Fitch Affirms United States at 'AAA'; Outlook Stable Ratings

16 de agosto de 2011

16 Aug 2011 9:18 AM (EDT) Link to Fitch Ratings' Report: U.S. Public Finance - Overview and Outlook Fitch Ratings-London/New York-16 August 2011: Fitch Ratings has affirmed the United States (US) Long-term foreign and local currency Issuer Default Ratings (IDRs) and Fitch-rated US Treasury security ratings at 'AAA'. Fitch has simultaneously affirmed the US Country Ceiling at 'AAA' and the Short-term foreign currency rating at 'F1+'. The Outlook on the Long-term ratings is Stable. The affirmation of the US 'AAA' sovereign rating reflects the fact that the key pillars of US's exceptional creditworthiness remains intact: its pivotal role in the global financial system and the flexible, diversified and wealthy economy that provides its revenue base. Monetary and exchange rate flexibility further enhances the capacity of the economy to absorb and adjust to 'shocks'. Fitch will review its fiscal projections in light of the outcome of the deliberations of the Joint Select committee (due by end November) as well as its near and medium-term economic outlook for the US by the end of the year. An upward revision to Fitch's medium to long-term projections for public debt either as a result of weaker than expected economic recovery or the failure of the Joint Select Committee to reach agreement on at least USD1.2trn of deficit-reduction measures would likely result in negative rating action. The rating action would most likely be a revision of the rating Outlook to Negative, which would indicate a greater than 50% chance of a downgrade over a two-year horizon. Less likely would be a one-notch downgrade. US sovereign liabilities, both the dollar and Treasury securities, remain the global benchmark and accordingly the US credit profile benefits from unparalleled financing flexibility and enhanced debt tolerance, even relative to other large 'AAA'-rated sovereigns. The US dollar's status as the pre-eminent global reserve currency and depth of the US Treasury market render financing risks minimal and underpin a low cost of fiscal funding. The US economy remains one of the most productive in the world, reflected in levels of income per head that are substantially higher than the 'AAA' median and other major 'AAA' sovereigns. The institutional, legal and financial infrastructure supports business growth and innovation and Fitch continues to forecast that the US economy (and tax base) will, over the medium term, be one of the most dynamic amongst its high-grade and 'AAA' peers and support the stabilisation and eventual reduction in government indebtedness. Fitch's current assessment is that the US economic recovery will regain momentum and that a period of above trend growth will subsequently be followed by growth of at least 2.25% over the long term. As underscored by the challenges facing some European governments in securing investor confidence in their long-run solvency, the gap between government cost of borrowing and economic growth - the interest rate-growth differential (IRGD) - is crucial. For the US, the IRGD has historically been more favourable than that faced by its high-grade and 'AAA' peers. Fitch expects this to continue over the medium term as low nominal and real interest rates persist, underpinned by the US's dollar's continued pre-eminence as the global reserve currency and Fitch's assessment of medium-term growth prospects relative to peers. Despite its exceptional creditworthiness, the fiscal profile of the US government has deteriorated sharply and is set to become an outlier relative to 'AAA' peers. The overall level of general government debt, which includes debt incurred by states and local governments, is estimated by Fitch to reach 94% of GDP this year, the highest amongst 'AAA' sovereigns. However, federal government indebtedness is lower than in other major 'AAA'-rated central governments. Fitch estimates that federal debt held by the public will be equivalent to approximately 70% of GDP this year compared to around 75% for the UK ('AAA') and France ('AAA'). Fitch's analysis of the Budget Control Act (BCA 2011) passed into law on August 2 implies USD4.1trn of deficit reduction over the ten years to 2021 relative to the Congressional Budget Office (CBO) 'alternative fiscal scenario' and Fitch's previous basecase projections and, if fully implemented, would bring US public finances materially closer to a sustainable path. Because the BCA 2011 sets absolute caps on discretionary spending relative to the CBO March

