but by the individuals taking advantage of more liberal bankruptcy laws.

One source close to the insolvency profession said: 'There were just under 36,000 bankruptcy orders made in England and Wales last year. The figure is likely to be 46,000 for this year.'

That would be a record, higher even than the 36,794 bankruptcies in the recession year of 1992, when the country was blighted by high unemployment, high interest rates and a housing market crash.

During the even more savage recession of the early Eighties, annual bankruptcies peaked at 8,229 in 1984.

Insolvency experts blame the rising bankruptcy rate on the easy credit boom of the past few years and the new 'quickie' bankruptcy law of 2002.

It cut the discharge period – when a bankrupt cannot lead a normal financial life – from three years to one, making bankruptcy less damaging and embarrassing.

Critics say this has fuelled an explosion in 'lifestyle' bankruptcies where those who owe money, especially the young, walk away from debts built up in the current climate of easy borrowing.

With personal bankruptcy, creditors agree part repayment of all outstanding debts, and when the agreed repayment has been met, the bankrupt has a 'clean slate'.

In the late Nineties, 60 per cent of individual insolvencies were linked with a failed business, against 40 per cent from consumer debt. But by 2003, those proportions had been reversed.

More people are opting to go bankrupt rather than being forced into it by creditors. Official fig-

Turn to Page 2 »

The £6.5bn hangover

(bank write-offs) 29/1/06

By **Simon Watkins** and **Dan Atkinson**

SOBERING evidence of Britain's huge credit binge will emerge this week as banking figures show lending still rising at a breakneck pace. At the same time, results from Britain's banks due over the coming month will show a huge rise in debt write-offs.

Figures from the Bank of England due on Tuesday will show households continuing to boost their borrowing by just under ten per cent a year – at least three times the rate of economic growth.

Meanwhile analysts expect the big banks to write off at least £6.5 billion in total against bad debts, up from £4.8 billion last year. However, total profits at the top seven banks are set to exceed £33 billion – £127 million per working day.

The Bank of England fears that lenders may have been lulled into a false sense of security by the balmy economic climate of the past decade.

One source said: 'Default rates are going up, but not at catastrophic levels. They might go up further, but there has been a long period of relatively benign economic conditions. Will the systems put in place to control bad debts during this period continue to be fireproof if times change?'

Figures on Tuesday for lending to individuals last month are expected to show little let-up in the growth of consumer debt – borrowing on credit cards, overdraft and personal loans.

Ross Walker, analyst at Royal Bank of Scotland, said year-on-year growth in consumer credit was running at 14.1 per cent in the 12 months to December 2004, but has come down to 9.8 per cent in the year to November 2005.

'I think it is staggering,' said Walker. 'It's difficult to square with the evidence of labour market weakness.'

There was £31.3 billion outstanding on credit cards last November, a small decline on the £33 billion in November 2004. On overdrafts, there was £9.7 billion outstanding in November, up from £8.5 billion in November 2004.

» GORDON Brown is expected to preside over an explosion in social security spending over the next few years, despite the Government's pledge to slash welfare bills.

According to independent think-tank the Institute for Fiscal Studies, the bill for welfare payments and tax credits may well keep rising, even though unemployment has tumbled.

And the institute says Brown's cherished 'tax credits', under which welfare payments are channelled through the tax system, have yet to achieve four key objectives. The institute's Mike Brewer said: 'There is one tick, one cross and two question marks.'

Daily Mail, Friday, September 16, 2005

Warning over our £1trillion mountain of debt

By Edmund Conway and Becky Barrow

BRITAIN'S £1trillion personal debt mountain may be starting to fall apart with dire consequences for millions of households, the International Monetary Fund warned yesterday.

The highly-respected economic watchdog sounded the alarm over the recent record increase in personal bankruptcies.

They rose by 37 per cent to 11,195 between April and June compared to the same period last year, according to government figures.

The IMF's experts said that if the increase in bankruptcies continued, it would be a serious threat to the UK economy.

Their warning is made all the more chilling because the IMF rarely singles out one country in its report pinpointing the biggest threats to the global economy. This means that its decision to focus on Britain is even more worrying.

