STANDARD & POOR'S

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Standard & Poor's Takes Various Rating Actions On 16 Eurozone Sovereign Governments

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- In our view, the policy initiatives taken by European policymakers in recent weeks may be insufficient to fully address ongoing systemic stresses in the eurozone.
- We are lowering our long-term ratings on nine eurozone sovereigns and affirming the ratings on seven.
- The outlooks on our ratings on all but two of the 16 eurozone sovereigns are negative. The ratings on all 16 sovereigns have been removed from CreditWatch, where they were placed with negative implications on Dec. 5, 2011 (except for Cyprus, which was first placed on CreditWatch on Aug. 12, 2011).

FRANKFURT (Standard & Poor's) Jan. 13, 2012--Standard & Poor's Ratings Services today announced its rating actions on 16 members of the European Economic and Monetary Union (EMU or eurozone) following completion of its review.

We have lowered the long-term ratings on Cyprus, Italy, Portugal, and Spain by two notches; lowered the long-term ratings on Austria, France, Malta, Slovakia, and Slovenia, by one notch; and affirmed the long-term ratings on Belgium, Estonia, Finland, Germany, Ireland, Luxembourg, and the Netherlands. All ratings have been removed from CreditWatch, where they were placed with negative implications on Dec. 5, 2011 (except for Cyprus, which was first placed on CreditWatch on Aug. 12, 2011).

. See list below for full details on the affected ratings.

The outlooks on the long-term ratings on Austria, Belgium, Cyprus, Estonia, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, and Spain are negative, indicating that we believe that there is at least a one-in-three chance that the rating will be lowered in 2012 or 2013. The outlook horizon for issuers with investment-grade ratings is up to two years, and for issuers with speculative-grade ratings up to one year. The outlooks on the long-term ratings on Germany and Slovakia are stable.

We assigned recovery ratings of '4' to both Cyprus and Portugal, in accordance with our practice to assign recovery ratings to issuers rated in the speculative-grade category, indicating an expected recovery of 30%-50% should a default occur in the future.

Today's rating actions are primarily driven by our assessment that the policy initiatives that have been taken by European policymakers in recent weeks may be insufficient to fully address ongoing systemic stresses in the eurozone. In our view, these stresses include: (1) tightening credit conditions, (2) an increase in risk premiums for a widening group of eurozone issuers, (3) a simultaneous attempt to delever by governments and households, (4) weakening economic growth prospects, and (5) an open and prolonged dispute among European policymakers over the proper approach to address challenges.

The outcomes from the EU summit on Dec. 9, 2011, and subsequent statements from policymakers, lead us to believe that the agreement reached has not produced a breakthrough of sufficient size and scope to fully address the eurozone's financial problems. In our opinion, the political agreement does not supply sufficient additional resources or operational flexibility to bolster European rescue operations, or extend enough support for those eurozone sovereigns subjected to heightened market pressures.

We also believe that the agreement is predicated on only a partial recognition of the source of the crisis: that the current financial turmoil stems primarily from fiscal profligacy at the periphery of the eurozone. In our view, however, the financial problems facing the eurozone are as much a consequence of rising external imbalances and divergences in competitiveness between the eurozone's core and the so-called "periphery". As such, we believe that a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues.

Accordingly, in line with our published sovereign criteria, we have adjusted downward our political scores (one of the five key factors in our criteria) for those eurozone sovereigns we had previously scored in our two highest categories. This reflects our view that the effectiveness, stability, and predictability of European policymaking and political institutions have not been as strong as we believe are called for by the severity of a broadening and deepening financial crisis in the eurozone.

In our view, it is increasingly likely that refinancing costs for certain countries may remain elevated, that credit availability and economic growth may further decelerate, and that pressure on financing conditions may persist. Accordingly, for those sovereigns we consider most at risk of an economic downturn and deteriorating funding conditions, for example due to their large cross-border financing needs, we have adjusted our external score downward.

On the other hand, we believe that eurozone monetary authorities have been instrumental in averting a collapse of market confidence. We see that the European Central Bank has successfully eased collateral requirements, allowing an ever expanding pool of assets to be used as collateral for its funding operations, and has lowered the fixed rate to 1% on its main refinancing operation, an all-time low. Most importantly in our view, it has engaged in unprecedented repurchase operations for financial institutions, greatly relieving the near-term funding pressures for banks. Accordingly we did not adjust the initial monetary score on any of the 16 sovereigns under review.

Moreover, we affirmed the ratings on the seven eurozone sovereigns that we believe are likely to be more resilient in light of their relatively strong external positions and less leveraged public and private sectors. These credit strengths remain robust enough, in our opinion, to neutralise the potential ratings impact from the lowering of our political score.

However, for those sovereigns with negative outlooks, we believe that downside risks persist and that a more adverse economic and financial environment could erode their relative strengths within the next year or two to a degree that in our view could warrant a further downward revision of their long-term ratings.

We believe that the main downside risks that could affect eurozone sovereigns to various degrees are related to the possibility of further significant fiscal deterioration as a consequence of a more recessionary macroeconomic environment and/or vulnerabilities to further intensification and broadening of risk aversion among investors, jeopardizing funding access at sustainable rates. A more severe financial and economic downturn than we currently envisage (see "Sovereign Risk Indicators", published Dec. 28, 2011) could also lead to rising stress levels in the European banking system, potentially leading to additional fiscal costs for the sovereigns through various bank workout or recapitalization programs. Furthermore, we believe that there is a risk that reform fatigue could be mounting, especially in those countries that have experienced deep recessions and where growth prospects remain bleak, which could eventually lead us to the view that lower levels of predictability exist in policy orientation, and thus to a further downward adjustment of our political score.

