Treasury slams EU report warning Britain faces debt spiral

The Treasury has lashed out at the European Commission in highly charged language after it suggested that Britain risks a debt compound spiral that could push public borrowing to levels never seen in a modern democracy.

By Ambrose Evans-Pritchard
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Brussels said UK public debt will rise from around 60pc of GDP this year to 160pc by 2020, 406pc by 2040, and 760pc by 2060 unless there are drastic spending cuts.

"The UK's budgetary position poses severe risks to the sustainability of public finances," the EC said in its Sustainability Report.

A UK Government spokesman cast doubt on the figures. "This report has no basis in reality and calls into question the ability of the EC to carry out credible economic analysis," he said. "It takes no account of any member state's plans to reduce its debts and only shows what would happen if no government took any action to reduce borrowing for 50 years. The UK Government set out a clear plan to halve the deficit over the next four years."

The Commission's figures are based on a "no-policy change scenario" and are intended to highlight risk rather make a forecast. The report said Britain's "sustainablity gap" has reached 12.4pc of GDP using a definition that factors in the rising costs of pensions and elderly care. Countries must be in balance over time to stabilise debt. Both spending cuts and tax rises will be needed, and probably some slimming down of the "social protection system".

Philip Hammond, Conservative Treasury spokesman, said the findings echo Tory calls for credible cuts. "This latest rebuke is further evidence of the extent of Gordon Brown's debt crisis," he said.

Britain is not alone. The gap has reached 19pc in Ireland, 14.1pc in Greece, 12.2pc in Slovenia, and 11.8pc in Spain. What is disturbing is how far the UK has strayed from other mature economies, which kept a tighter grip on spending during the boom. The gap is 1.4pc in Sweden and Italy, 4.2pc in Germany and 5.6pc in France.

Europe entered the crisis with public accounts in their best shape for 30 years, thanks to the discipline of Maastricht convergence rules for the euro. The mix of fiscal stimulus, "automatic stabilisers", and "off-budget" spending across the EU has since been roughly €600bn (£560bn), or 5pc of GDP.

Brussels said emergency measures must be reversed fast to restore confidence. "There is no defined upper limit to sustainable debt levels. The capacity to run high debts depends on financial markets, and trust in the capacity of governments to implement structural reforms. Countries with high debt ratios – as well as large external imbalances or contingent liabilities – are particularly exposed to market turbulence."

"Though the debt and deficit increases are themselves impressive, the projected impact on public finances of ageing populations is anticipated to dwarf the effect of the crisis many times over."

Joaquin Almunia, the EU's economics commissioner, said Europe cannot rely on high growth rates to bring down debt ratios, as in the past. The ageing crisis has changed the game. This time we will have to retrench.

http://www.telegraph.co.uk/finance/economics/6329036/Treasury-slams-EU-report-on-debt-spiral.html