The report said that households in many countries are in severe debt, but only in the UK

Daily Mail, Tuesday, February 14, 2006

Personal debt mountain is bigger than the UK's output

By Sean Poulter
Consumer Affairs Correspondent

BRITAIN'S personal debt mountain has grown larger than the entire annual output of the economy for the first time.

Families owed £1,158billion on credit cards, loans, overdrafts and mortgages last year – up ten per cent on the year before.

At the same time, the nation's factories and offices generated £1,127billion – a mere 1.8 per cent rise on the previous year.

The debt burden has had a knock-on effect for the wider economy, causing a slowdown in consumer spending.

It has, however, generated huge profits for the major banks.

The 'big five' – HSBC, RBS-Natwest, Barclays, Lloyds-TSB and Halifax-BoS – are due to announce record annual profits of £35billion in the next few weeks, 15 per cent higher than the year before.

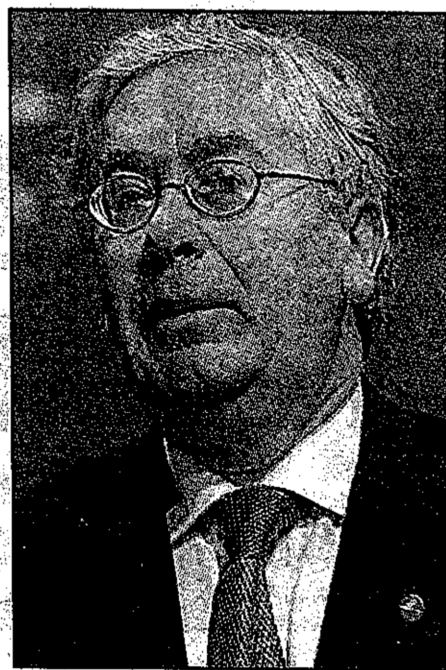
Keith Tondeur, of financial education charity Credit Action, said the latest figures from the Bank of England – headed by Mervyn King – were 'another in a list of alarming milestones'.

'British families are carrying two-thirds of the credit-card debt of the whole of Europe,' he said 'Bankruptcies and repossessions are soaring.

'Debt charities are being inundated with demand. This is a really frightening scenario.

'While people are trying to rein-in their spending, the impact of interest and charges means debt is currently growing at the rate of £1million every four minutes.'

Some experts have argued that rising debt is not a problem because higher house prices have in fact made families wealthier on paper. But Mr Tondeur said



Worrying figures: Mervyn King

this cushion could be lost if the property market collapses or unemployment rises.

'Millions of people are struggling and wondering how on earth they are going to cope,' he said.

'We are seeing significant numbers with unsecured debts of £30,000. That generates interest of £300 to £400 a month. Who on earth can afford to pay that?'

He said the banks should have done much more in the past to assess whether customers could repay the credit they were being offered. 'I would hate to think what would happen if we had a significant rise in unemployment. The country is teetering on a knife-edge at the moment and I am very nervous over what might happen,' he said.

Research by accountancy firm KPMG suggests that in the past five years one in every 100 households has experienced a financial crisis – either bankruptcy or opting for a legally-binding Individual Voluntary Arrangement to repay debts.

A spokesman for the firm said: 'The more people use credit, it is inevitable that this will be followed by increases in personal insolvencies.

'Since Christmas we have seen a dramatic increase in the number of people calling debt helplines, which demonstrates the continued build-up of over-indebtedness.

'As a result, in 2006 we expect to see 60,000 bankruptcies and around 40,000 IVAs, which is by far the highest level ever seen.'

The Office of Fair Trading has recently said that penalty charges imposed by banks on credit cards are unfair.

And similar charges linked to overdrafts and bounced payments are being challenged by individuals in the courts.

The problem has been highlighted recently by a number of 'debt suicides'. One case was that of Stephen Lewis, 37, who owed £70,000 on 19 credit cards.

The engineering worker from Worksop, Nottinghamshire, tried to juggle the cards, taking cash out on one to make repayments on others.

But the minimum monthly repayments demanded by the banks totalled more than £5,000, swamping his take-home pay of just over £1,200.

Hounded by calls and threatening letters from the banks, the father of two hanged himself in July last year.

