(The Market Oracle, 13.4.2010)

Britain's Accelerating Trend Towards High Inflation and UK Debt Default Bankruptcy

Whilst politicians of all the major parties during the general election campaign continue to ignore the giant debt elephant in the room as the general public continue to prefer to be deluded into thinking that Britain can skip the debt crisis that faces the country as a consequence of Greecesk levels of annual deficits and foreign liabilities that have pushed Britain significantly along the path towards hyperinflation and bankruptcy (debt default to foreigners), as many of the trend projections concerning the looming debt mountain, banking and public sector's liability expectations made in November 2008 (Bankrupt Britain Trending Towards Hyper-Inflation?) have come to pass, against which NOTHING has been done or stated will be done to prevent ultimate national bankruptcy as warned of in November 2008.

28th November 2008 Conclusion

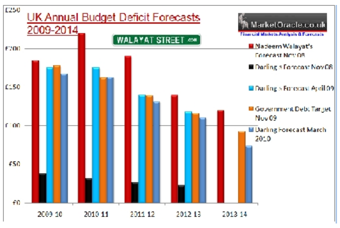
Britain is not bankrupt and not likely to go bankrupt in the immediate future, however Britain is on the path towards Bankruptcy if it goes on the projected borrowing spree that lifts real debt to £3.2 trillion and is forced to take on banking system liabilities of £5 trillion, under such a situation the country would be bankrupt as the currency would collapse, and we would not be able to service the debt much of which would be denominated in foreign currencies given Britain's position in the global financial system. Though the more probable outcome of stagflation for many years (low economic growth, high inflation and interest rates) that erodes the value of domestic debt and savings would in itself be a bad outcome for Britain. The only real solution is to limit the growth of real public debt by cutting back on public spending and bringing public sector pensions inline with the private sector, both of which will be positive signals to the UK debt market and banking system.

Labours Last Budget

Alistair Darling delivered his last budget just prior to the start of the election campaign that contained a few election gifts amounting to a £2 billion giveaway to be clawed back with a few mostly delayed tax hikes. However the key item missing form the budget was how the Government will fulfill its often stated target of halving the budget deficit over the next 4 years.

The chancellor has revised his budget deficit expectations for the financial 2009-10 from £178 billion to £167 billion. The government projects that the annual budget deficit will fall from the last financial years 12% of GDP to under 4% by 2014-15. The forecast annual budget deficits are for 2010-11 £163bn, 2011-12 £131bn, 2012-13 £110bn, 2013-14 £74bn.

The following graph illustrates the revisions in government borrowing expectations since my original analysis and forecast for annual UK budget deficits of November 2008.



Therefore the Labour governments own expectations are for an additional £478 billion of borrowing over the next 4 years that will be ADDED to the existing total debt as of end of the last financial year that is estimated to stand at a total of £870 billion, therefore according to the Labour government total public sector net UK debt by the end of 2013-14 will increase from the current 62% of GDP to 90% of GDP (after allowing for economic growth).

This compares against my November 2008 target that projects an additional £670 billion of net borrowing for the same time period, against Alistair Darlings original projection of £120 billion. I will hold off revising this total lower until later in the year once the the new government has made its true intentions known.

Even if Britain is able to halve the annual budget deficit over the next 4 years it will still mean that the government plans to borrow an ADDITIONAL £478 billion.

Labour Manifesto

With election fever in full swing Labour announced their election manifesto yesterday that in great detail listed a string of promises to increase spending and not to increase income tax.

Key Manifesto Points

§ Halve the annual deficit of £167 billion

§ NO increase in Income Tax

§ An internationally agreed Bank tax

§ Sell off nationalised banks

§ Health reforms to make the NHS far more accountable to the patients it purports to serve

§ A myriad of minor spending promises amounting to at least £2 billion a year.

What's Missing from the Labour Manifesto

Again the key element missing from the manifesto is how Labour will fill the £167 billion black hole in the countries finances. The promise of halving the deficit from £167 billion to about £75 billion and there in lies Labours credibility gap with the Conservatives not much better as I will elaborate upon later.

