Standard & Poor's Takes Various Rating Actions On 16 Eurozone Sovereign Governments

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•In our view, the policy initiatives taken by European policymakers in

recent weeks may be insufficient to fully address ongoing systemic

stresses in the eurozone.

•We are lowering our long-term ratings on nine eurozone sovereigns and

affirming the ratings on seven.

•The outlooks on our ratings on all but two of the 16 eurozone sovereigns

are negative. The ratings on all 16 sovereigns have been removed from

CreditWatch, where they were placed with negative implications on Dec. 5,

2011 (except for Cyprus, which was first placed on CreditWatch on Aug.

12, 2011).

FRANKFURT (Standard & Poor's) Jan. 13, 2012--Standard & Poor's Ratings

Services today announced its rating actions on 16 members of the European

Economic and Monetary Union (EMU or eurozone) following completion of its

review.

We have lowered the long-term ratings on Cyprus, Italy, Portugal, and Spain by

two notches; lowered the long-term ratings on Austria, France, Malta,

Slovakia, and Slovenia, by one notch; and affirmed the long-term ratings on

Belgium, Estonia, Finland, Germany, Ireland, Luxembourg, and the Netherlands.

All ratings have been removed from CreditWatch, where they were placed with

negative implications on Dec. 5, 2011 (except for Cyprus, which was first

placed on CreditWatch on Aug. 12, 2011).

The outlooks on the long-term ratings on Austria, Belgium, Cyprus, Estonia,

Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal,

Slovenia, and Spain are negative, indicating that we believe that there is at

least a one-in-three chance that the rating will be lowered in 2012 or 2013.

The outlook horizon for issuers with investment-grade ratings is up to two

years, and for issuers with speculative-grade ratings up to one year. The

outlooks on the long-term ratings on Germany and Slovakia are stable.

We assigned recovery ratings of '4' to both Cyprus and Portugal, in accordance

with our practice to assign recovery ratings to issuers rated in the

speculative-grade category, indicating an expected recovery of 30%-50% should

a default occur in the future.

Today's rating actions are primarily driven by our assessment that the policy

initiatives that have been taken by European policymakers in recent weeks may

be insufficient to fully address ongoing systemic stresses in the eurozone. In

our view, these stresses include: (1) tightening credit conditions, (2) an

increase in risk premiums for a widening group of eurozone issuers, (3) a

simultaneous attempt to delever by governments and households, (4) weakening

economic growth prospects, and (5) an open and prolonged dispute among

European policymakers over the proper approach to address challenges.

The outcomes from the EU summit on Dec. 9, 2011, and subsequent statements

from policymakers, lead us to believe that the agreement reached has not

produced a breakthrough of sufficient size and scope to fully address the

eurozone's financial problems. In our opinion, the political agreement does

not supply sufficient additional resources or operational flexibility to

bolster European rescue operations, or extend enough support for those

eurozone sovereigns subjected to heightened market pressures.

We also believe that the agreement is predicated on only a partial recognition

of the source of the crisis: that the current financial turmoil stems

primarily from fiscal profligacy at the periphery of the eurozone. In our

view, however, the financial problems facing the eurozone are as much a

consequence of rising external imbalances and divergences in competitiveness

between the eurozone's core and the so-called "periphery". As such, we believe

that a reform process based on a pillar of fiscal austerity alone risks

becoming self-defeating, as domestic demand falls in line with consumers'

rising concerns about job security and disposable incomes, eroding national

tax revenues.

Accordingly, in line with our published sovereign criteria, we have adjusted

downward our political scores (one of the five key factors in our criteria)

for those eurozone sovereigns we had previously scored in our two highest

categories. This reflects our view that the effectiveness, stability, and

predictability of European policymaking and political institutions have not

been as strong as we believe are called for by the severity of a broadening

and deepening financial crisis in the eurozone.

In our view, it is increasingly likely that refinancing costs for certain

countries may remain elevated, that credit availability and economic growth

may further decelerate, and that pressure on financing conditions may persist.

Accordingly, for those sovereigns we consider most at risk of an economic

downturn and deteriorating funding conditions, for example due to their large

cross-border financing needs, we have adjusted our external score downward.

On the other hand, we believe that eurozone monetary authorities have been

instrumental in averting a collapse of market confidence. We see that the

European Central Bank has successfully eased collateral requirements, allowing

an ever expanding pool of assets to be used as collateral for its funding

operations, and has lowered the fixed rate to 1% on its main refinancing

operation, an all-time low. Most importantly in our view, it has engaged in

unprecedented repurchase operations for financial institutions, greatly

relieving the near-term funding pressures for banks. Accordingly we did not

adjust the initial monetary score on any of the 16 sovereigns under review.

