



Written by [Bob Adelman](#) on February 25, 2013

Moody's Downgrades Britain's Credit, Expects Little Improvement for Years

Last Friday Moody's Investors Service [announced](#) its downgrade of the United Kingdom's government bond ratings by one notch, from AAA to Aa1, a move that was anticipated a year ago when the credit rating agency moved its rating on U.K. bonds from "stable" to "negative." The other two major credit rating agencies, Standard and Poor's and Fitch Ratings each have a negative rating on the U.K.'s bonds and are expected to issue similar downgrades in March.



The primary reason is England's continued sluggish growth as a result of the worldwide recession triggered in 2007. For the nine months ending in September, the British economy showed some slight signs of life but turned down again in the last quarter, suggesting to some that the economy could suffer a "triple dip" recession in 2013. And despite verbal assurances from Britain's Chancellor of the Exchequer George Osborne back in 2010 that his program of austerity could be counted upon to lift the economy within a few years, Moody's now says such optimism is unwarranted. Wrote Moody's, the primary reason for the downgrade was "the continuing weakness in the UK's medium-term outlook, with a period of sluggish growth which Moody's now expects will extend into the second half of the decade."

Such modest austerity as Osborne was able to accomplish, which included raising taxes further on England's wealthiest citizens and expanding "infrastructure spending" to stimulate job growth, has had precious little positive impact so far and, as a consequence, a "deterioration ... of the government's balance sheet ... is unlikely to reverse before 2016."

It could be worse. Public perception, especially by bondholders, remains surprisingly positive, as evidenced by the nearly invisible reaction of the bond market to Friday's announcement, and the average maturity of the government's bond remaining at about 15 years. As Moody's noted, "The UK's creditworthiness remains extremely high ... with supportive domestic demand for government debt, the longest average maturity structure among all highly rated sovereigns globally."

Moody's also announced that it downgraded the Bank of England by one notch, but noted that its outlook for the medium term was now "stable," meaning that a further downgrade is unlikely for another year or two. It even noted that, given sufficient time, Osborne's weak austerity measures, might eventually somehow work to England's financial favor:

The stable outlook ... reflects Moody's expectation that a combination of political will and medium-term fundamental underlying strengths will, in time, allow the government to implement its fiscal consolidation plans and reverse the UK's debt trajectory.

The agency also noted that England's distancing itself from the eurozone was working in its favor as well, writing that its "absence of the contingent liabilities from mutual support mechanisms that euro ...



Written by [Bob Adelman](#) on February 25, 2013

members face” was an advantage and kept Moody’s from downgrading England’s finances even further. It reserved the right to make further downgrades sooner and/or deeper:

Moody’s could ... downgrade the UK’s government debt rating further in the event of an additional material deterioration in the country’s economic prospects or reduced political commitment to fiscal consolidation.

It also was going to see what impact its downgrade would have on other issuers depending on guarantees provided directly or indirectly by the British government or its central bank.

[Osborne was quick to respond](#) to the downgrade with assurances that current measures just needed more time to work and that the administration had the political will to “carry on” with its feeble attempts to nibble around the edges of the runaway deficits:

Tonight we have a stark reminder of the debt problems facing our country — and the clearest possible warning to anyone who thinks we can run away from dealing with those problems.

Far from weakening our resolve to deliver our economic recovery plan, this decision redoubles it.

We will go on delivering the plan that has cut the deficit by a quarter, and given us record low interest rates and record numbers of jobs.

After all, he said, it has taken many years for the government’s making promises it knew it couldn’t keep to get it into its current difficulties, and it would be many more years to get it out: “As the rating agency says, Britain faces huge challenges at home from the debts built up over many years, and it is made no easier by the very weak economic situation in Europe.”

Fitch Ratings seized the opportunity to note that it won’t be far behind in reducing its own rating on U.K.’s government debt, noting that it will wait until March 20 when it will have completed its own review. Fitch lowered its rating back in March 2012 from “stable” to “negative” after Moody’s did a month earlier.

[CNBC noted](#) that Britain’s problem is the same as the United States’ in that, despite assurances of austerity measures being “boldly applied,” such measures have failed to slow government spending whatsoever:

The most recent public finance figures for January show that public spending continues to increase in Britain, driven largely by social benefits. Those payments have risen by 6 percent over the past 10 months, with much of that figure driven by pension ... and unemployment benefits.

An unalloyed view of the rating downgrade by Moody’s is simply the rating agency’s greatly delayed and infinitesimally small reaction to the runaway growth of the irresistible welfare state in England. It is likely to continue to spin out of control, resulting in further downgrades until bondholders and taxpayers finally come face to face with the reality that, as [Margaret Thatcher](#) once wisely said, “The problem with Socialism is that eventually you run out of other people’s money.”

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelman@thenewamerican.com.



Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



[Subscribe](#)

What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.