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S&P threatens to cut Portugal’s rating and warns of second bailout

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Portugal may be downgraded. Standard and Poor’s has maintained the country’s rating at ‘BB’, in other words two notches below the ‘junk’ barrier, but gave Portugal a negative outlook, which means the threat of another cut in the near future.

The rating agency justified the negative outlook with the perspective of “an increase in the risk of Portugal managing to attain its ambitious budget consolidation and the increased likelihood of not complying with the troika’s programme”.

“The risks also include budget measures that can be challenged by the Constitutional Court, a weaker economic performance than expected and a revival of the political tensions that led to the delays in the 2014 budget”, it highlighted.

Regarding the Constitutional Court, S&P said that “the rejections created additional uncertainties about a significant part of the government’s budget consolidation plans. The CC decisions “raised doubts about the possibility of Portugal being able to comply with the ambitious objective in terms of the debt target”.

Added to this, the agency also raised the warning: “We see a growing risk of Portugal not reconquering complete access to the markets at the beginning of next year and the government will be forced to ask for a second aid programme after this one ends in June 2014”.

As regards this second bailout, S&P said “it is not certain if there will be a credit line or additional loans from the European Stability Mechanism”.

Even so, the agency underscored that the “Portuguese economy is beginning to show some early signs of stabilisation”, namely “with stronger exports than expected and with unemployment stabilising”.

“We decided to put a negative outlook on Portugal’s rating. We may cut its rating in the coming months if the budget performance is lower than estimated, if the reform plans fail, if the official support runs out, or if the political tensions rise and lead to delays in the 2014 budget or its revisions”, S&P said.

However, the agency did acknowledge it could maintain the rating “if the government maintains its key commitments to the programme in a timely and foreseeable way, so official support is maintained and the economy stabilises. In this case, an exit from the programme that is consistent with market access at reasonable rates, becomes more and more likely”.