

Spain downgrade sparks storm over rating agencies

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Moody's has reignited the storm of controversy over the power of rating agencies after it downgraded Spain, and warned that the bank clean-up will cost vastly more than claimed.

By Ambrose Evans-Pritchard | The Telegraph

The move comes a day before a crucial summit of EMU leaders to thrash out a "grand deal" intended to create workable machinery for the euro and end the debt crisis once and for all.

Moody's cut Spain's credit by one notch to Aa2 and said Madrid's estimates of a €20bn (£17.2bn) of fresh capital needed to rebuild the banks and cajas is too low. "The overall cost is likely to be nearer €40bn to €50bn," rising to as much as €120bn in a "stressed scenario".

Moody's report raises fresh doubts over Spain's ability to fend off contagion as the bond spreads on Greek, Irish, and Portuguese debt reach post-EMU highs.

The country has clawed its way out of the awkward squad over recent months by slashing its twin deficits, and shaking up the labour market, but it remains vulnerable to shocks.

Spanish premier Jose Luis Zapatero dismissed Moody's downgrade as an insult, insisting that the Banco de España alone had the "information, credibility, and truthfulness" to judge the needs of Spanish lenders.

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