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Financial markets tumble after Fitch downgrades Greece's credit rating

Greek debt marked down from A- to BBB+ Fear for Eurozone push down single currency

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Financial markets around the world sold off after Greece's credit rating was cut amid mounting concerns about its fiscal health.

European stock markets tumbled and the euro weakened sharply with investors becoming increasingly worried about dragging debt problems worldwide. The fallout also followed a ratings downgrade for six companies in Dubai, reinforcing fears of a global debt crisis.

The Fitch rating agency cut Greece's long-term debt to BBB+ from A minus . It marked the first time in 10 years that the country has seen its rating pushed below an A grade. The agency cited: "The weak credibility of fiscal institutions and the policy framework ... exacerbated by uncertainty over the prospects for a balanced and sustained economic recovery." It said the medium-term outlook was negative.

The debt downgrade for Greece will concentrate Alistair Darling's mind as puts the finishing touches to his pre-budget report. Darling has to present credible policies for reducing Britain's budget deficit to head off investors' fears about the UK's debt. Credit rating agency Moody's warned yesterday that the UK faces "an inexorable deterioration of debt affordability in the short term" due to a structural public deficit running above 10% of GDP.

Moody's confirmed Britain's AAA credit rating, but placed it in the middle of three categories within the band. The UK's "resilient" rating means that it may "test the boundaries" of the AAA band, but displays the capacity to rebound and reverse its debt problems.

The effect of the ratings cut was felt immediately in Greece in a week where Athens has marked the first anniversary of the police shooting of a teenager with riots and protests. Within minutes of the decision becoming public knowledge, the Greek stock exchange began to tumble, with shares falling by 6 %. Analysts voiced fears that the downgrade might also encourage other major agencies, such as Moody's and Standard & Poor's, to follow suit.

After the decision the euro slipped against the dollar and other major currencies, highlighting anxiety over the possible repercussions it could have for the eurozone if Greece defaulted on what has become the most expensive debt in the EU.

European stock markets also took fright, with the pan-European FTSEurofirst index slipping 1.5%, while in London the FTSE 100 shed 1.65% to close at 5223.13, down 87.53 points on the day.

The euro fell by 2% against the yen and by 0.6% against the dollar to $1.472. The currency was also undermined by continuing worries about Dubai and a huge fall in German industrial production.

James Hughes, at CMC Markets, said: "While you've got weak data coming out and doubts about Greece and Dubai, you will get fickle markets ruled by fear."

Greece has the highest debt ratio within the 16-member eurozone with the finance minister, Giorgos Papaconstantinou, admitting that "the fiscal situation is dramatic". Next year it is forecast to reach 124.9 % of gross domestic product.

The downgrade came less than a day after Standard & Poor's put Greece's debt under "negative" watch and warned of a downgrading if the country's government did not tackle overspending quickly.

The head of the European Central Bank, Jean-Claude Trichet, appealed to the prime minister, George Papandreou, to enact "courageous" measures. "The situation in Greece is very difficult," Trichet told the European parliament's economic committee. "This calls for very difficult, very courageous but absolutely necessary measures."

Last week the country was formally put under EU supervision. The administration, which revealed within weeks of assuming power in October that the public deficit was 12.7% of GDP - more than four times the EU's permitted level - has tried to limit the damage, reassuring Brussels and investors that measures will be taken to shore up the economy.

Appearing on CNN, Papandreou rejected the prospect of Greece going bankrupt, saying it was "a responsible country" and would not default on its debt. The socialists have announced that they will curb the deficit by cutting tax evasion and trimming public expenditure.

Attending an Ecofin meeting in Brussels last week, the Greek finance minister appealed for a "suspension of disbelief" in the country's ability to attain results through tough measures and structural reforms. Athens, he said, would present the EU with a detailed plan in January outlining in detail how it would work its way out of the economic debacle.

With Greece bracing for a winter of discontent, Papandreou has said that he will invite political parties and social partners from across the board "to face-to-face dialogue" to discuss the painful measures that are now needed. "The changes required in the country are not the exclusive task of our government but should be the outcome of a wider political and social consensus," he said.

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