

**S&P taglia il rating italiano - S&P Cuts Italy's Sovereign-Debt Rating. Weak Growth and Fragile Politics Drove Move, a Blow to Berlusconi's Government as It Struggles to Overhaul Economy**

Standard & Poor's Ratings Services on Monday cut Italy's sovereign-debt rating a notch, saying the Mediterranean nation's weak economic growth and fragile government coalition will make it harder to head off the growing crisis sweeping the euro zone.

The news represents a fresh setback for the currency zone's third-largest economy, which has wrestled with the effects of a widening European debt crisis and more than a decade of tepid domestic growth.

The dollar gained against the euro in Asian trading early Tuesday following the news, and Japan's benchmark Nikkei Stock Average opened down 1.1% on Tuesday morning.

The unexpected move came after competing ratings firm Moody's Investors Service said Friday it would extend a review of Italy's rating for another month. Ratings firms often warn they will review a country's sovereign debt rating for a possible downgrade before they cut that rating, but S&P hadn't had Italy on review for a downgrade.

S&P on Monday cut its rating on Italy's debt by one notch to A, five steps above junk territory, and still considered investment grade. But it is another blow to Italy, which was already reeling after a debt auction last week was met by tepid demand and sharply higher interest rates.

S&P's outlook on Italy is still negative, reflecting weakening economic growth prospects and government divisions that will likely limit the Parliament's ability to respond decisively to those challenges.

S&P rates Italian debt lower than either Moody's or Fitch Ratings, the other major ratings firm. S&P didn't have Italy on review at the time of the downgrade, but did have a negative outlook—a long-term view—on the country. The downgrade could put even more pressure on Moody's to cut its rating on the country as it completes its review by mid-October. Moody's rating is now three notches higher than S&P's rating on Italy and one notch higher than Fitch's.

S&P said Italy's weakness in its "political" and "debt" criteria drove its downgrade. It added that more subdued external demand, government austerity measures and upward pressure on funding costs will likely push economic growth below the base projections S&P made in May, when the ratings firm lowered the country's outlook. Slow growth since then will make it more difficult for Italy to meet the revised fiscal targets set earlier in the year.

Italy is the biggest euro-zone country by far to be hit by a downgrade as the European debt crisis gathers force. The country's €1.9 trillion (\$2.6 trillion) in public debt is bigger than the combined debts of Greece, Spain, Portugal and Ireland, making the country too big to bail out.

Nearly all Italy's debt, equivalent to 120% of gross domestic product, is financed through the issuance of government bonds. Italy needs to sell or roll over €111.3 billion in bonds between September and the end of the year to meet its financing needs.

The downgrade is likely to drive up Italy's borrowing costs and intensify pressure on Prime Minister Silvio Berlusconi, who has faced calls to resign over his failure so far to adopt measures aimed at overhauling Italy's stagnant economy and fending off investor skepticism.

Last week the Parliament passed a €54 billion austerity package after the government spent months tweaking the measures to appease Mr. Berlusconi's allies as well as European regulators. The package's mix of tax increases, spending cuts and other budget-tightening measures failed to include concrete growth-boosting reforms demanded by rating agencies and the European Central Bank.

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"Italy is still perceived to be in a 'muddling through' phase, clutching at straws and politically irresponsible," said Nicholas Spiro, managing director of Spiro Sovereign Strategy, a London-based consultancy. "A downgrade draws attention to these factors, making it even more difficult to restore confidence in Italian debt."

Some Italian officials have said the government is preparing yet another round of measures that aim to tackle the big systemic weaknesses in Italy's economy, ranging from the lack of competitiveness of Italian businesses to low productivity and high youth unemployment. So far, however, the government hasn't announced any possible moves.

The downgrade could also renew stock sell-offs in Italy's embattled banking sector. Italian banks are large holders of Italian debt, a factor that helped the country ride out the worst of the financial crisis while rivals struggled. The deterioration of Italy's credit-worthiness, however, is now weighing on the balance sheets of banking giants such as Intesa Sanpaolo SpA and UniCredit SpA.

Since S&P changed its outlook on Italy to negative in May, the country's predicament has deteriorated. Its borrowing costs soared to euro-zone era highs, only to be eased by the ECB's decision to buy large amounts of Italian bonds. The ECB has warned, however, that its bond-buying program was temporary and predicated on Italy's commitment to adopting growth-boosting measures.

There are signs that the country's already-sluggish economic growth is slowing to a crawl. The research center of business lobby Confindustria recently said it expects the Italian economy to expand 0.2% in 2012, down from a 0.6% growth forecast made in June. The government said over the summer that Italian GDP would grow comfortably above 1.0% in both 2012 and 2013, a forecast that factored heavily into the austerity package's goal of balancing Italy's budget in 2013.