



**Re-Define Press Release – S&P Downgrades
13th January 23:00 CET**

Please find below **Re-Define's** Comments on the imminent downgrade of Euro area governments. All comments are attributable to **Sony Kapoor**, Managing Director of Re-Define an Economic Think Tank.

The failure to tackle the Eurocrisis

“This is more a downgrade of the Eurozone’s management of the crisis.”

“Perhaps this will now concentrate the minds of EU policymakers making them realize that no country is immune to being pulled down by the Eurocrisis.”

“S&P had given EU leaders fair warning but they have wasted the month they have had to change course and come up with a credible crisis resolution strategy.”

The impact of the downgrade

“The absence of additional ECB support for troubled sovereigns will be felt ever more heavily.”

“The downgrades have now been expected for weeks so this should blunt some of the impact they would otherwise have had.”

“The more widespread the downgrades, the less the impact they are likely to have on spreads. It is not as if investors can flee the largest sovereign debt market in the world, the Euro area, en masse.”

“The biggest impact from the downgrades will fall on countries that lose their investment grade rating as automatic rating triggers will force several investors groups to sell such bonds.”

“The impact of the ratings downgrade may be limited by the fact that many investors use an average of ratings and Fitch and Moody’s have maintained higher ratings on countries such as France, for now.”

The impact on EU banks

“These downgrades would make the already challenging tasks of bank recapitalization and bank funding even harder.”

“This action will probably lead to a series of bank downgrades next. The sovereign-bank dance of death continues.”

The impact on the EFSF

“This will almost surely lead to a downgrade of the EFSF, particularly if it now tries to use its full Euro 440 billion of what used to be AAA country guaranteed lending capacity.”

“This will make the task of leveraging the EFSF, to the extent that was still feasible, even harder.”

On the policy of sharing news of downgrades with governments

“Given the leaks of information on downgrades today, S&P would be well advised to rethink its policy of advanced disclosures of imminent downgrades. “

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