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S&P downgrades Greek debt to junk status

By Chavon Sutton, staff reporter April 27, 2010: 1:52 PM ET

NEWYORK (CNNMoney.com) — Standard and Poor's downgraded the sovereign debt ratings of Greece to junk status Tuesday, and lowered the investment grade status of Portugal, citing weak "macroeconomic structures" for the debt-troubled European nations.

Greece's long-term sovereign debt rating was reduced to a rating of "BB+" from "BBB+." The short-term rating was lowered to "B" from "A-2."

Facebook Digg It was the second downgrade in as many weeks for the beleaguered Greeks.
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"The downgrade results from our updated assessment of the political, economic, and budgetary challenges that the Greek government faces in

its efforts to put the public debt burden onto a sustained downward trajectory," said Marko Mrsnik, an S&P credit analyst, in the report.

S&P also said that it believes the Greek government's policy options are narrowing, amid growing pressures for stronger fiscal adjustment.

Separately, Portugal's rating was reduced by two-notches to "A-" from "A+," which is still considered investment grade. The rating agency cited "amplified fiscal risks" as a primary concern.

"We expect the Portuguese government could struggle to stabilize its relatively high debt ratio over the outlook horizon until 2013," said Kai Stukenbrock, a credit analyst, in the report.

The rating agency added that it has downwardly revised its growth forecast for Portugal, expecting economic activity in the nation to stagnate this year.

S&P placed a negative outlook on both countries, signalling the possibility of further downgrades.

The U.S. stock markets plummeted on the news and the yield on Greek bonds surged to unprecedented levels since the introduction of the euro in 2002. The 10-year note yielded 9.76% on Tuesday, up more than 2% from the previous day's close.

Too little too late

The downgrades came after Greece last week announced it would finally tap a European Union-International Monetary Fund sponsored \$53 billion bailout plan.

According to Peter Boockvar, equity strategist for Miller Tabak & Co., Greece's fiscal problems have been bubbling under the surface since November. But much like the subprime debacle that began to brew in 2007, the markets largely ignored the problem until it got out of control.

"These aren't Third World nations," says Boockvar. "Seeing it (the problems) spill over into developed Western European nations is a big deal for these countries, the region, and the European banking system."

Despite Greece's plea for help, bond yields for the country and other so-called PIIGS nations -- Portugal, Italy, Ireland and Spain -- have widened drastically, as fears of debt crisis contagion in Europe spread.

Multi-billion dollar aid packages alone won't be enough to hurdle the long-term problem of massive leverage and slow economic growth, said Boockvar.

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Treasuries	2.02	0.04	1.76%

Data as of 7:03am ET

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Questions about whether Greece will fall from the eurozone have surfaced. But French Foreign Minister Christine Lagarde attempted to allay those fears in a Monday interview with PBS's Charlie Rose.

"Greece is part of the Euro group and there's no way that a member of the Euro group is going to be let down," said LaGarde. She also said that the EU and IMF had no intention of stretching Greece's debt repayment terms.

Whatever happens, investors and banks holding Greek and Portuguese debt have a long, hard road ahead.

"They need a debt restructuring for the long-term sake of the countries," said Boockvar. "Bond holders are likely going to have to take a haircut."

— staff writer Aaron Smith contributed to this report

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Greek debt fears persist

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First Published: April 27, 2010: 12:22 PM ET

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