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CITY COMMENT

Traders fear euro break-up

Alex Brummer

SKITTISH times have returned to the currency markets, with both the pound and the euro taking a beating. Foreign exchange dealers are taking a bet that British base rates are on the way down, if not this week then in August.

But the weakness of the euro is more fundamental. Dealers were unsettled by word that Christian Noyer, a member of the European Central Bank council, has talked openly about the possibility of a country quitting the single currency.

Noyer makes the obvious point that as states are sovereign they have the freedom to leave.

But he included a veiled threat, noting that such a dramatic step might raise questions about that country's ability to remain part of the European Union itself. 'It would not be without risk,' he is quoted as saying.

The fact that senior figures from the ECB are talking about such a contingency shows the sea change in euroland since the French and Dutch referendums on the constitution. The unthinkable has now become widely debated, and ECB members, best known for adhering to a strict vow of silence, find it necessary to defend euroland policies.

Noyer, the governor of the Banque de France, argues that 'growth and employment' have been more favourable since the single currency was established.

In particular, he referred to France's low interest rates as being one of the benefits of euro membership.

Simply raising the matter was enough to send the euro tumbling against the dollar to $1.19, its lowest point for more than a year. The pound, at just under $1.76, was also trading at a 14-month low.

The weakness of sterling is all about interest rates. The Federal Reserve is still raising the cost of borrowing. At the same time, the Bank of England is expected to cut rates by a quarter point to 4.5pc in the near future, making sterling assets less attractive vis a vis the US.

The latest consumer confidence data from the Nationwide shows that each of the seven indicators it measures have fallen since January.

The building society says that people are feeling increasingly uncertain about current and future conditions, and it will be hard for the Monetary Policy Committee to ignore the sentiment.

The tide on the foreign exchanges appears to have turned, with the hedge funds and others now taking big bets against the euro and pound.

BA rights

BRITISH Airways is the latest Footsie firm to report results using the new international accounting standards. The impact is much as anticipated.

Profits look better, at £556m against £540m under British rules, and the balance sheet looks considerably worse.

The carrier's net assets are sliced in half as a result of it having to include its pension fund deficit of £1.4bn.

The reserves of the group fall back to just £940m against £2.22bn.

None of this is very surprising, but it does underline the challenges for new chief executive Willie Walsh, who takes over from Rod Eddington in the autumn.

Despite the strong cash flow, the airline's balance sheet remains threadbare.

This at a time when the group will soon have to start planning for fleet renewal and upgrades.

BA will have to make strengthening the balance sheet a priority.

The new accounting standards make the need for the much-talked-about rights issue more essential than ever.

As for the dividend, it is likely to remain suspended for some time yet.

Viking chill

IT IS reassuring to know that the Icelandic authorities are taking allegations of fraud by Baugur owners Jon Asgeir Johannesson and family seriously. But the Johannesson problems beg a number of questions for the City, which has welcomed the Icelanders to these shores with open arms and sold them great chunks of the High Street (details page 61).

The decision of the authorities to pursue the Johannesson family has not come out of the blue.

It has been known for some time that they are under investigation.

Indeed, some overseas bankers doing business in Iceland have been giving them a wide berth.

If the Johannessons were running a British company under investigation by the Serious Fraud Office, it is hard to believe that investment bankers here would have been so welcoming.

Yet it seems the City holds overseas buyers to lesser standards of governance than our own – as was seen in the case of the Santander takeover of Abbey National.

The great mystery about Iceland is how a nation with a smaller population than Brighton and Hove has found the finance to become a global investment powerhouse.

It would be useful to know more before the next Icelandic invaders try to snap up Marks & Spencer.

Daily Mail, Monday, November 7, 2005

Europe is falling out of love with the EU

CONFIDENCE in the EU is collapsing, with less than half the population in member states now trusting Brussels, a survey shows.

Just one third of Britons see the benefit in continued member[illegible]p – the lowest in the 25 countries surveyed – according to a European Commission poll.

Overall confidence in the commission has plunged to 46 per cent, with many Europeans appearing fed up with stories of waste and corruption, and believing its budget should be frozen.

In Britain, just 31 per cent trust the organisation.

