TIME IS RUNNING OUT FOR THE WEST

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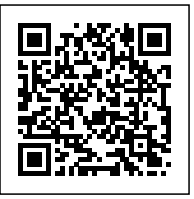

Ambrose Evans-Pritchard, Telegraph.co.uk, 17 Aug 2010

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"Genuinely adverse debt dynamics were only expected to materialise in 15 to 20 years. The crisis has 'fast-forwarded' history, eroding all the time available to adjust, " said the group's quarterly Sovereign Monitor.
Moody's fears that the US will crash through its safety buffer by 2013 if growth falters (adverse scenario), with interest payments topping 14pc of tax revenues. The debt-to-revenue ratio has already doubled in three years to 430pc.

The US, UK, Germany, France, and Spain are all at risk of an "interest rate shock", either because they must roll over a cluster of short-term debt (US, France, Spain) or because deficits are so large.

Countries that "fail to demonstrate the level of social cohesion required to stabilise debt" will lose their AAA rating. "Intra-generational" conflict between young and old requires careful handling. States that delay pension reform risk spiralling downwards.

Moody's said the world had changed since Europe's debt crisis. None of the large sovereign states can still assume it is credit-worthy. "The burden of proof now falls on governments," it added.

Britain has the safety cushion of long debt maturities, but the structural deficit is causing debt "to grow an unsustainable rate": the UK is clearly one of the weaker countries in the AAA peer group.

Moody's expects Britain's public debt to reach 90pc of GDP within three years. It warned that any slackening in fiscal tightening by the Government squeeze would lead to a "sharp rise" in funding costs if growth also slowed, with a nasty effect on debt dynamics.

The warning appears to vindicate the Coalition's claim that immediate belt-tightening is needed to restore confidence and head off a gilts crisis where markets would impose harsher measures.

The current crisis differs starkly from the "one-off" debt spikes after the Second World War, when young economies were able to outgrow the debt burden. This time the threat lies ahead as the aging crisis drives up pension and health costs on a static tax base. "While the current stock of debt

is large, it is dwarfed by the accumulation of future liabilities if policies do not change."