Ratings

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• Current Ratings

-- Standard & Poor's has revised the outlook on the United Kingdom to negative from stable.
-- The 'AAA' long-term and 'A-1+' short-term sovereign credit ratings were affirmed.
-- The outlook revision is based on our view that, even factoring in further fiscal tightening, the U.K.'s net general government debt burden may approach 100% of GDP and remain near that level in the medium term.

LONDON (Standard & Poor's) May 21, 2009—Standard & Poor's Ratings Services today said it had revised its outlook on the United Kingdom (U.K.) to negative from stable. At the same time, the 'AAA' long-term and 'A-1+' short-term sovereign credit ratings were affirmed. The Transfer & Convertibility (T&C) assessment for the United Kingdom is 'AAA'. Rating outlooks assess the potential direction of a rating, typically over a period of up to two years. An outlook does not necessarily precede a rating change.

"We have revised the outlook on the U.K. to negative due to our view that, even assuming additional fiscal tightening, the net general government debt burden could approach 100% of GDP and remain near that level in the medium term," Standard & Poor's credit analyst David Beers said. "We base our opinion on our updated projections of general government deficits in 2009-2013. These projections reflect our more cautious view of how quickly the erosion in the government's revenue base may be repaired, the extent to which the growth in government spending can be curtailed, and consequently the pace at which historically high fiscal deficits are likely to narrow."

Our projections also incorporate updated estimates of the cumulative potential gross fiscal cost of government support to the banking system, which we now estimate to be in the range of £100 billion-£145 billion, or 7%-10% of 2009 estimated GDP. Taken together, these factors could, in our opinion, result in a doubling of the general government debt burden to nearly 100% of GDP by 2013. A government debt burden of that level, if sustained, would in Standard & Poor's view be incompatible with a 'AAA' rating.

We believe that the ratings on the U.K. continue to be supported by its wealthy, diversified economy; a high degree of fiscal and monetary policy flexibility; and its relatively flexible product and labor markets. However, last month's budget announcements underscored that U.K. public finances are deteriorating rapidly--at a faster rate than Standard & Poor's had previously assumed. In January 2009, for example, when we last affirmed the ratings on the U.K., we assumed that the U.K. net general government debt burden would rise from about 49% of GDP in 2008 to 83% in 2013.

We note that there is support across the political spectrum for additional fiscal tightening. However, the parties' intentions will likely remain unclear until the next administration is formed after the general election, due by mid-2010. How quickly the government can stabilize and then reduce the government debt burden will also depend on the timing and shape of the economic recovery and whether the cost of government support of the banking system is higher than we currently assume, areas where we also see continued downside risks.

The negative outlook reflects Standard & Poor's view that, in light of the challenges to strengthen the tax base and contain public expenditures, the U.K. government debt burden could approach 100% of GDP by 2013 and remain near that level thereafter.

"The rating could be lowered if we conclude that, following the election, the next government's fiscal consolidation plans are unlikely to put the U.K. debt burden on a secure downward trajectory over the medium term," Mr. Beers said. "Conversely, the outlook could be revised back to stable if comprehensive measures are implemented to place the public finances on a sustainable footing, or if fiscal outturns are more benign than we currently anticipate."

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