The findings are thought to be the worst since similar records began in the mid-1970s. Of the 25 members, only ten have an overall 'positive image' of the EU.

The findings add to growing malaise surrounding the European project after the French and Dutch 'no' votes on the European constitution.

Many of the countries which joined the single currency have suffered economic stagnation and rising unemployment.

Italian Prime Minister Silvio Berlusconi claimed earlier this year that the euro had 'screwed every[illegible]dy', the first time a leading [illegible]ropean politician has explicitly blamed the euro project for the EU's economic woes.

The findings came amid claims that Europe's richest citizens – such as billionaire Prince Albert of Monaco – are raking in huge sums in European farm subsidies.

Research commissioned by Oxfam found Prince Albert, estimated to be worth £1.35billion, received £194,154 in farm payments last year. The top 15 per cent of the country's farmers consumed 60 per cent of subsidies given to France, it said.

Jo Leadbeater, of Oxfam, said: Europe's regime of farm subsidies goes to the wealthiest landowners and destroys the livelihoods of poor farmers.'

Tony Blair is facing a fresh showdown over the lavish farm subsidies, which he insists must be reformed before Britain can give up any of its £3billion-a-year rebate. Foreign ministers, including Foreign Secretary Jack Straw, are due to meet today to tackle the dispute over the EU's 2007-13 budget. France remains firmly opposed to reform of the subsidies, which benefit farmers.

MONDAY VIEW

Alan Brown

Schroders

27/3/06

Italy proves the weakest euro link

AS Italy gears up for its April elections, it is tempting to speculate what might h[illegible]

So, if New Deutschmarks were likely to appreciate against the euro, then creditors of Germany could maintain their claims in euros and, with [illegible]

EU

Daily Mail, Monday, November 14, 2005

Auditors blast EU's lost billions

AUDITORS are today expected to refuse to approve the European Union accounts for the 11th year running because of fraud and mismanagement costing an estimated £3.5billion a year.

The European Court of Auditors has consistently argued that it cannot approve the budget, now standing at £68billion a year, because there are insufficient controls over how a large part of the money is spent.

The court will present its report to MEPs in the European Parliament's budget committee today before a debate in the Strasbourg parliament tomorrow.

'Because the court has to be objective, our message is not always nice to hear and not always welcome,' said Victor Caldeira, a court member. 'The court has been unable to give assurances about the legality and regularity of a large part of EU spending.'

The auditors have for the past decade raised questions regarding the spending of around 90 per cent of the entire EU budget. Poor control over transfers from Brussels to national capitals are at the heart of the problem.

Tory MEP Chris Heaton-Harris said an estimated £3.5billion was 'lost' each year, equal to Britain's annual contribution. He added: 'Gordon Brown just signs the cheque each year. He should be banging his fist on the table and demanding to know where all this money is going.'

Gawain Towler, spokesman for the UK Independence Party, said: 'Time and time again, we hear about fraud from the EU's Common Agricultural Policy budget. We are still not sure where this money goes.

'At least the court of auditors, which is perhaps the only honest EU institution, has the guts to say this.'

Daily Mail, Thursday, January 12, 2006

A nation spending its way to oblivion

With a debt mountain growing at a staggering $1 TRILLION a year, how long before the U.S. bubble bursts?

AMERICANS in January 2006 are a fat and happy race. At home, there is no mirror that doesn't flatter them, no number that doesn't encourage them, no headline that doesn't praise them.

Even when they make mistakes, the news is taken as laudatory: at least they tried!

Their warships range the seven seas. Their armies stand ready on every continent. No sparrow is so small that it can fall without setting off sensors at the Pentagon. And no country is so poor that it cannot lend the United States of America money.

Like Alice in Wonderland, the star-spangled bumpkin is expected to believe six impossible things before breakfast. The lumpenvoter goes even further; he believes another three before lunch.

He believes he can get richer by spending rather than saving. He believes he can borrow without ever paying back. He believes he can invade foreign countries and the natives will say 'thank you'. When they don't, he is genuinely surprised at their ingratitude.

Privately and unconsciously, Americans think they have defeated time itself. The historical evolution that pushed them to the top of the world stopped dead in its tracks, they believe, the very day they arrived at the summit. Henceforth, the sun will never set on America's consumer empire.