Moreover, we affirmed the ratings on the seven eurozone sovereigns that we

believe are likely to be more resilient in light of their relatively strong

external positions and less leveraged public and private sectors. These credit

strengths remain robust enough, in our opinion, to neutralise the potential

ratings impact from the lowering of our political score.

However, for those sovereigns with negative outlooks, we believe that downside

risks persist and that a more adverse economic and financial environment could

erode their relative strengths within the next year or two to a degree that in

our view could warrant a further downward revision of their long-term ratings.

We believe that the main downside risks that could affect eurozone sovereigns

to various degrees are related to the possibility of further significant

fiscal deterioration as a consequence of a more recessionary macroeconomic

environment and/or vulnerabilities to further intensification and broadening

of risk aversion among investors, jeopardizing funding access at sustainable

rates. A more severe financial and economic downturn than we currently

envisage (see "Sovereign Risk Indicators", published Dec. 28, 2011) could also

lead to rising stress levels in the European banking system, potentially

leading to additional fiscal costs for the sovereigns through various bank

workout or recapitalization programs. Furthermore, we believe that there is a

risk that reform fatigue could be mounting, especially in those countries that

have experienced deep recessions and where growth prospects remain bleak,

which could eventually lead us to the view that lower levels of predictability

exist in policy orientation, and thus to a further downward adjustment of our

political score.

Finally, while we currently assess the monetary authorities' response to the

eurozone's financial problems as broadly adequate, our view could change as

the crisis and the response to it evolves. If we lowered our initial monetary

score for all eurozone sovereigns as a result, this could have negative

consequences for the ratings on a number of countries.

In this context, we would note that the ratings on the eurozone sovereigns

remain at comparatively high levels, with only three below investment grade

(Portugal, Cyprus, and Greece). Historically, investment-grade-rated

sovereigns have experienced very low default rates. From 1975 to 2010, the

15-year cumulative default rate for sovereigns rated in investment grade was

1.02%, and 0.00% for sovereigns rated in the 'A' category or higher. During

this period, 97.78% of sovereigns rated 'AAA' at the beginning of the year

retained their rating at the end of the year.

Following today's rating actions, Standard & Poor's will issue separate media

releases concerning affected ratings on the funds, government-related

entities, financial institutions, insurance companies, public finance, and

structured finance sectors in due course.

RATINGS LIST

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| --- | --- | --- |
|  | To | From |
| Austria (Republic of) | AA+/Negative/A-1+ | AAA/Watch Neg/A-1+ |
| Belgium (Kingdom of) (Unsolicited Ratings) | AA/Negative/A-1+ | AA/Watch Neg/A-1+ |
| Cyprus (Republic of) | BB+/Negative/B | BBB/Watch Neg/A-3 |
| Estonia (Republic of) | AA-/Negative/A-1+ | AA-/Watch Neg/A-1+ |
| Finland (Republic of) | AAA/Negative/A-1+ | AAA/Watch Neg/A-1+ |
| France (Republic of) (Unsolicited Ratings) | AA+/Negative/A-1+ | AAA/Watch Neg/A-1+ |
| Germany (Federal Republic of) (Unsolicited Ratings) | AAA/Stable/A-1+ | AAA/Watch Neg/A-1+ |
| Ireland (Republic of) | BBB+/Negative/A-2 | BBB+/Watch Neg/A-2 |
| Italy (Republic of) (Unsolicited Ratings) | BBB+/Negative/A-2 | A/Watch Neg/A-1 |
| Luxembourg (Grand Duchy of) | AAA/Negative/A-1+ | AAA/Watch Neg/A-1+ |
| Malta (Republic of) | A-/Negative/A-2 | A/Watch Neg/A-1 |
| Netherlands (The) (State of) (Unsolicited Ratings) | AAA/Negative/A-1+ | AAA/Watch Neg/A-1+ |
| Portugal (Republic of) | BB/Negative/B | BBB-/Watch Neg/A-3 |
| Slovak Republic | A/Stable/A-1 | A+/Watch Neg/A-1 |
| Slovenia (Republic of) | A+/Negative/A-1 | AA-/Watch Neg/A-1+ |
| Spain (Kingdom of) | A/Negative/A-1 | AA-/Watch Neg/A-1+ |

N.B.--This does not include all ratings affected.