Expresso

ECONOMY

Fitch cuts rating of Portugal

24/03/2010 at 10:28

VÍTOR ANDRADE (WWW.EXPRESSO.PT)

The Fitch rating agency has just announced a cut in the rating of the Portuguese government debt to "AA-", with a negative outlook (see SIC video at the bottom of the text)

The Fitch rating agency has just announced a cut in the rating of the Portuguese government debt to "AA-", with a negative outlook.

The news was aired this morning by the Bloomberg agency.

According to Fitch, the decision reflects the weak budget progress in 2009, a year when the budget deficit should have been around 9.3% of Gross Domestic Product (GDP).

A Fitch analysis note also said that the rating agency had decided to cut the rating of the Portuguese long-term debt to "AA-" to "reflect the (budget) performance which was significantly lower than its peers in 2009", when in September it was estimated that the Portuguese budget deficit would be about 6.5% of GDP.

The figures released by Portugal showed, however, a budget deficit of 9.3% of the Portuguese GDP last year.

Douglas Renwick said the rating downgrade of the Portuguese long-term debt had to do with "the considerable tax shock against a background of macroeconomic and structural weakness", which had led to a "reduction in credibility" in Portugal.

SGP IS CREDIBLE

The Fitch rating agency cut the rating of Portugal to "AA-", despite considering that the Stability and Growth Programme (SGP) is "globally credible" and presents a sensible macroeconomic scenario.

"Fitch considers that the recently-announced consolidation plans are globally credible, containing a lot of detail that underlies a strong spending-side adjustment and with sensible macroeconomic assumptions", the rating agency said, stressing also the efforts Portugal has made in cutting public spending between 2005 and 2008 along with the "significant gains in the reform of the pension system".

It did, however, go on to say that the plan runs the risk of suffering a setback on the macroeconomic scenario, with consequences on the public accounting deficit, mainly in 2012 and 2013. Fitch even warns that not complying with the budgetary and economic targets "in 2010 and 2011 could lead to a further downgrade in the rating", attributed to the country and which was already revised down today.

On the other hand, the analysts who assessed the evolution of the Portuguese economy said "if there is evidence that Portugal is entering a sustained recovery, and that the budget targets are met, apart from further structural reforms to boost productivity and the competitiveness of the economy, then the pressure for a further downgrade would be alleviated".

The rating agency said the negative outlook reflected the concerns “about the potential impact of the global financial crisis on the Portuguese economy and public finances in the medium term, given the structural weaknesses (of the domestic economy) and the high level of borrowing in various sectors of the economy”. The Portuguese ‘per capita’ income and the growth trend is below the average (of the countries with an AA rating)” Fitch added.