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Credit rating for Greece is further downgraded

Restructuring of debt being weighed by E.U. might amount to default

BLOOMBERG NEWS

Greece's credit rating was cut three notches Friday by Fitch Ratings, which said that even a voluntary restructuring of the country's debt being considered by European Union policy makers would be considered a default.

Fitch cut its rating to B+, four notches below investment grade, from BB+ and said that the country could face a further reduction in its creditworthiness.

"The rating downgrade reflects the scale of the challenge facing Greece in implementing a radical fiscal and structural reform program necessary to secure solvency of the state and the foundations for sustained economic recovery, Fitch said by e-mail.

More than a year after Greece received a €110 billion, or $156 billion, aid package that aimed to stem the spread of the region's sovereign crisis, the country's debt is rising, borrowing costs are near records and European policy makers are considering additional aid.

The yield on Greek 10-year bonds rose 55 basis points Friday, or 0.55 percentage point, to 16.6 percent, more than twice the level of a year ago when Greece accepted the bailout.

Greek two-year bonds yields are at more than 25 percent, indicating that investors are betting Greece will not be able to return to markets as planned under the bailout next year, when it was due to sell about €27 billion of bonds.

Standard & Poor's cut Greece's rating in May by two notches to B, five levels below investment grade, and said further reductions were possible as the risk of default rose. The same day, Moody's Investors Service placed Greece's B1 ratings on review for a possible downgrade, citing a bigger-than-forecast 2010 budget shortfall, debt sustainability concerns and a deepening recession.

European finance ministers on May 17 for the first time floated the idea of talks with bondholders over extending Greece's debt-repayment schedule, saying that last year's rescue failed to restore the country to financial health.

Fitch said even such a voluntary restructuring would constitute default.

Greece missed its deficit target for last year, reporting a shortfall of 10.5 percent of gross domestic product, versus a target of 9.4 percent.

"The big headline of Greek debt reprofiling is really what defines the whole story," said Ioannis Sokos, an interest-rate strategist at BNP Paribas in London. "It's not a matter of if there's a

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Prime Minister Jean-Claude Juncker of Luxembourg has proposed ''reprofiling'' Greek debt maturities as a way of limiting the losses of private bondholders. European Central Bank officials opposed the idea, with one executive board member, Jürgen Stark, saying that any form of restructuring would be a catastrophe for the banking system. A fellow board member, Lorenzo Bini Smaghi, said a solution for reducing debt ''but not paying for it will not work.''

Greece's budget deficit is forecast to exceed the 7.5 percent target under the E.U.-led bailout, reaching 9.5 percent of gross domestic product this year, according to a forecast last week from the European Commission. The nation's debt, already the euro area's biggest relative to economic output, may reach 158 percent of G.D.P. this year and peak at 166 percent next year.

Also on Friday, the International Monetary Fund said that Ireland's ability to sell sovereign bonds remained ''elusive'' and its situation might worsen unless the European Union develops a more comprehensive plan to deal with the region's debt crisis.

Irish bond yields have jumped in the past month. The spread between Irish 10-year yields and German bunds, Europe's benchmark, was at 741 basis points as of Friday afternoon in London. That compares with 594 basis points on April 6, the day Portugal said it would seek aid.

Ireland's plan to stabilize its banks and reduce its deficit is ''off to a strong start,'' the fund said in a review of its aid agreement with Ireland. ''This decisive approach to program implementation, which should be supported by a more comprehensive European plan, offers the best prospect to overcome market doubts.''

Ireland received an €85 billion bailout in November, led by the E.U. and I.M.F., as bank-rescue costs related to a real-estate collapse led to a mounting fiscal deficit.