Doubts

Who doubts that the entire country is glazed in honey? Things could not be better — except that they'll surely be better next year. No conceit is too extravagant, no humbug is too preposterous; the gods must be chuckling, or maybe even rolling on the ground laughing.

If only there were no gods, and no limits. But in economics, as in many other things, there always are:

no mornings without evenings, no glasses half-empty without just as many half-full; no silver linings without clouds.

We would be as happy as the next fellow if we could borrow more and more money for ever, without having to repay it, just as we wish we could be young for ever, with two stomachs and the metabolism of a steel mill. But nature seems to be against it.

Of all the preposterous things said in 2005, perhaps the most dangerously appealing came from the man designated to be the most powerful in the world.

Ben Bernanke, picked to replace Alan Greenspan as chairman of the U.S. Federal Reserve, told Americans they were not really irresponsible spendthrifts; they were doing the world a favour by transforming a 'glut of savings' in Asia into granite countertops and personal video players in America.

Gizmos

Thank God for the grasshoppers in the West. Otherwise, what would the ants in the East do with themselves?

'They sweat; we think,' said another economist old enough to know better. But Americans cannot resist this appalling conceit. In their minds, globalisation has divided the world into two neatly symbiotic parts.

On one side, people sweat and save. On the other, they think and spend. One group makes things; the other takes them. One lends; the other borrows. One group provides toasters, automobiles and electronic gizmos; the other provides dollars.

Americans like this bipolar world. As long as Asians will work for 50 cents an hour and take dollar bills for their products, what's not to like?

The Fed chairman-designate is not exactly wrong when he talks of Asia's 'glut of savings'. He is just a bit premature. The transaction is only half-complete, like getting dressed but forgetting to

by Bill Bonner

put on your trousers; you go out and look ridiculous.

The hard part, repaying the debt, is still ahead. That is where the favour of borrowing is likely to turn into the imposition of larceny, and the sunny world of America's economy is likely to darken.

If there is an example in history of an empire that did not eventually come to grief, we have never heard of it. Britain's empire was already in decline by the end of the 19th century. By the early 20th century, America and Germany had passed it in terms of GDP.

Britain's factories were old and uncompetitive, its wages high. It still bore the costs of empire, but the advantages had packed up and moved over to its rivals. In 1917, America shouldered Britain out of the way.

America has now been in the empire business for many years, but has never really got the hang of it. Empire is essentially a protection racket. You provide order and in exchange collect tribute. Empire has to pay, one way or another, or it falls apart.

America never collected tribute. Instead, like Britain, it has relied on its businessmen to draw profits from widening markets. Alas, the U.S. balance of trade went negative 30 years ago and now it finds itself in a similar position to Britain in 1900.

The U.S. pays the costs of empire — with a military budget greater than that of the rest of the world put together — while Asians gain market share.

British and American versions of this empire were built on profits from manufacturing. When manufacturing ceased to be profitable, both borrowed. Under the burden, Britain went broke in 1976. America's bankruptcy is still ahead.

Will it come in 2006? Probably not. But ~~signs of~~ America's decline might at least make the news. U.S. stocks, bonds, property or the dollar — any of them could begin to collapse.

During the two terms of George W. Bush, the federal government has borrowed more money from foreign governments and banks than was borrowed by all other American administrations put together, from 1776 to 2000.

According to the Bush-friendly Heritage Foundation, federal deficits are expected to rise by $1 trillion a year until the year 2017, creating a $16 trillion national debt, twice today's level. After that, deficits should grow by $2 trillion a year.

Shortfalls

Over in the private sector, the system of imperial finance has been imitated: shortfalls in income have been made up by windfalls in credit.

The savings rate in the third quarter of this year fell to a record minus 1.5 per cent, compared to plus 25 per cent in China. Student loans outstanding have risen more than 800 per cent since Ronald Reagan took office. Mortgages are up nearly 900 per cent. Credit card debt is up by more than 500 per cent.

The real source of this problem is the same as Britain's 100 years ago — the globalisation its own empire has helped to create.