Finally, while we currently assess the monetary authorities' response to the eurozone's financial problems as broadly adequate, our view could change as the crisis and the response to it evolves. If we lowered our initial monetary score for all eurozone sovereigns as a result, this could have negative consequences for the ratings on a number of countries.

In this context, we would note that the ratings on the eurozone sovereigns remain at comparatively high levels, with only three below investment grade (Portugal, Cyprus, and Greece). Historically, investment-grade-rated sovereigns have experienced very low default rates. From 1975 to 2010, the 15-year cumulative default rate for sovereigns rated in investment grade was 1.02%, and 0.00% for sovereigns rated in the 'A' category or higher. During this period, 97.78% of sovereigns rated 'AAA' at the beginning of the year retained their rating at the end of the year.

Following today's rating actions, Standard & Poor's will issue separate media releases concerning affected ratings on the funds, government-related entities, financial institutions, insurance companies, public finance, and structured finance sectors in due course.

RELATED CRITERIA

- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
- Introduction Of Sovereign Recovery Ratings, June 14, 2007

RELATED RESEARCH

- Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications, Dec. 5, 2011
- Trade Imbalances In The Eurozone Distort Growth For Both Creditors And Debtors, Says Report, Dec. 1, 2011
- Standard & Poor's RPM Measures The Eurozone's Great Rebalancing Act, Nov. 21, 2011
- Who Will Solve The Debt Crisis?, Nov. 10, 2011
- Ireland's Prospects Amidst The Eurozone Credit Crisis, Nov. 29, 2011

RATINGS LIST

	To	From
Austria (Republic of)	AA+/Negative/A-1+	AAA/Watch Neg/A-1+
Belgium (Kingdom of) (Unsolicited Ratings)	AA/Negative/A-1+	AA/Watch Neg/A-1+
Cyprus (Republic of)	BB+/Negative/B	BBB/Watch Neg/A-3
Estonia (Republic of)	AA-/Negative/A-1+	AA-/Watch Neg/A-1+
Finland (Republic of)	AAA/Negative/A-1+	AAA/Watch Neg/A-1+
France (Republic of) (Unsolicited Ratings)	AA+/Negative/A-1+	AAA/Watch Neg/A-1+
Germany (Federal Republic of) (Unsolicited Ratings)	AAA/Stable/A-1+	AAA/Watch Neg/A-1+
Ireland (Republic of)	BBB+/Negative/A-2	BBB+/Watch Neg/A-2
Italy (Republic of) (Unsolicited Ratings)	BBB+/Negative/A-2	A/Watch Neg/A-1
Luxembourg (Grand Duchy of)	AAA/Negative/A-1+	AAA/Watch Neg/A-1+
Malta (Republic of)	A-/Negative/A-2	A/Watch Neg/A-1
Netherlands (The) (State of) (Unsolicited Ratings)	AAA/Negative/A-1+	AAA/Watch Neg/A-1+

Portugal (Republic of)	BB/Negative/B	BBB-/Watch Neg/A-3
Slovak Republic	A/Stable/A-1	A+/Watch Neg/A-1
Slovenia (Republic of)	A+/Negative/A-1	AA-/Watch Neg/A-1+
Spain (Kingdom of)	A/Negative/A-1	AA-/Watch Neg/A-1+

N.B.--This does not include all ratings affected.

TELECONFERENCE INFORMATION

Standard & Poor's will hold a teleconference on Saturday Jan. 14, 2012 at 3:00 PM UK time. The teleconference can be accessed live or via replay and by phone or audio internet streaming

The call will begin promptly at 3:00 p.m.

TELECONFERENCE DETAILS

Passcode: 2705831

For security reasons, the passcode will be required to join the call.

DIAL IN NUMBERS:

Country	Toll Numbers	Freephone/Toll Free Number
AUSTRIA	43-1-92-80-003	0800-677-861
BELGIUM	32-1-150-0312	0800-4-9471
DENMARK	45-7014-0239	8088-2100
ESTONIA		800-011-1121
FINLAND	106-33-149	0800-1-12771
FRANCE	33-1-70-75-25-35	080-563-9909
GERMANY	49-69-2222-3198	0800-101-6627
GREECE	30-80-1-100-0674	00800-12-6609
IRELAND	353-1-247-5274	1800-992-870
ITALY	39-02-3601-0953	800-985-849
LUXEMBOURG	352-27-000-1351	8002-9058
NETHERLANDS	31-20-718-8530	0800-023-4392
PORTUGAL		8008-12439
SLOVAK REPUBLIC	421-2-322-422-16	
SPAIN	34-91-414-40-78	800-098-194
UNITED KINGDOM	44-20-7950-6551	0800-279-3590
USA	1-210-795-1143	866-297-1588

TELECONFERENCE REPLAY INFORMATION:

Call notes: This call is to be recorded for Instant Replay purposes

UK TOLL #: +44-20-7108-6279

UK TOLL FREE #: 0800-376-9027

The instant replay will start at: Jan. 14, 2012 5:30pm UKT

The instant replay will end at: Feb-14-2012 11:59pm UKT

Passcode for replay: 7498

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AUDIO STREAMING AND AUDIO REPLAY INFORMATION:
To join the event:
URL: https://e-meetings.verizonbusiness.com
Conference number: 1297498
Passcode: 2705831

To access the Audio Replay of this call, all parties can:
1. Go to the URL listed above.
2. Choose Audio Streaming under Join Events.
3. Enter the conference number and passcode. (Note that if this is a recurring event, multiple dates may be listed.)
Replays are available for 30 days after the live event.

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