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## Fitch threatens to strip America of 'AAA' credit rating

Rating agency says it could downgrade America's prized rating, while further delays to raising the debt ceiling will damage the country's credibility



Fitch has placed a "negative watch" on America's AAA credit status, amid heightening fears that the world's largest economy is headed for a default. Photo: ALAMY



By **Katherine Rushton, US Business Editor**

10:20PM BST 15 Oct 2013

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Fitch could strip America of its prized "AAA" credit rating within weeks, the rating agency has warned, amid heightening fears that the world's largest economy is headed for a default.

The ratings agency believes the country will raise its \$16.7trn debt ceiling in time to ensure it can keep up with interest payments on its sovereign debt, but said the ongoing political stand-off in Washington was "casting doubt over the full faith and credit of the US" regardless.

If the US does default, Fitch warned it would downgrade American bonds from AAA to B+, the highest rating it will award any security that defaults but is expected to make a "swift full or near recovery".

American bonds are regarded as the safest government debt in the



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world, and are often used as an alternative to cash, so any downgrade of this kind would send shockwaves throughout the global system.

On Tuesday morning, politicians in Washington were hopeful of reaching a deal to temporarily raise the debt ceiling and reopen the US government. However, talks quickly fell apart with just one day to go before America is due to breach its borrowing threshold.

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The prolonged negotiations risk “undermining confidence in the role of the US dollar as the preeminent global reserve currency, by casting doubt over the full faith and credit of the US,” Fitch said in a statement.

America has already been relying on “extraordinary” measures to pay its bills, so the drawn out negotiations also impact the country’s credit rating by reducing its “financing flexibility,” Fitch said.

“Although the Treasury would still have limited capacity to make payments after 17 October it would be exposed to volatile revenue and expenditure flows. The Treasury may be unable to prioritise debt service, and it is unclear whether it even has the legal authority to do so.”

“The US risks being forced to incur widespread delays of payments to suppliers and employees, as well as social security payments to citizens - all of which would damage the perception of US sovereign creditworthiness and the economy.”

The war of brinkmanship has also rattled faith in the American political system, and raised fears that it will be repeated next year. If the debt ceiling is increased as expected, the ratings agency will still have to review America’s credit rating taking “into account the manner and duration of the agreement and the perceived risk of a similar episode occurring in the future,” Fitch said.

The ratings agency has not said how likely it is that America will be stripped of its AAA status, but any downgrade would be likely to happen before the beginning of next year.

Fitch is the first major ratings agency to warn that America could lose its top rating over current Congress impasse. **Standard & Poor’s, which lowered America’s rating from AAA to AA+ during similar budget wranglings in 2011**, said in September that it was “unlikely” to downgrade it again because of the debt ceiling debate.

“As long as it is short-lived, we do not anticipate the impasse to lead to a change in the sovereign rating. This sort of political brinkmanship is the dominant reason the rating is no longer ‘AAA’,” it said in a note.

Moody’s, the last of the big three agencies, said on October 7 that the situation was “no worse now than it was in 2011,” when it did not do anything to change America’s prized AAA status.

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