Asians are ready to do the same work for less money. This makes some businesses more profitable, those that have taken advantage of lower costs in Asia. But it leaves home-grown labour struggling to make ends meet.

The only way they've been able to put the two ends of the domestic budget together has been with debt, the 'plastic safety net' for America's middle and lower classes. Average credit card debt has grown to $8,650 per family. Total personal debt has risen to $40 trillion — more than three times GDP.

If only debt could rise for ever.

But there comes a time when you have to borrow less, not more. Then you have to spend less. And when you spend less, the people who were counting on you to buy things are disappointed. And then they have to spend less, too. And then those nice people who loaned you the money when times were good get a severe look on their faces and ask for it back.

In 2006, consumers face increases in adjustable-rate mortgage payments, higher minimum credit card payments, higher costs to heat their homes (especially in the north-eastern U.S.) and smaller — or non-existent — house price increases. The bankruptcy rate is rising; last year, 1.8 million Americans went broke.

The day cannot be far off when the lenders stop lending, when they stop figuring the return on their investments and begin to wonder about the return of their investments, when they stop counting the quantity of dollars they hold and begin to wonder about the quality of them, when Americans themselves stop thinking about having money just in time to pay the bills and wish they had a little extra saved, just in case.

That time may not come in 2006, but that it will come sooner or later we have no doubt.

■ *Empire Of Debt: The Rise Of An Epic Financial Crisis by Bill Bonner and Addison Wiggin is published by John Wiley & Sons. This article first appeared in The Spectator.*

CITY COMMENT

Fears grow for US economy

Alex Brummer

WARNINGS that the United States may be heading for the economic rocks are starting to come through fast and furious. The latest person to join the gloom camp is Raghuram Rajan, the top economist at the International Monetary Fund.

In remarks posted on the IMF's website, Rajan notes that America is running a current account deficit of 6.25pc of national wealth, or 1.5pc of the total output of the world.

To finance this huge shortfall it is pulling in 70pc of the world's savings, much of it from Asia. So we have the curious position of the world's poor financing the over-consumption of the earth's richest nation.

Rajan notes that the response to an investment slowdown in the Anglo-Saxon countries has been to expand budgets and lower interest rates. In the United States and Britain easy credit has fuelled housing booms.

The IMF man believes that two changes are needed. Consumption has to give way to investment, and, to reduce current account imbalances, demand has to shift from deficit nations like our own – Britain had a record trade deficit of £6bn in November – to nations running surpluses like China.

The risk is that the adjustment will be 'abrupt', taking away a major support of world growth. In plain language, the housing market in the US will crash and the shockwaves, in the shape of recession, will be felt around the world.

John Snow, the American Treasury Secretary, is doing his best to allay such fears, promising to shrink the US budget deficit by containing spending.

Quite difficult when a new study by Nobel prize winner Joseph Stiglitz places the cost of the Iraq war at $1.184bn. And that is a moderate scenario! Moreover, Snow brushes to one side fears that China may be preparing to shift some of its reserves out of US dollars. 'I'm confident the US will continue to attract the capital it needs,' he suggests, noting the solid returns on US assets.

It is Snow's job to allay suspicions that America's credit and debt mountains pose a threat to global stability. Indeed, as Rajan notes, China can play a great role in helping to smooth change by allowing the renminbi to climb against the dollar.

But the overriding worry is that the Bush government is failing to impose enough discipline on its financial affairs and it will all end in tears.

P&O questions

THE alacrity with which the board of the Penninsular & Oriental Steamship Navigation Co and its advisers bit off the hand of Dubai's DP World when they rolled up with a 443p offer is looking foolish. A bid in the hand is no doubt worth a great deal more than those in the bush. However one has to seriously question why Sir John Parker, advised by Citibank and Rothschild, felt so strongly about the Dubai offer that he even consented to a break fee of £33m of shareholders' money.

We are now starting to find out that the DP World offer was inadequate given the paucity of port and other shipping assets around the world.

In latest trading, P&O – which I hold – soared 6pc to a shade under 500p, way above the second bid from the Singapore government-controlled Temasek Holdings.

The truth of the matter is that both bidders are effectively controlled by states with bottomless reserves and no one can be sure where the take-out price will end up.

