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Looming Public Debt Crisis: S&P strips Spain of its AAA credit rating

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MADRID: Spain's AAA sovereign credit rating was downgraded Monday by Standard & Poor's, the agency, as the country's first recession in 15 years swelled the budget deficit.

The rating was lowered one step to AA+, S&P said in a statement from London, assigning the grade a "stable" outlook.

It was S&P's first reduction in Spain's rating.

"Current economic and financial market conditions have highlighted structural weaknesses in the Spanish economy that are inconsistent with a AAA rating," a team of analysts at S&P led by Trevor Cullinan in London wrote in the statement.

Spain's economy, which outpaced the euro region for more than a decade, entered a recession in the second half of last year as the credit crisis fueled the collapse of a debt-fueled domestic housing boom, sending the unemployment rate to the highest in Europe.

The government has announced about €90 billion, or $119 billion, of stimulus measures and steps to support banks amid a decline in tax revenue.

The government, which has yet to publish its borrowing plan for 2009, has offered to guarantee €100 billion of new bank debt this year to support lenders that are suffering from the global credit freeze and surging defaults.

The downgrade of Spain follows a move to cut Greece's rating one step to A- on Wednesday and a warning to Portugal on Tuesday that its rating could be downgraded. S&P also reduced the outlook on Ireland's rating to negative from stable.

The extra yields, or spreads, between some European countries' debt and that of Germany has widened to records amid the fallout from the global economic turmoil.

The spread between 10-year Spanish notes and German bunds narrowed 4 basis points after Monday's S&P announcement to 1.15 percentage points.

The change in rating also affects the debt of government-controlled companies including Instituto de Credito Oficial.

Spain’s debt was equivalent to 36 percent of GDP in 2007, compared with 66 percent for the euro zone and 95 percent for Greece, according to data compiled by Bloomberg.

Nations that have been downgraded from AAA before include Japan, Sweden, Finland and Denmark, according to S&P.

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