Debt Fuelled Economic Growth

Taking an average achievable growth rate of 1.5% per annum for the next 4 years implies that Britain will grow GDP by a total of £213 billion. However to achieve this growth and based on the governments own figures, Britain will borrow an additional £478 billion. So Britain is in effect borrowing more than £2 for every £1 of extra economic growth. If that does not illustrate a country that is on the road towards bankruptcy then nothing will. Labour ignited the debt fuelled boom during mid 2009 which I covered at length in articles such as - 03 Jun 2009 - UK Economy Set for Debt Fuelled Economic Recovery Into 2010 General Election , and analysed at length in the **Inflation Mega-Trend Ebook** (FREE Download)

Nothing has changed as the Labour government looks set to deliver the forecast scorched earth economy to the next Government, something that Britain will have to suffer the consequences of for at least the next 5 years as the country looks set to enter into a prolonged period of stagflation as the government attempts to inflate some of the debt and interest burden away.

Britain Will Eventually Go Bankrupt

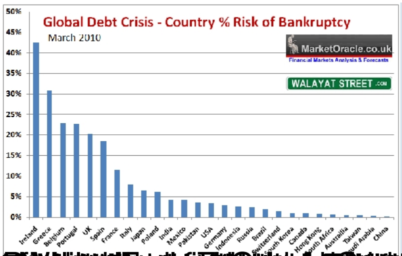
Britain will at some point default on its debts to foreigners (as it has done at least twice before), this is INEVITABLE because ALL countries eventually DEFAULT on their debts, it is only a question of when i.e. in the next few years or delay bankruptcy for many decades and therefore results in the relative risks of default which the market prices. INFLATION is a symptom of the trend towards bankruptcy as it is a measure of the continuous COMPOUNDING loss of purchasing power of the currency. The best that governments such as Britain have been able to achieve is the slow stealth trend towards bankruptcy where people don't realise the loss of purchasing and wage earning power over time. However with government debt heading towards 100% of GDP, Britain looks set to leave the stealth trend towards bankruptcy behind and about to accelerate a few notches higher which risks igniting a wage price spiral that ultimately ends in a hyper-inflationary bust.

Where Britain Stands In Terms of the Global Trend Towards Country's Going Bankrupt

All countries are on the path towards bankruptcy, to measure where a country stands along this path it is critical to look beyond official statistics that focus primarily on public sector net debt and the annual budget deficit in terms of % of GDP.

The key item missing from most commentary on this subject matter is debt and liabilities that are denominated in foreign currencies as that can mask a stealth trend towards potentially imminent bankruptcy that can suddenly blow up in the face of a countries citizens who had been previously mislead by official statistics into thinking that the debt situation was under control, much as Icelanders experienced during 2008 where one day they enjoyed one of the highest standards of living amongst westerners to next day wake up to be bankrupt and poorer in terms of purchasing power than many third world countries. **The key driver for state bankruptcy and currency collapse is the amount a country owes or is liable to foreigners**
, as debt denominated in foreign currencies cannot be inflated away as governments can do with domestic debt so it is one of the primary driving forces for a country going bankrupt as it is unable to meet the increasing interest payments due in foreign currency as its own currency falls.

The following graph attempts to paint an accurate picture of the current relative state of the trend towards bankruptcy of the worlds major economies which takes into account public and private debt, unfunded liabilities, budget deficits, and debt denominated in foreign currencies, as well as taking into account the historic track record of the countries in dealing with past debt crisis. The results are shown as a % of the countries risk of going bankrupt where Iceland would be at 100% following its defacto debt default.



