

January 13, 2012

### Research Update:

# Spain's Ratings Lowered To 'A/A-1'; Outlook Negative

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## Research Update:

# Spain's Ratings Lowered To 'A/A-1'; Outlook Negative

## Overview

- Standard & Poor's is lowering its long-term sovereign credit rating on the Kingdom of Spain by two notches to 'A' from 'AA-', and its short-term rating to 'A-1' from 'A-1+'.
- The downgrade reflects our opinion of the impact of deepening political, financial, and monetary problems within the European Economic and Monetary Union (eurozone), with which Spain is closely integrated.
- The downgrade also reflects our view of external financing risks in the private sector, which we believe could constrain growth and hamper the government's efforts to narrow the fiscal deficit.
- The outlook on the long-term rating is negative.

## Rating Action

On Jan. 13, 2012, Standard & Poor's Ratings Services lowered its long- and short-term sovereign credit ratings on the Kingdom of Spain to 'A/A-1' from 'AA-/A-1+'. At the same time, we removed the ratings from CreditWatch with negative implications, where they were placed on Dec. 5, 2011. The outlook is negative.

Our transfer and convertibility (T&C) assessment for Spain, as for all European Economic and Monetary Union (eurozone) members, is 'AAA', reflecting Standard & Poor's view that the likelihood of the European Central Bank restricting nonsovereign access to foreign currency needed for debt service is extremely low. This reflects the full and open access to foreign currency that holders of euro currently enjoy and which we expect to remain the case in the foreseeable future.

## Rationale

The downgrade reflects our opinion of the impact of deepening political, financial, and monetary problems within the eurozone. It also reflects our view of sustained external financing pressures from the private sector.

The outcomes from the EU summit on Dec. 9, 2011, and subsequent statements from policymakers lead us to believe that the agreement reached has not produced a breakthrough of sufficient size and scope to fully address the eurozone's financial problems. In our opinion, the political agreement does not supply sufficient additional resources or operational flexibility to bolster European rescue operations, or extend enough support for those eurozone sovereigns subjected to heightened market pressures.

We also believe that the agreement is predicated on only a partial recognition of the source of the crisis: that the current financial turmoil stems primarily from fiscal profligacy at the periphery of the eurozone. In our view, however, the financial problems facing the eurozone are as much a consequence of rising external imbalances and divergences in competitiveness between the EMU's core and the so-called "periphery." As such, we believe that a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues.

Accordingly, in line with our published sovereign criteria, we have adjusted downward the political score we assign to the Kingdom of Spain (see "Sovereign Government Rating Methodology And Assumptions," published on June 30, 2011). This is a reflection of our view that the effectiveness, stability, and predictability of European policymaking and political institutions (with which Spain is closely integrated) have not been as strong as we believe are called for by the severity of a broadening and deepening financial crisis in the eurozone.

In addition to our view on the political factors, we lowered the ratings on Spain because we believe that the country's external financing costs may remain elevated for an extended period of time owing to its high gross external financing requirements. These higher costs stem from country-specific factors, regulatory changes, and an increased home-market bias, in our view. In particular, we see the following country-specific factors: structural savings-investment imbalances, high levels of short-term external debt, and front-loaded amortization requirements in the first half of 2012. Regulatory changes include prospective increases to bank capital charges for securities holdings and interbank placements, and uncertainty regarding the effectiveness of credit default swaps as hedging vehicles (see paragraph 76 of our sovereign rating criteria "Sovereign Government Rating Methodology And Assumptions").

The ratings on Spain remain supported by our view of its wealthy and relatively diversified economy, ongoing structural reforms, and moderate, albeit rising, net general government debt. Moreover, while increased borrowing costs are likely to cause rising interest outlays, the increase in the average interest rate on Spain's outstanding government debt, in our view, has not so far been a material additional burden on its budget.

## Outlook

The negative outlook reflects our view that there is at least a one-in-three chance that we could lower those ratings again in 2012 or 2013. We could lower the ratings again if:

- Additional labor market and other growth-enhancing reforms are delayed or we consider them to be insufficient to reduce the high unemployment rate;
- We see that the government does not undertake additional measures to

broadly meet its budgetary targets in 2012 and 2013 of 4.4% and 3% of GDP, respectively; or

- Further pressure from the private sector leads us to reassess the sovereign's fiscal performance, particularly if it were to result in an increased need for additional capital injections from the state or similar interventions.

Conversely, the ratings could stabilize at the current level if budgetary targets are met and if risks emanating from contingent liabilities subside.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

### Related Criteria

- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

### Related Research

- Special Report: Standard & Poor's Actions On Eurozone Sovereigns, Jan. 17, 2012
- Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications, Dec. 5, 2011
- Trade Imbalances In The Eurozone Distort Growth For Both Creditors And Debtors, Says Report, Dec. 1, 2011
- Who Will Solve The Debt Crisis?, Nov. 10, 2011

## Ratings List

Spain (Kingdom of)

	To	From
Sovereign credit rating	A/Negative/A-1	AA-/Watch Neg/A-1+

## TELECONFERENCE INFORMATION

Standard & Poor's will hold a teleconference on Saturday Jan. 14, 2012 at 3:00 PM UK time. The teleconference can be accessed live or via replay and by phone or audio internet streaming

The call will begin promptly at 3:00 p.m.

### TELECONFERENCE DETAILS

Passcode: 2705831

For security reasons, the passcode will be required to join the call.

DIAL IN NUMBERS:

Country	Toll Numbers	Freephone/Toll Free Number
AUSTRIA	43-1-92-80-003	0800-677-861
BELGIUM	32-1-150-0312	0800-4-9471
DENMARK	45-7014-0239	8088-2100
ESTONIA		800-011-1121
FINLAND	106-33-149	0800-1-12771
FRANCE	33-1-70-75-25-35	080-563-9909
GERMANY	49-69-2222-3198	0800-101-6627
GREECE	30-80-1-100-0674	00800-12-6609
IRELAND	353-1-247-5274	1800-992-870
ITALY	39-02-3601-0953	800-985-849
LUXEMBOURG	352-27-000-1351	8002-9058
NETHERLANDS	31-20-718-8530	0800-023-4392
PORTUGAL		8008-12439
SLOVAK REPUBLIC	421-2-322-422-16	
SPAIN	34-91-414-40-78	800-098-194
UNITED KINGDOM	44-20-7950-6551	0800-279-3590
USA	1-210-795-1143	866-297-1588

TELECONFERENCE REPLAY INFORMATION:

Call notes: This call is to be recorded for Instant Replay purposes

UK TOLL #: +44-20-7108-6279

UK TOLL FREE #: 0800-376-9027

The instant replay will start at: Jan. 14, 2012 5:30pm UKT

The instant replay will end at: Feb-14-2012 11:59pm UKT

Passcode for replay: 7498

Restrictions may exist when accessing freephone/toll free numbers using a mobile telephone.

AUDIO STREAMING AND AUDIO REPLAY INFORMATION:

To join the event:

URL: <https://e-meetings.verizonbusiness.com>

Conference number: 1297498

Passcode: 2705831

To access the Audio Replay of this call, all parties can:

1. Go to the URL listed above.
2. Choose Audio Streaming under Join Events.
3. Enter the conference number and passcode. (Note that if this is a recurring event, multiple dates may be listed.)

Replays are available for 30 days after the live event.

**Additional Contact:**

Sovereign Ratings;SovereignLondon@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on

the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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