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# Moody's threatens to downgrade UK

By Michael Mackenzie and Vivianne Rodrigues in New York and Jim Pickard in London


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Moody's put the UK, France and Austria on negative outlook late on Monday night, raising the prospect that the three countries would lose their triple A ratings due to exposure to the eurozone debt crisis.

It is the first time that the heavily indebted UK has been placed on negative credit outlook by a big rating agency since the eurozone crisis erupted.

George Osborne, the UK chancellor, said the move supported the government's tough austerity measures and was "a reality check for anyone who thinks Britain can duck confronting its debts".

But Ed Balls, Labour's shadow chancellor, described the decision as a "significant warning to a chancellor who himself made balancing the books by 2015 and the views of the credit rating agencies the key benchmarks for the success of his economic policy".

He added: "We have consistently argued that the chancellor's gamble – raising taxes and cutting spending too far and too fast – would backfire because without a balanced plan that promotes jobs and economic growth the government will not succeed in getting the deficit down."

Mr Osborne told the BBC on Tuesday morning however that it was wrong to pretend there was a 'false choice' between growth and reducing national debt.

"The idea that I'm not behind growth is ridiculous...that's what I spend every day of my life trying to bring about," he said. Mr Osborne admitted there was no 'easy route' out of the uk's economic difficulties.

A negative outlook means that Moody's could downgrade the UK in the next 12 to 18 months. The country now shares the same outlook from the rating agency as the US and France.

Yves Lemay, managing director for European sovereigns at Moody's, said: "The signal is there is pressure on the rating, but we do recognise that the UK's triple A has some resiliency."

Sterling fell to a two-week low against the dollar, falling to $1.5685, before recouping some of the losses. The yield on 10-year gilts was little changed at 2.13 per cent.

French finance minister François Baroin said France's triple A rating was maintained by Moody's because of factors including "the size of its economy" and its "increased productivity". He added that the French government was "determined to press ahead with its actions to boost growth and competitiveness".

Moody's said in a statement: "The primary driver underlying Moody's decision to change the outlook on the UK's [triple A] rating to negative is the weaker macroeconomic environment, which will challenge the government's efforts to place its debt burden on a downward trajectory over the coming years."

It added that the UK was vulnerable to the eurozone and that its outstanding debt placed it among the most heavily indebted of its triple A-rated peers.

"Although the UK is outside the euro area, the high risk of further shocks, economic, financial, or political within the currency union are exerting negative pressure on the UK's [triple A] rating given the country's trade and financial links with the euro area."

The euro and pound both dropped about 0.3 per cent against the dollar in thin early trading in Asia.

"Moody's tends to be more conservative than S&P but it's trailblazing here by placing the UK on a negative [outlook]," said Kathy Lien, director for currency research at GFT Forex.

Moody's also downgraded a number of eurozone countries including Italy, Spain and Portugal.

Italy was cut to A2 from A3, Portugal cut to Ba3 from Ba2, Spain downgraded to A3 from A1. Slovakia, Slovenia and Malta also had their ratings cut with negative outlooks.

The move by Moody's comes after Standard & Poor's downgraded France and Austria, one notch to double A, last month.

Moody's two notch downgrade of Spain places it rating one notch below that of S&P.

Mr Lemay of Moody's said the tough economic outlook facing the eurozone was particularly acute for Spain, with an unemployment rate above 20 per cent and a banking system that is still very much challenged.