Inflation Mega-trend Ebook

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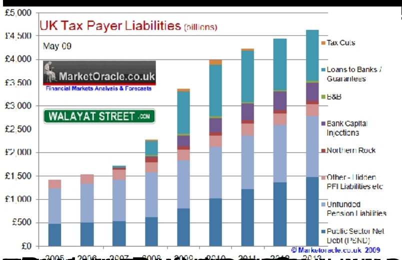
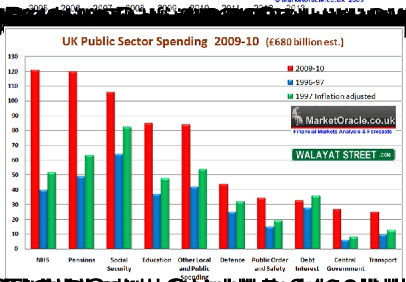
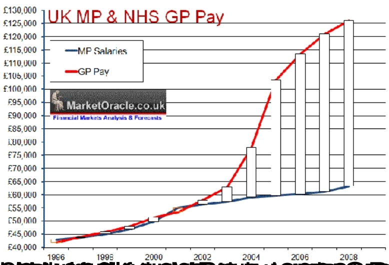
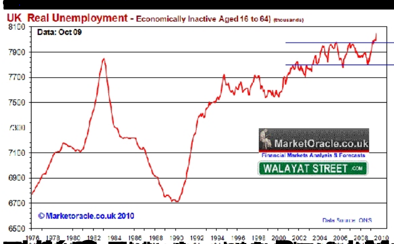
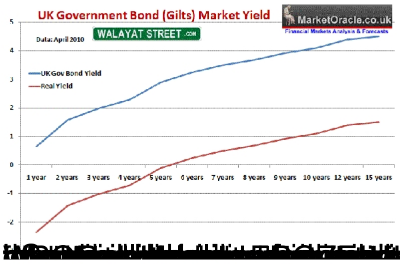
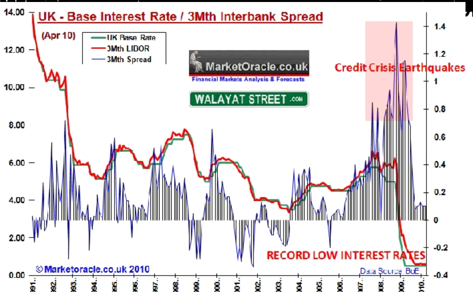


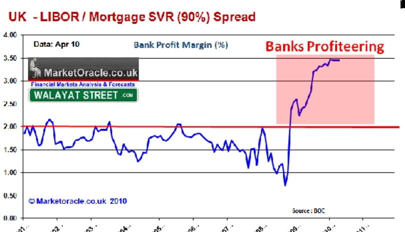




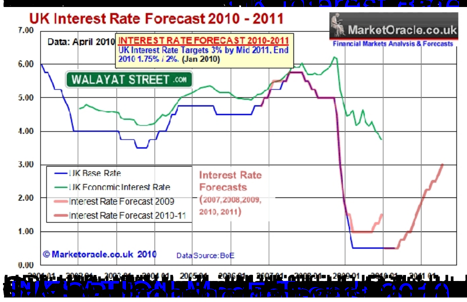


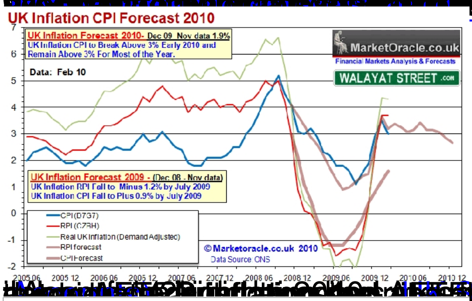


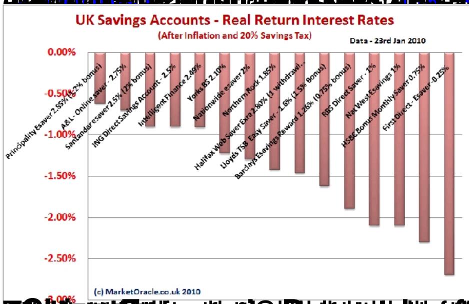




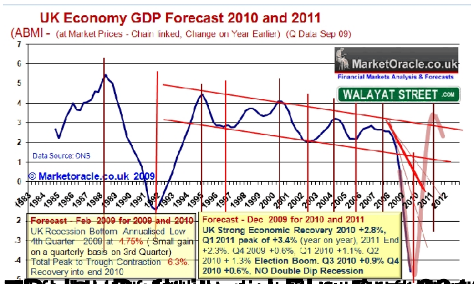
UK Interest Rate Forecast 2010 and 2011

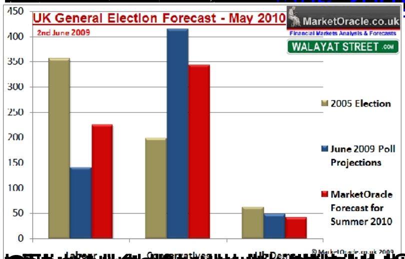






UK Economy GDP Growth Forecast 2010 and 2011, The Stealth Election Boom





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