Broker Dresdner Kleinwort believes the winning offer will be in the 500p-550p region, more than a pound above where Parker and a deck heavy with knights of the realm ran up the flag of surrender.

Directors should have reflected more carefully on the price of abandoning 170 years ruling the high seas.

Poor precedents

THE record on insurance mergers in Britain is not good. NatWest's attempted merger with Legal and General in 1999 failed to find favour with the stock market. The 1996 deal between Royal Insurance and Sun Alliance is widely regarded as one of the biggest value destroyers in British corporate history and Prudential's 2001 attempt to take over American General, ended in ignominy when AIG came in and blew it out of the water.

So the idea of bringing together Britain's two largest insurers Aviva and the Prudential is unlikely to be greeted with unalloyed joy. Having only recently put together a new top team and restated the group's growth strategy, the Pru is unlikely to want to sell itself just yet. But if it does, Aviva might look an attractive partner after the success which Richard Harvey and his team have had in bedding down Norwich Union and more recently the AA.

CITY & FINANCE

Bank deputy warns of global turmoil


Rachel Lomax: Tensions

By Sam Fleming

RACHEL Lomax yesterday became the third Bank of England policy maker this year to highlight the potentially explosive tensions building in the world economy.

The deputy governor warned of the danger that convulsions in financial markets may result from growing 'imbalances' in the global economy. Among the most glaring of these is America's reliance on a steady flow of cash from Asian governments to fund its ballooning deficit, she said.

While a major upheaval remains unlikely, the notion that countries such as China will maintain an 'open ended commitment' to plugging the gap in the US balance sheet by buying dollars seems 'implausible'.

'I am acutely conscious that a world of large imbalances carries some risk of disruptive market adjustments, even if the probability of them occurring is low. These could have a significant impact on economic activity,' she told a conference in London.

Governor Mervyn King said earlier this month that stockpiling of savings by Asian countries is helping keep long-term interest rates unusually low, a phenomenon that could unwind with dramatic results for economies including the UK.

Outgoing deputy governor Sir Andrew Large last week said asset prices were looking stretched and there was a chance a financial crisis could result.

The doubling in oil prices has added to economic tensions, as exporting countries build up massive cash reserves, Lomax said yesterday.

Her comments came as the price of crude steadied around $68 in New York after jumping as high as $69.20 on Monday. Saudi Arabia sought to soothe fears of supply disruptions by offering to pump more oil. However, the killing of several oil industry officials in Nigeria, where a month-long campaign of violence is hampering production, added to market jitters.

Alex Brummer

CITY & FINANCE

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10/1/06

Gold sparkles over fears of a recession

By **Edmund Conway**

GOLD prices leapt to a 25-year high last night amid fears that America could plunge into recession next year.

Investors piled into the precious metal as billionaire financier George Soros said the US economy could crumble in 2007 thanks to high interest rates and a house price crash.

Soros – who famously 'broke' the Bank of England by speculating against the pound in 1992 – warned that the Federal Reserve may be primed to lift interest rates by more than is necessary, pushing the world's biggest economy into contraction.

The news intensified the rush to gold – a safe-haven investment which has gained in price recently amid fears about rising inflation and geopolitical uncertainty.

Gold prices touched $587.80 in New York – the highest level since March 1981.

Speaking at a conference in Singapore, Soros said he expected the Fed, whose chairman Alan Greenspan will retire at the end of this month, to lift US borrowing costs another half a percentage point to 4¾pc.

'Almost inevitably, they have got to overshoot because they can't stop until the economy shows signs of a slowdown,' he said. 'By the time it shows those signs, it may be a little too late.

'If housing continues to cool while rates are slowing then it could turn into a hard landing. That's why I expect a recession to happen in 2007, not 2006.'

But Soros's pessimism does not seem to be shared by the world's top central bankers. The group of ten top economies (G10) forecast that world economic growth would be stronger this year than in 2005. European Central Bank president Jean-Claude Trichet, who chairs the group, said: 'The global economy proved very, very resilient in the eyes of governments and particularly resilient in the sharp run-up in energy prices.'

Soros: The financier warned that the US could be facing a recession next year