2011 baseline, the overall level of savings on discretionary spending relative to the CBO's alternative fiscal scenario (ie. the 'current or no policy change' scenario) is USD2.9trn. Combined with the USD1.2trn of spending cuts implied by automatic across-the-board spending cuts ('sequestration') in the event that the Joint Select Committee does not reach agreement, the BCA 2011 implies at least USD4.1trn of deficit reduction relative to the CBO's 'alternative fiscal scenario'. The BCA 2011 has tasked a bi-partisan Congressional Joint Select Committee to agree USD1.5trn of deficit-reduction measures by end-November 2011. In the event that the joint committee fails to secure a majority agreement on deficit reduction measures of at least USD1.2trn that could be enacted by January 15 2012, the Act stipulates automatic across-the-board cuts to spending split evenly between security and non-security programs beginning in FY2013. The automatic cuts would be targeted to reduce the deficit by USD1.2trn over the nine years to FY2021. Social Security, Medicaid and unemployment insurance programs would be exempt from 'sequestration' and revenue measures are not part of this 'enforcement mechanism'. However, the 'sequestration' would only come into effect from January 2013 and could be over-turned by the existing or future Congress and Administration. Fitch currently projects federal debt held by the public and gross general government debt stabilising in the latter half of the decade at 85% and 105% of GDP, respectively, higher than for any other currently 'AAA'-rated sovereign. In Fitch's opinion, this is at the limit of the level of government indebtedness that would be consistent with the US retaining its 'AAA' status despite its underlying strengths. Higher levels of indebtedness would limit the scope for counter-cyclical fiscal policies and the US government's ability to respond to future economic and financial crises. Fitch's latest medium-term fiscal projections detailed in an accompanying Special Report, 'US Public Finances - Overview and Outlook', reflect the judgement that the emerging public and political recognition of the necessity of fiscal consolidation will be translated into specific and timely measures that will gradually reduce the budget deficit and place US public finances on a sustainable path. In this regard, the extent to which the Joint Select Committee is able to secure agreement on deficit-reduction will provide further information on the risks around this judgement. The BCA 2011 also authorised an immediate USD400bn increase in the debt ceiling and established procedures for at least a further USD1.7trn that would raise the ceiling to USD16.394trn which would be sufficient to fund the federal government through 2012. In Fitch's opinion, the debt ceiling is an ineffective and damaging mechanism for enforcing fiscal discipline. It does not prevent budget decisions that will incur future debt issuance in excess of the ceiling, while 'last minute' agreements to raise it undermine confidence in the sovereign's 'willingness to pay'. Agreement and passage into law of a credible set of deficit-reduction measures of at least USD1.2trn by end-2011 would be consistent with Fitch's own fiscal projections and demonstrate that a sufficiently broad-based political consensus can be forged on how to reduce the budget deficit and provide a platform for the additional measures that will be required over the medium to long term. In the event that the Joint Select Committee is unable to reach an agreement that can secure support from Congress and the Administration, Fitch would be less confident that credible and timely deficit-reduction strategy necessary to underpin the US 'AAA' sovereign rating and Stable Outlook will be forthcoming despite the USD1.2trn of automatic cuts that would follow. Fitch's latest US fiscal projections are set out in detail in a Special Report, 'US Public Finances - Review and Outlook', which is available at www.fitchratings.com. Contact: Primary Analyst David Riley Group Managing Director +44 20 3530 1175 Fitch Ratings Limited 30 North Colonnade London, E14 5GN Secondary Analyst John Olert Chief Credit Officer +1-212-908-0663 Committee Chairperson Shelly Shetty Senior Director +1-212-908-0324 Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com; Mark Morley, London, Tel: +44 0203 530 1000, Email: mark.morley@fitchratings.com. Additional information is available at www.fitchratings.com Applicable criteria, Sovereign Rating Methodology, dated 15 August 2011, is available at www.fitchratings.com Related Research: 'Rating Linkages to the U.S. Sovereign Rating' (18 July, 2011) 'US Treasuries Expected to Remain Global Benchmark' (July 27, 2011). Applicable Criteria and Related Research: Sovereign Rating Methodology U.S. Treasuries Expected to Remain Global Benchmark Rating Linkages to the U.S. Sovereign Rating ALL FITCH CREDIT RATINGS